



“Sobha Limited Q3 FY 2017 Posts Results Conference Call”

February 09, 2017



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Moderator: Ladies and gentlemen, good day and welcome to Sobha Limited Q3 FY2017 Post Results Conference Call hosted by SBICap 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 questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I would hand the conference over to Mr. Sandeep Mathew from SBICap Securities Limited. Thank you and over to you Sir!

Sandeep Mathew: Thanks. A very good afternoon to all and thank you for joining the call. We have today with us the senior management of Sobha Limited represented by Mr. J C Sharma – Vice Chairman & Managing Director; Mr. Subhash Bhat – Chief Financial Officer; Mr. Vighneshwar Bhat – The Company Secretary and Compliance Officer; and Mr. Balamurugan Investor Relations, Vice Chairman, and MD Office. I now hand over the call to the management for opening remarks. Over to you Sir!

J C Sharma: Good evening friends. We are pleased to connect today with you post declaration of our unaudited financial results for the third quarter of financial year 2016-2017 end December 31, 2016 through this con call hosted by SBICap Securities.

We have already shared our operational update to you in the first week of January 2017 and we have also uploaded our investor’s presentation, which was adopted along with our financial results to you people.

As far as the market outlook is concerned, you may be all aware of the fact that this year 2016-2017 will be considered as the most dynamic and significant year for our economy as well as for our sector. Never before, we have seen so many rapid changes, which we will have short, medium and long term significant impact not in our overall economy, but in the real estate sector as well.

To start with we are this year on the new Ind-As standards as far as our accounting methods and standards are concerned from I-GAAP. Also RERA act is passed, GST is passed, demonetization has taken place in this quarter under consideration and budget also we have seen post deterioration of our results.

Before the declaration of our results and post this quarter where affordable housing has been given lot of thrust. In my view, these are the significant changes. Somewhere we have also seen as far as Bangalore is concerned the new NGT order has been instructing the new plan sanctions. We have also seen the Central Government with the new environmental law had also made quite a bit of



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changes where up to 15000-meter square of new development will not have to go the environment ministry at all and it will become part and parcel of our overall planning approval system.

So we are operating in this condition, where knowing fully well that the demonetization will have a temporary and short-term impact on the operational performance. Our continuous focus on delivery and execution, focus on collections did not dip in the last quarter, because of that we have seen that our quarterly performance has been stable vis-à-vis the preceding quarter and has shown some kind of an uptick vis-à-vis the same quarter on year-on-year basis. We also believe that the lower interest regimen with which the customers are getting benefit along with the developer it augers well and in a scenario where post GST and post RERA there will be not enough space for unorganized players. Companies like us will have a greater role to play. The detailed financial performance, I will request my colleague, Subhash Bhat to communicate to all of you. Thank you.

Subhash Bhat:

Thanks Sharma Ji. Good evening friends. Coming to the financials we will be talking about the third quarter as well as the nine months for the year period December 31, 2016. Despite the slowdown in the real estate sector post demonetization, which happened in the midst of the quarter, the company has witnessed quite a few positive upticks in various financial parameters. A few of them are; one is the revenue; the revenue fall by about 22.7% as compared to the corresponding quarter of last year.

The PAT has seen uptake of 10.3% compared to Q3 of FY2016, which is the corresponding quarter last year and sequentially as compared to Q2, we are up by about 2.3%. Cash inflow was at 5.88 billion and this helped us in generating a net operating cash flow of 134 million after meeting all the interest and tax expenses.

We are pleased to state that this is the sixth consecutive quarter where the company has generated net operating cash flow after meeting its financial and tax obligations. During the third quarter, the company recorded a topline of Rs. 5.49 billion. As mentioned earlier it is up 22.7% over year-on-year of which real estate contributed 3.34 billion, which is 61% of the topline and the contract and the manufacturing business contributed the rest, which is 2.08 billion.

From our revenue recognition perspective, we had one project under Sobha Dream Acres comprising of three wings, which came to a revenue recognition threshold during this quarter and the turnover, which was recognized during the quarter from this project was Rs. 604 million.

You will find the EBITDA margin to be slightly lower as compared to the earlier quarters and this is mainly on account of the higher investment that we did in marketing and advertising during the quarter to ensure that our brand continues to be having the top recall amongst the customers and



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we wanted this quarter to be better and most of the spend happened before the demonetization was announced on November 8, 2016.

EBITDA for the quarter stood at Rs. 1.06 billion. The PBT came in 537 million and net profit for the quarter stood at 396 million, which is 10.3% for year-on-year higher and 2.3% of sequential basis.

Coming to the cash flow, we would like to mention very clearly here that the company's cash flow stood at 5.8 billion, which was higher by 4% as compared to the corresponding period of the previous quarter and this is in spite of the strains that the sector faced after demonetization. At the same time, if you look at the I-GAAP cash flows they stood at 6.18 billion and the company there generated a positive cash flow of 26 million after meeting all its obligation.

