"Sobha Limited Q2 FY17 Earnings Conference Call"

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MODERATO: **MR. SANDEEP MATHEW – SBI CAP SECURITIES LIMITED**

Moderator: Ladies and Gentlemen, Good day and Welcome to the Sobha Limited Q2 FY17 Earnings Conference Call, hosted by SBI Cap Securities Limited. As a reminder, all participant lines will be in the listen only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sandeep Mathew from SBI Cap Securities Limited. Thank you and over to you, sir.

Sandeep Mathew: Good morning, everyone. We have with us today the management of Sobha Limited, comprising of Mr. JC Sharma – Vice Chairman & MD, Mr. Subhash Bhat – Chief Financial Officer, Mr. Vigneshwar Bhat – Company Secretary and Compliance Officer and Mr. Balamurugan from Investor Relations in Vice Chairman & MD's office. I now hand over the floor to Sharmaji for opening remarks. Over to you, sir.

J.C. Sharma: Good morning, friends. We are pleased to connect with you today, post the presentation of our unaudited financial results through this con-call hosted by SBI Cap Securities. We have already shared the details of our operational updates of the Company in the first week of October, 2016. We have also uploaded our Investor Presentation as well; this you can download from our website.

As far as year 2016 - 2017 is concerned, it had witnessed significant structural response in our economy. These reforms are evident from the passage of GST Act, the RERA Act and the recent demonetization of high value currency notes of Rs. 500 and Rs. 1000. This demonetization step has taken everyone by surprise, we had never seen this kind of a reform impacting the entire economy in our history. Sobha, as a company welcomes and supports these reforms and it will help bring transparency, ease of doing business and substantial benefits to consumers as well as organize real-estate developers like us. The immediate impact on the economy in transition may take some time to stabilize. However, we are of the firm opinion that barring some short-term challenges the Company will play an important role in this new liberalized post reform era and will substantially benefit from the same. The RERA Act also will realign real-estate sector with the global standards of doing business, this will result in more investment flow from institutional investors, banks and make it easy for foreign entity and funds to invest in India. In the long run this will lead to an economy that is more attuned to global compliance standards and transparent enough with high levels of corporate governance. As India is one of the fastest growing large economies, we believe that the same structural changes will spur demand revival real-estate sector and products will become more affordable for the end users.

Now I hand over the financial and operational information to be given by Subhash bhai.

Subhash Bhat: Thanks, Sharmaji. Good morning, everyone. You are aware that during the first quarter of this year we adopted IndAS for financial reporting, so all the reporting this year onwards will be with IndAS.

Coming to the second quarter results as per IndAS. During second quarter the Company recorded a top-line of Rs. 5.52 billion, which was up 8.4% year-on-year. Real-estate contributed Rs. 3.44 billion which was 62% of the top-line and the contract and manufacturing business contributed 1.98 billion. From our revenue recognition perspective four wings of Sobha Dream Acres project reached recognition threshold during this quarter, valued at Rs. 564 million. EBITDA for the quarter stood at Rs. 1.12 billion, PBT was at Rs. 612 million and the net profit for the quarter stood at Rs. 386 million which was 7.2% up sequentially.

Coming to the cash flows. We are happy to share that the Company has generated net positive cash flow for past five quarters consecutively, after meeting the interest and tax expenses. Our average cost of debt has been brought down to 11.26% as of 30th September, 2016, from 12.14% as of 30th September, 2015. The total collection during the second quarter was higher by Rs. 55 crores as compared to Q1 of this year.

The Company has adequate liquidity to meet all its obligation and expects further reduction in interest rates going forward. The Company has collected Rs.6.36 billion and spent Rs.4.57 billion in operations, resulting in a surplus cash flow of Rs.1.79 during the second quarter. This collection includes Rs. 433 million balance receivable from the sale of land rights for the Pune, Hinjewadi property which was recognized in Q1 of this year. The Company has utilized this towards servicing of interest and tax to the tune of Rs. 943 million, after meeting an interest and taxes the Company generated a positive cash flow of Rs. 852 million. The Company spent towards payment for land deposits, CAPEX and CSR contribution to the tune of totally Rs. 390 million, resulting in a surplus cash flow at operating level to the tune of Rs. 455 million. Also, we spent Rs. 814 million towards the buyback of shares and dividend during this quarter, leaving an excess cash draw-down during the year of Rs. 352 million during this quarter. The debt-equity ratio as on 30th of September, 2016, now stands at 0.81%.

Coming to the performance highlights for Q2 of this year. We are pleased to report that our new sales volumes were maintained at 0.86 million square feet, this is higher by 6% as compared to the previous quarter. The total sales value was at Rs. 5.51 billion, of which Sobha's share are Rs. 5.18 billion. The average price realization was at Rs. 6,056 per square feet, average price realization is higher due to improved sales performance from few high value projects like Sobha Palladium. During the second quarter we launched Sobha Palm Court in Yelahanka North Bangalore with a total salable area of 0.51 million square feet. And we also did a soft launch of the first phase of Marina One project comprising 0.6 million square feet out of our total project area of 3.2 million square feet at Cochin in Kerala.

Coming to inventory and future launches. At close of Q2 FY2016-2017 our unsold inventory in completed projects was only 0.17 million square feet, even out of that 0.04 million square feet comprises of plotted development. We have a total area which is released for sale in ongoing projects which is 17.19 million, out of which we have sold 10.09 million square feet till 30th of September, leaving an unsold area of 7.1 million square feet. This unsold area accounts only for 41% of the area released for the sales, which we consider to be adequate in this market. In addition to this, the projects approved and area not released for sale is about 11.75 million square feet. The Company is planning new launches measuring to a total of 5.42 million square feet with Sobha's share being 3.68 million square feet in Bangalore, Chennai and Coimbatore over next three to four quarters.