Coming to the nine months' period ending December 2016 the total collection stood at 18.04 billion, which is 8.3% higher as compared to the last previous three quarters previous year. So the net cash flow generated after financial outflow was Rs.1.7 billion against Rs.801 million during the same period last year.

We would also like to highlight as per India GAAP this collection stood at 18.7 billion, which is higher by about 11.7% as compared to the earlier corresponding period last year and the company generated a positive cash flow of 70 million after meeting all its obligation across all spends.

The company has maintained strict control over its fixed and direct cost and at the same time has aggressively invested in advertising and marketing spends during the quarter to ensure adequate enquiries as well as site visits by potential customers. At the same time, we would also want you to look at the debt equity ratio, which has been maintained at 0.8%, which with a significant reduction in the average interest rate, which has fallen from 11.98% as on December 2015 to 10.99% as of December 2016, which is almost 100-basis point reduction.

Coming to the performance highlights for the quarter as communicated during the first week of January 2017, the third quarter of FY2016-2017 our new sales volume was at 0.61 million square feet. The total sales came in at 2.91 billion of which Sobha's share was 3.73 billion and the average price realization that we achieved was Rs.6082 per square feet. The sales volume did get impacted post announcement of demonetization, but we would like to highlight that enquiries and the customer walk-ins remained healthy during the quarter and we are confident that the slowdown will be momentary in nature and should bring in good gains in the coming quarter.

Looking at the inventory and future launches as of close of Q3 FY2017, our unsold inventory in completed projects was only 0.25 million square feet and even out of this about 90000 square feet is



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comprising of plotted development. We have a total area, which was released for sale in ongoing projects at 16.23 million square feet of which we have already sold 9.966 million square feet till December 2016 and unsold area remains only at 6.57 million square feet. This unsold area accounts for only 40% of the area that is released for sale and we consider this to be adequate in the coming market and we would also like to point out that in addition to this we have 11.75 million square feet of area, which is available fully approved and can be released at any point if required if the market improves.

Based on this demonetization, we would want to also highlight the fact that 81% of our customers fall under the category, which is salaried category, IT/ITES professionals, which constitute about 43% and non IT professionals about 38%. 4% of our categories of the customers are coming from medical and pharma industry and also 80% plus of our customers are 50 years and below.

This was important to note after the demonetization; our collection did not get impacted largely because of the customer base comprising of salaried employee. This helped us to ensure that the collections flowed through and our cash flows were in line with what we had expected.

Coming to the contractual business, the contractual vertical continues to support the business not only executing a significant number of projects, but also augmenting the topline and the bottomline at the same time contributing to the positive cash flow. As of end of December 2016 our contractual unbilled revenue, which is the order book was at 6.55 billion. We have ongoing projects, which are measuring to 8.96 billion square feet, which will be delivered over the next two years.

As of date, we have delivered 398 projects totaling to 84.96 million square feet in a span of 21 years and we are grateful to all stakeholders who have helped the company in making this a reality.

Coming to the guidance, the board at the meeting yesterday took note of the prevailing environment in the sector, which is quite uncertain as of now and it is therefore clearly acknowledged that the company may not be able to meet its guidance that we had given out at the beginning of year for the current year, but we are confident that the performance during the fourth quarter will certainly be better than the Q3 quarterly sales performance.

We thank you for all participating and now I request the participants to put up questions for us. Thank you.

Moderator:

Thank you. We will now begin the question and answer session. We have the first question from the line of Atul Tiwari from Citigroup. Please go ahead.



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Atul Tiwari: Good evening Sir. Sir my first question is on the presale. So after demonetization, have you seen any presales at all? I am asking this because there were some developers who have like publicly commented that presales have been virtually zero after demonetization.

J C Sharma: The presales post demonetization has definitely come down. Let me put it like this that October is a normal month. November though immediately after demonetization should have become bad, but it was electively good. December was the worst month may be after so many years, but if you look from the sales numbers point of view, sales did happen and sales did happen in all categories, but fall you have seen roughly about 27% to 28% in our sales. It is primarily we will see get noticed in the other center and in Bengaluru also it did happen, but not to that an extent. From January onwards, we see much better visibility and we believe that that should lead us to a better performance, but we cannot say that the things will become absolutely normal as they were prior to demonetization. Hope I am clear?

Atul Tiwari: Okay. So, just to round up the question say weekly runrate of presales would have improved through January and even in the first week of February. Is that a fair statement too?

J C Sharma: You are right.

Atul Tiwari: That is quite good. And Sir, my second question is on the EBITDA margins and I am not referring to this quarter's margin, but probably last three quarter's margins and we have seen margins coming off quite a bit. So what is the main reason? Is it the fact that the costs have risen while you sold inventory earlier at fixed prices and when can margins start reverting back? Should we assume this level of margin to be the new normal for the company or can it recover over next year on year?

J C Sharma: The margin is a factor of the operational profits minus the site cost and certain overheads. So if I define the overall margins the labour cost continues to remain on a higher scale. We are not able to control that. The steel prices and the cement prices even during the last quarter had shown certain increases. I think all of you must be knowing otherwise affecting the overall economy. The basic other cost had remained stable including the salary, wages or permanent people. So net-net what we find is that the overall cost while it is not as stable as it used to be, but still there is a small bias towards increase. On the indirect side, all the other costs remain under control even except little bit extra focus on the sales, marketing and promotional side, which also is taking away little bit of margin away. Coupled with that the inability to increase the prices in the last few year's means wherever any small increase, which is not our job do get reflected. The combination of cement prices remaining flat, marginal increase in the construction cost, and a little bit increase in the sales and marketing costs are the factors, which is getting reflected in the last three quarters. Going forward, if we find small momentum more than what we have been achieving chances are that the margins can



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only expand because the fixed cost still remains at an optimized level and on scale definitely you are other semi variable cost you can absorb better because we have a huge engineering department and other concurrent costs, which can get distributed, which is of semi variable in nature.

- Atul Tiwari:** Thank you Sir. Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Abhishek Anand from JM Financial. Please go ahead.
- Abhishek Anand:** Good afternoon, Sir. My first question will be on your cash flows. If I am looking at Q3 versus Q2 of this year, I see a material decline from 4.6 billion to 3.9 billion. Is this because of the Pune land parcel realizations last quarter or there is more to it?
- J C Sharma:** You are right. It is the Pune land parcel realization, which came in last quarter, but it is one off and it is not there in the current quarter.
- Abhishek Anand:** So could you remind us the figure, which occurred because of the Pune land parcel realization?
- J C Sharma:** I think it was 40 Crores for that quarter.
- Abhishek Anand:** Okay, so that is a marginal decline in collections quarter-on-quarter if we exclude the Pune land parcel. Secondly Sir, what I would like to know is, firstly your take on the whole affordable housing and affordable segment, which was announced in the budget. Is Sobha considering that as a viable business option as what you can say an extension of Dream Acres or it is too early to think about it?
- J C Sharma:** No it is not too early to think about because these affordable homes now because of this area type area where the carpet area has been with a new norm in our view it is going to be a game changing decision. We believe that where you operate on large companies 33% and 34% tax regime, any tax benefit and any interest benefit should auger well for this particular sector and since you have the flexibility in the design path that you can add amenities and provide common amenities to the customers and still can afford to give good luxury homes within the affordable home criteria is an interesting development, which we have started working upon. From the clarity point of view what will happen it might still take little bit of time. It is a bit premature. It is just about week old story, but yes since we have already got into the Dream Acres, we would like to experiment on this affordable home segment as well as where we are operating and it should definitely be one of the volume drivers in times to come for the sector as a whole because it the government is nudging and the government is telling this is the way forward it is in the interest of the sector to take that cue and follow.



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Abhishek Anand: Sir, do you think this infrastructure status will actually make a material change in our cost of funding for the affordable segment or 11% or there around is the likely interest rate?

J C Sharma: When we look at the big picture everything counts. We will go by the example of the APIB where 1000 square feet and 1500 square feet built up area was a great move, which helped so many illicit companies to grow the volume. So the price is very reasonable at that point of time. This is the era I am talking about of 2002, 2003, 2004, 2005, 2006, 2007, and 2008 where most of the developers had designed two bedroom apartments as far as Bengaluru is concerned on 1500 square feet built up area effective. So the biggest driver will be infrastructure status nod still it gives you with the tax benefit. The second driver what we talked about of the interest because most of the developers today do not have lending. So with the infrastructure if the land and the bank funding they get definitely it is a welcome move. You have to look at from the availability of funds, which otherwise is not available because you do not get money against the land, so this is the other benefit. Third benefit is supposing like PMA wise 6.5% with the difference being given by the government or if by NABARD funding and the risk associated with housing loan as such goes to the individuals and others can further be reduced definitely it helps the customer. So I believe the combined impact of lower price per unit because of the lower size income tax benefit and interest benefit will combine it together to give a better product in times to come.

Abhishek Anand: Great. Thank you so much and I will join back in the queue for more questions. Thank you.

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

Puneet Gulati: Good afternoon and good effort here. Just continuing on this affordable front, is there any clarity whether you would have to get some price approvals from some government agencies or is there any more conditions that you need to meet before you get the affordable housing tag?

J C Sharma: What we have been given to understand is the only criteria is the criteria of carpet area right now and if you look at ATIB benefit also there was no requirement to notify anybody per se. Your architect must certify that you have done a built up area of 1500 and in the sales deed if you have mentioned that we were getting benefit of the ATIB.

Puneet Gulati: But you need approval from a competent authority, who would that authority be?

J C Sharma: It will be the concerned minister for corporation or the panchayat or whatever municipal authorities the DA or DMRDA who are going to approve the plan. So that you need to have building permit where the carpet area as per the design needs to be within 30 and 60 meters' square metropolitan and nonmetropolitan and you need to have one acre of land or so that is what we have been given



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to understand, so there is no per se restrictions we expect, but let there be a clarificatory note for us to have a final clarity about the way forward.

Puneet Gulati: Okay. And any progress on RERA, what are you hearing off late?

J C Sharma: See now Tamil Nadu government has also notified recently and what we are hearing from the Karnataka government this month they will constitute an authority and we will circulate the RERA rules they will change. So hopefully, we believe that this India more or less will become RERA compliant in the second quarter.

Puneet Gulati: Okay, but is it retrospective prospective any thoughts?

J C Sharma: As things stand today as we clear that all the ongoing projects will be included, so while every where even the authorities from the state government as well as all the stakeholders they have been communicating that the ongoing projects may be exempted, but what it looks to me is that because the act does not have this kind of a provision hopefully the ongoing projects also will get included. The draft rules are of late has been laid very clearly in Karnataka that only the future collection will be subject to approval.

Puneet Gulati: In terms of approvals?

J C Sharma: I think as far as approvals are concerned today whatever products we have shown as ongoing all of them have the requisite approval, so we are not worried.

Puneet Gulati: Okay and if you can share your two specific data points from your perspective, what is the area that we expect to complete this year and deliver?

J C Sharma: This year I think Balaji can tell. We will revert back to you.

Puneet Gulati: And also, in your presentation where you give out the future cash flow projections. Your net saleable area for Sobha's share has increased from 37.7 million to 37.83 million. Is there some retrospective change in the agreement there? Are those kinds of things happening or what is it attributable to? In the cash flow projection, where you share the net saleable area to Sobha, so versus last quarter's presentation, the area has increased slightly. So, just wondering what has been the reason for that or if there is some change in the joint development agreement, which may have happened with you.

Balamurugan: There was some two projects where a small area has been increased where our stakes has been increased. The only thing Chennai project and another one is Bangalore project.



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- Puneet Gulati:** Yes. So what has been driving this change?
- J C Sharma:** See we have internal arrangements what we are having with our joint developed partners where some shares they may give some money we can give, something like this it gets worked out.
- Puneet Gulati:** Okay, great. That is all from my side. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Adhidev Chattopadhyay from Emkay Global. Please go ahead.
- Adhidev Chattopadhyay:** Yes, good afternoon Sir. Thanks for taking my questions. Sir, first I just wanted to on this location wise inventory details that slide, so you have mentioned area not offered for sale is around 11.7 million square feet. So just wanted to clarify like do we have all the approvals in place for this or all of this would come under RERA, whenever it is coming into force?
- J C Sharma:** As Subhash was telling in his communication all the projects whether offered for sale or not right they are all approved as a total plan. What we are doing is stage wise construction and phase wise agreement of a different, different period and whatever we have launched before sale is shown in one category. Whatever we have not offered for sale is shown under another category.
- Adhidev Chattopadhyay:** Sir, we used to earlier give that slide on forthcoming launches and obviously you have mentioned because of the RERA we are not giving out the details of the expected launches. So are those outside of these projects or these are including in these projects? I just wanted to clarify that?
- J C Sharma:** No they are not here. If I have not launched I have not announced and I am not opened for booking correct. That is over. That is not included in this statement at all.
- Adhidev Chattopadhyay:** Okay. Sir, then just follow up question. Sir, then if you have around 11.7 million square feet upcoming, means which are not offered for sale plus unsold stock let us say 18 million, almost like I would say about three to four year sales run rate, Sir, do we even need to launch any new projects? Just wanted to understand your thought process?
- J C Sharma:** It is a good point. What we need to look at there is certain projects where you have got one composite approval say for example in Gurgaon 60 million plus, in Bengaluru we have excess of 7 million, in Cochin 3 million plus kind of a saying, so these projects will not be completed in three to four years' time. They will take their own time. You will be doing it on a stage wise basis. Somewhere, we have nearly 500,000 square feet to 16,000 square feet, so that also will come under not offered for sale the remaining products. At the same time, in certain locations say for example



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today we talked about just now about the affordable homes and hospital views. We said though we are working on it we believe that this is a product, which needs to be experimented. This will be a new product in all the areas where we are operating and if it comes it brings new set of customer's incremental customers, different locations, and differentiated products. So for that you may need to launch the projects. So this is how our thought process works. When none of these products will compete and since on one single location we do not go for multiple plants at multiple point of time you go for plan approval and depending upon the sales velocity you go and complete the project also. So Dream Acres is the right example for this kind of a thought process to understand.

Adhidev Chattopadhyay: Okay. Sir, then again just another follows up on this. Sir, there are large land parcels in Hoskote and Hosur, so now with affordable housing, whatever initiatives, do these projects become more attractive for you or means what you are planning two to three years down the line, would you like to bring it forward to six to 12 months. Just wanted to understand the thought process, again?

J C Sharma: Of course these things also we have working really at an appropriate time. At the right time we will be communicating, but yes we would like in view of whatever we are hearing, we would like to unlock the inventory of this valuable pastures.

Adhidev Chattopadhyay: Okay. Sir and just one final question on these cost overruns now we have been having. So Sir, when do we see it smoothening out? I mean like this has been happening for the last two to three years, so when do we see like the things stabilizing on that front?

Subhash Bhat: See the cost clearance that you are seeing are on projects, which are nearing completion and if you look at the projects that we are operating on, we will have every quarter two or three projects, which are nearing completion, so as they come nearing the completion okay it is very common to have a cost overrun. Earlier, we did not have so many projects because you now see so many projects and each of them are coming up for completion in the quarters. This feature will continue to be there, but at the same time please understand it is not something, which would have a material impact. You are seeing the impact today on the P&L because of our inability to push the price in the market. Once that ability comes back you will not see the impact on EBITDA.

Adhidev Chattopadhyay: Okay. Sir, earlier you used to have this thought process of having a 35% markup over the cost when you are selling the project, right? So, is there any change to our approach now, would you like to have a 40% cushion now considering these cost overruns, which have been happening now for some time?



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J C Sharma: You see you are telling in other words it is not that I wish and things will happen. It is the market that will determine the final prices and we have not been successful in increasing the selling prices over a period of last two years plus on a product-to-product basis. So while the market behaves in its own way you are showing a percentage completion basis in construction sectors the profitability. You cannot have a wrong provision that creates some contingency, We do keep some contingency, but a line item, wrong provision where suppose you are procuring steel or paying your labour at an X price we provide it in advance. The provisioning competency we have been provided with and when the fluctuation happens beyond that contingency and the project is about to get completed and we do not find any other efficiency those small adjustments will happen, but we keep learning and keep evolving and as we keep moving forward and wherever there is a so-called increase until and unless there has been a drastic significant volatility in the input cost will be much less volatile than what you will witness in the last two quarters.

Adhidev Chattopadhyay: This was very helpful. Thanks a lot for answering my questions.

Moderator: Thank you. The next question is from the line of Saurabh Kumar from JP Morgan. Please go ahead.

Saurabh Kumar: Hi Sir. Sir my question was essentially on your revenue recognition. So, Sir, if I look at last three years, we have been roughly doing about 2000 Crores sort of presales, but in none of the quarters has the revenue from real estate development, property development gone up to something like 500 Crores a quarter, which is like the average you have. We still are about 350 Crores sometimes 400 Crores a quarter. So is there a presale, which you report a net of something? I mean, the sales, which you recognize is net of all brokerages and all and that are why this number never turns up on your P&L?

Subhash Bhat: So basically the presale number that we show okay one we have to look only the Sobha share okay that is what we told you. The second thing is that will have VAT and service tax, which will not touch your topline. I think that is why I am not allowed to take credit for and take expense out for these two items. Once you take that out then your numbers will tally.

Saurabh Kumar: And that VAT and service tax will be how much 6% to 7%.

Subhash Bhat: In Bengaluru it is about 15.75% on the construction component. Overall, an average it will be 9% to 10% at the over value easily. That is VAT and service tax both.

Saurabh Kumar: Okay. So when you say your presales for nine months are 1360 Crores that is attributable to Sobha is 10% lower, so roughly about 1200 Crores. That is the way to think about it.



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- Subhash Bhat:** Yes, but these are the project specific because in some places there is a composite tax, which is working and some places there is full tax, which works. So you cannot just apply 10% right across.
- Saurabh Kumar:** Yes. But I mean on an average basis, it should be near that number, right?
- Subhash Bhat:** Both.
- Saurabh Kumar:** And the cash collections, which you show on your P&L of this 430 odd Crores that includes tax?
- Subhash Bhat:** Yes, that will include everything that I get from the customer because the payment is shown under these statutory dues and the other taxes.
- Saurabh Kumar:** Okay. So that is a statutory due on tax. Okay, Sir, alright, Sir. Those are my questions. Thank you.
- Moderator:** Thank you. The next question is from the line of Kunal Lakhan from Axis Capital. Please go ahead.
- Kunal Lakhan:** Good afternoon. Typically, we see your cash flows and your revenue recognition come with a lag with respect to presales. Now with presales slowing down in Q3 and again like expected to remain muted in Q4 as well, can we see a drop in your collection, as well as your revenue run rate in the subsequent quarters?
- Subhash Bhat:** Basically, the sales that we do that is recognized. In terms of collection, it gets collected over the period of two to three years and in terms of recognition about 3.5 to 4.5 years. So the lag would get spread out over that period.
- Kunal Lakhan:** Okay. So nothing meaningful?
- Subhash Bhat:** It should not be too much.
- Kunal Lakhan:** Okay. And my second question was on your APMC project? So can you give us any update on the APMC project in terms of timelines and also in terms of like we were planning to have a PE partner in place, any update?
- J C Sharma:** Right now because of this demonetization part, we thought we need to go a little bit slow. From our side we are ready and the government is also not pushing and we are also not pushing the government. That is the big picture. We will definitely do. Some people have shown interest including PE partners and we are talking to them as well. Hopefully, somewhere if we find that the overall micro sentiment improves and right now from a stable cash flow if we start generating that extra



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kind of cash flow, which allows us to maintain our debt equity as well as allow us to do this capex kind of a thing, we will definitely move ahead and accelerate that process.

Kunal Lakhan: But is the option with us in terms of firstly taking up the project and in terms of even the timeline for taking up the projects?

J C Sharma: Yes. The option is with us. Nothing has triggered at this point of time as far as we are concerned.

Kunal Lakhan: Okay and based on your last I think couple of quarter's back you had mentioned about we may start this project in FY2018. Does that timeline hold or it is not sure?

J C Sharma: Possible in a sense if you really look at, we believe more or less now with interest rates on the lower side, the site rates being stable, RERA coming, and GST is coming kind of a thing in a couple of quarters time, the way real estate sector is being run will be different and the demand still remains resilient. Somewhere some participant has asked a question about ongoing approvals. There will be certain headwinds once again post the RERA regime will resume. So in that environment we have good inventory approved projects for this on time. A little bit of extra sales gives us incremental extra benefit more than disproportionately extra benefit. So I personally believe that we live in such an environment where we are ready per se, but we may not still have to take any decision of this method in haste.

Kunal Lakhan: Just one last question in terms of outlook on the debt with RERA coming in, we are expecting new launches to slow down, which will get reflected in the presales also. And secondly, like with our payment to Puravankara coming up in FY2018, where do we see the debt levels inching or going in FY2018?

J C Sharma: We are still quite confident that our debt levels should not go up. These efforts are being made to bring it down only. That is what we are working upon and even considering that the Puravankara payments we have to make we have time. Still if we have to make, we will be able to do it without having this issue of debts going up or debt equity going down.

Kunal Lakhan: Thanks. All the best.

Moderator: Thank you. The next question is from the line of Nitin Agarwal from IDFC Securities. Please go ahead.

Nitin Agarwal: Thanks for taking my question. Sir, on further land acquisition either through outright on a JDA basis, what are our thoughts in terms of how are we looking at this component over the next few quarters



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or are we not looking to do anything much till the time in the view of the uncertainty around RERA or are we still looking out for opportunities?

J C Sharma: See prima facie we have been very consistent in telling that. Right now as far as we are concerned, whatever steps we take, we will be looking at our debit equity, and our overall debit exposures, positive cash flow generation ability would anything passed within that framework these opportunities can be looked will be looked at, but otherwise no.

Nitin Agarwal: Okay. Sir secondly under RERA, there is one thought process amongst certain developers that they may not want to register a product with the regulator. So the idea is to complete the project and then offer it for sale. I guess this requires a different size or different sort of level of balance sheet capabilities.

J C Sharma: You have a point. Yes, indeed we have heard about some developers thinking of not offering their products and completing it like in case of commercial development what they have been doing. So that they can avoid the indirect taxes also and they can avoid the compliance of the RERA requirement because post without post occupation certificate, you do not have to go to the RERA, but how many of them that is the big question, a significant vast majority in our sector today in my view do not have the required wherewithal to sustain. When the majority of them are getting money from NBFC, which is far higher than the bank interest rates to continue with the construction activities with their own money. Only organized players with big balance sheet can do not otherwise. It is my personal view.

Subhash Bhat: Also you will have to keep in mind the deemed rental taxation that project proposals when you go down that route.

J C Sharma: This is a very good point because this new budget ensures that we should not have and carry inventory of more than one year of finished stock, so whatever you produce you have to sell within one year. So you have to be very careful. Four years you work and one year you sell. How many of us will be able to do it?

Nitin Agarwal: Sir, on that point, Sir, is the penalty for the deemed rental, which is the budget, has talked about.

J C Sharma: See it is an income tax. It is the fact.

Nitin Agarwal: So the tax, what is the competition, is there any clarity on how the tax will be computed?



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- J C Sharma:** See we have got to know from one of the big four companies is that suppose an annual yield is 2% on that you will get 30% standard deduction and on the remaining yield you will be paying the applicable tax. So if you are coming 50 Crores you pay 25%. If you are coming under 50 Crores plus category you will pay the current mature marginal tax 30% plus other tax charges.
- Nitin Agarwal:** So tax will be applicable for about 1% of the property or thereabouts?
- Subhash Bhat:** Yes. It is close to about 1% close to.
- Nitin Agarwal:** Okay, Sir. Which per is not such a large amount?
- J C Sharma:** But when you look at it has become a big risk for you. On the one hand you have the pressure of selling and on the other hand you have the pressure of paying tax. It is does not incentivize. You live in an uncertain environment always.
- Subhash Bhat:** You have to remember one more thing under GST once you complete the project then it becomes list of immovable property. So you will not be able to charge GST to your customer also. So the input GST becomes your cost. So those are the factors that have been kept in mind before you take these calls.
- J C Sharma:** Taking this argument to the next level, you have seen lots of today GST probe investors they are asking 25% discount on the finished stock, so it will be suicidal for you to first finish it and then offer it to the investors at a discounted value.
- Nitin Agarwal:** Absolutely, Sir. I guess it is pretty interesting times ahead for the sector over the next year or so, till when some of these things fall in place, both on the RERA and GST?
- J C Sharma:** Yes.
- Nitin Agarwal:** Okay, Sir. Thank you and best of luck.
- Moderator:** Thank you. The next question is from the line of Abhinav Sinha from CLSA. Please go ahead.
- Abhinav Sinha:** Thanks for taking my question. Firstly, on the presales trend post demonetization. So, are you seeing that the premium properties are also selling well or is it just the lower end, which is doing better?
- J C Sharma:** We have also tried to put it across during this demonetized period era also the pattern of sale. So 1 Crores and above 49% of sales and below 1 Crores is 51% of our sales. That is what we have achieved if my memory is right. Even in the current quarter also, across all pricing points if the



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customer is taking the call they are taking the call. The interesting thing is that we have not been able to fully decipher or comprehend is the level of enquires and the level of price visits, it has not come down. So with vested interest above the products remain at the level at which we had experienced or have been experiencing pre that era, but the conversion is taking time and what we have been able to deduce primarily is that it is more of sentimental driven because when you take such calls you talk a number of people and when you talk to a number of people mostly have heard about prices coming down, which discourages them. So they are taking much more time than to buy and more the time they take the probability also becomes worse and worse. This is what our experience has been post demonetized era.

Abhinav Sinha: Sir, given this, is it fair to assume that the pace of say 550 odd Crores and 600 Crores of sales, we can still see that in third quarter or two to three quarters down the line?

J C Sharma: Not yet. We need small, small momentum here and there. We are witnessing and normally we do not disclose such things, but somewhere in some senses we have seen some kind of improvement in the numbers, so our assessment remains that not because of demonetization, but because of the interest benefit, pricing benefits, and the clarity where the customer post demonetization will have kind of a conviction that in case of delay he can demand huge interest, which will be absolutely deterrent to us because he would have invested in the land and construction cost and still or his money we pay higher than the bank interest and we have to have fix the pricing. So the more we look into the reasons we find the customers once they understand that they safe of course little challenges they will have to recover this money, but developers will be responsible. Transparency will be of the highest order. Things should improve and we should be. We have achieved in the past. When the market size was small and price rate was higher because inflation course we have to see prices are down by 15% to 20% over a period of last few years. So looking at all such things I think affordability has improved. Interest costs have come down and we can see that kind of a scenario.

Abhinav Sinha: Sir, are there any city wide differences on how the pace of recovery has been?

J C Sharma: You have a point. Bengaluru probably got less impacted and should continue to do relatively better amongst all the cities. It is our firm belief. Other cities also should catch up because of the constraints in supply side in those markets because strongest players normally we will find now in Bengaluru or to an extent in Mumbai in the rest of the centers the lack of stronger player, lack of supply will ensure that whatever remaining supplies happens it should be sold. In one of the developer's case we have seen during demonetized era also that his numbers were good. So that kind of a scenario may be there post this RERA's era.



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Abhinav Sinha: Sir, finally with RERA coming up, will you be looking to say delay your launches at least till we have almost good visibility on regulator in three months?

J C Sharma: More or less we have only couple of projects, which are at the approval phase. Per se we would not like to wait for as such RERA but yes we are not pushing hard also for the launches. Let me put it that way.

Abhinav Sinha: Okay. And sorry sir, I just wanted to add one more query there. So are you looking to retool any of your projects to suit affordable or whatever is planned is going ahead right now?

J C Sharma: Right now we are looking a new location within our existing clarity to examine whether we can look at this as a product or not.

Abhinav Sinha: Thank you.

Moderator: Thank you. The next question is from the line of Sumit Kumar from Max Life Insurance. Please go ahead.

Sumit Kumar: Good afternoon Sir. Thanks for taking my question. There was a recent budget announcement, which restricted the tax benefit on the second house to 2 lakhs only. So do you see an impact because of that on your sales?

Subhash Bhat: If you look at the segment, which goes in for this kind of a second home investment most of our customers we have seen are end customers and as we have put out it is 81% from salaried class. The impact we will not see too much on the Sobha performance. The reason being that typically if you take a 30 to 40 lakh loan and then once you put out on rent after having taken over the property from Sobha by the time the guy would have already paid of at least 15% to 20% of the loan. So his loan would be down to about 25 lakhs. His interest rates will be 2.5 lakhs. You take off the rental. You take out the repair allowance under the rental I think the 2 lakh limit should be sufficient, but at the same time yes somebody who takes as 2.5 Crores loan to buy a big villa or something else of that kind yes that is a big impact on those categories. So those categories are not very large numbers.

J C Sharma: Subhash talked to you from Sobha's perspective, but as far as my understanding about such thing is concerned, what we will look at is that in India today we do not have a good rental yields in the residential space. People are investing because they believe that for their children or for their grandchildren or they have surplus money as a form of investment and sometimes because of the low yields not letting them out, but for a capital gain or for their children's purposes they are



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investing. This is not a right kind of an investment. In Dubai you get 6% to 8% rental yield. Even in London market and Singapore market the dollar return is much better. At the same time, the demand and supply is independent of these kinds of adjustment people do. So when the interest costs are down these kind of restrictions will ensure that the guys who have been living on rent they will get back to buying homes, which is what we are trying to notch and encourage than to go for investor sale. In the past, Sobha has not done and in future we would not have done. We will not be doing that part. Somewhere the investor sales that too many may be there this kind of a restriction will impact them adversely.

Sumit Kumar: Sir a follow up on this. Do you not you think the demand scenario will get affected because a little bit of secondary supply coming in because of this?

J C Sharma: Not necessarily. Again the Indian market is besides the digital world. It is not well developed. It is like when you sell stocks in the current market environment per se before NSC era liquidity and the market price for the buyer and seller is not so high, the conditions never used to happen in this kind of a volume. So you have to see the real estate residential space is still at a very, very primitive market, so such supply will not impact the pull to buy home from a developer with a clear cut payment plan or on a competitive basis has to be the clear cut comfort of buying what they are looking at, so I do not foresee that kind of a challenge. What these people are doing is buying the home loans or shifting the home loans is more in vogue than selling the apartments per se.

Sumit Kumar: Okay, Sir. That is all from my side. All the best.

Moderator: Thank you. The next question is from the line of Gaurav Lohiya from PNR Advisors. Please go ahead.

Gaurav Lohiya: Sir, good afternoon. Just on this RERA thing, you said that in Karnataka draft rule say that only future collections will be collected right, under the RERA. So what is the situation in other states and if these draft rules can we changed at the last moment and in future the past collections on ongoing projects would also be included, is there a possibility of the same and what would be the impact on that if the same has been included?

J C Sharma: See the state government what I am trying to say is sometimes when they try to play with the veteran spirit of central act. This was not permitted. So from a simple understanding point of view what we need to keep in our mind is if we have not got the completion certificate or occupancy certificate you have to register our ongoing projects. That is the first requirement. Then coming back to the cash flow part what they are talking about is they need not be any new SB account to be opened. 70% of that collection you can use for specific purposes and 30% you can use for whatever purposes are to meet your overheads and other requirements. So that 70% of the payment will be



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coming minus your construction cost and forget selected cost till the project completed. So maybe somewhere here and there people will be doing their own way of adjusting, but since chartered accountants, company secretaries, and the civil engineers they will be the deciding authority we first said do not foresee that this will be a great challenge in managing the cash flow, which you intended your question from that perspective.

Gaurav Lohiya: Okay and Sir on this cost side, so when we are looking at this contractual EBIT margins that you have reported, so I have seen that they have really collapsed in this quarter and I believe that most part or large part of our book is costless basis, right. So just was trying to understand what has happened over there in the contractual winner and how is the outlook going forward?

Subhash Bhat: Gaurav the cost basis is only with Infosys. On the other projects we do complete on time. It is a cost plus it is a fixed price project that we take.

Gaurav Lohiya: Right so Infosys is around 50% of our book, right. So, in the remaining percent you are saying that there has been a very large impact of cost drifting.

Subhash Bhat: Where did you see this number cropping?

Gaurav Lohiya: Sir, the segmental thing Sir. You see the segmental break up.

Subhash Bhat: Yes, quarter-on-quarter. So this quarter we would have a little less of Infosys and more of the other contract. It is a mixed issue there because it is not significant.

Gaurav Lohiya: No, Y-O-Y basis it had dropped significantly from 17% to 10% and I am not adjusting it for the unallocated expenses, so I was just looking at this number if I allocate the unallocated expenses and it would come at around 7.5%. So just trying to understand if we would continue to see lower margins in this segment and if you can just also throw some light on the outlook because our unbilled revenues have come down to some 655 Crores right. It was somewhere around 790 Crores. So, how is the pipeline going forward whether we see this order book building up going again or the order book going up again?

Subhash Bhat: So the order book would remain in this range of 600 to 800 Crores depending on what new orders you get and how you execute them. So we do not expect it go above 800 and we do not expect it to go below 600 because normally if we complete a project that we take for two years.

Gaurav Lohiya: On revenue bookings, we would not expect any kind of decline, right, in the contractual segment, whatever is there on TTM basis, we would expect these numbers to continue, right Sir?



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- Subhash Bhat:** Approximately the same will continue. We do not have too much of ups and downs.
- J C Sharma:** It will be the forthcoming year also there is a reasonable amount of clarity where we will not be doing that on the construction and manufacturing side. It should be as good as what we have shown in this current financial year. It will be better not less than what as usual service.
- Gaurav Lohiya:** Thank you.
- Moderator:** Thank you very much. Due to time constraint, we will take that as the last question. I would now like to hand the conference back to the management for closing comments.
- Subhash Bhat:** We would like to thank SBICap for hosting this conference. Thanks to all the participants who heard us out and for putting up questions, which we could answer and in case of any further questions, which are pending, which have not been answered, you are free to contact myself or Balamuragan. You have the details on the investor presentation slide and we would be happy to answer them.
- Moderator:** Thank you very much. On behalf of SBICap Securities that concludes this conference. Thank you for joining us ladies and gentleman. You may now disconnect your lines.