Coming to the Sobha customer profile. We would like to highlight that 82% of our customers fall under the salaried category, that is IT, ITES, professional’s constitution about 46% and non-IT professionals constituting about 36%. 4% of our customers are from the medical and pharma industry and also we are pleased to comment that 83% of our customers are below 50 years age category.

Coming to the contracts business. The contract vertical continues to support the Company in not only executing a significant number of projects but also augmenting the top-line and the bottom-line, while at the same time contributing to the cash flow. During the second quarter our manufacturing division bagged new contract orders valued at Rs. 100 crores at end of September 2016 out of the total contractual unbilled value, the order stood at Rs. 6.9 billion. We have ongoing projects which are measuring to about 8.63 million square feet and will be delivered over next two years. As of date we have delivered 393 projects totaling to 83.32 million square feet in a span of 21 years. We are grateful to all stakeholders who have helped the Company to make a reality.

We would like to thank all of you for your participation and we now request the participants to put forth their questions. Thank you.

Moderator: Thank you. Ladies and Gentlemen, we will now begin with the question-and-answer session. We have the first question from the line of Atul Tiwari from Citigroup. Please go ahead.

Atul Tiwari: Sir, my question is on the impact of this demonetization. So after it was announced on 8th November, since then how have your sales been? If you could share some color on area sold and the sales value after the demonetization was announced.

J.C. Sharma: As far as the post demonetization period of last two weeks or so, the sales have definitely come down. What we have been witnessing is that the numbers of enquiries, the number of site visits, they remain the same. But as far as the decision-making process is concerned, it is getting deferred. This, we believe is a short-term phenomenon and hopefully as things start looking up better and better and the liquidity comes into the system things would be normalizing is our view. We believe that this quarter, this October-November-December quarter will be relatively a slower quarter than the previous two quarters due to this impact.

Atul Tiwari: And sir, if you could share some color on what you are seeing in the Bangalore market or in other micro markets where you are present, especially in terms of the secondary market sales after demonetization and the impact on the prices either on the primary market or the secondary market?

J.C. Sharma: See, as I was telling, as far as the volumes are concerned in the current environment, definitely they have been impacted. As far as the prices are concerned, we have not come across any situation either in the primary market or in the secondary market where prices have softened. So prices remain the way they were before this demonetization. But yes, the sales of take have definitely been impacted for the time being.

Atul Tiwari: And sir we understand that the cash component in the secondary market is not too much of a problem in South India but it has been there present in the areas around NCR. So have you seen any impact of that in NCR?

J.C. Sharma: See, we have been there for almost five years or so, we have started delivering and we have started with our villa project which has started selling at this time at around Rs. 8,000 and we have done about Rs. 500 crores of annual sales for the first two years. And that happened when the economy was relatively smaller. So from the affordability point of view and from the receipt of money from the customers even for high value products, the cheque payments still happen. At the same time, when we take the NCR as a whole, we do hear what you have been telling and that is why this kind of a step had been taken which we have all supported. Because our belief has been that the primary market has been impacted due to the secondary sales where whatever people are talking about maybe the ground reality. And it has been impacting us. Now once the transitions get caught, whether they are primary or secondary, and once the people who can afford to buy a home, even we can enhance the next 30 years' loan, no repayment of the principle amount kinds of schemes already available in the market. To the organized sector primary market, the theoretical impact may not be that great, the psychological impact because of whatever people are hearing, and this is a decision which people take once in their life time if they get an opportunity they will definitely take a pause and then take the decision. But be it NCR market, be southern market or the western market, the inherent demand continues to grow due to the higher objection of the commercial real-estate. And we believe at some point of time it has to translate and the time has come, maybe after this short-term dips or blip whatever we are looking at.

Moderator: Thank you. We have the next question from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.

Sameer Baisiwala: Just continuing with the previous speaker, two weeks is a little bit of a short period for us to assess. I guess the worry in the market is that over next three months, six months the property prices can fall meaningfully. Is there something that you expect or is there something that you are worrying?

J.C. Sharma: See, we are not operating in that kind of high value market. If you really look at last two, three years of our average realization it has been hovering around Rs. 6,000 which constitutes everything from the land to the approval to the construction to the overheads, servicing of interest and the margins. And you probably know at the bottom-line and the top-line of at least most of the organized players. So in a given situation or scenario I personally do not foresee that the property prices which had not risen in last eight to 10 quarters there is any further scope to come down. That is my primary belief. Somewhere if something happens that will mean more or less a technical kind of a scenario where in order to ensure that a cash flow mismatch is somehow managed through, the stress sale of FSI or of land or of a product, this also has been happening in the market in the recent past where some of the NBFCs, I am given to understand, they have been discounting and buying the products of this finished inventory from some of the developers at 25% plus/minus 5% discount. So these things have been prevailing and I do not think demonetization per say will have any extra impact on that. But going forward I am also trying to add that the RERA is going to be a reality, as soon as it gets notified within six months and from that day onwards all the projects ongoing in some of the states or at least new projects will come under the RERA compliance where OC is not received. All such things will also control meaningfully the supply side and the demand side cannot be reduced when you look at the commercial space absorption which is to the tune of 30 million to 35 million square feet on an annual basis. So our gut feeling remains that right now there is an issue of sentiment more than anything else, all of us also agree interest rates are likely to come down, all of us also agree that this is not the only step, some series of steps will be taken. And in that, as far as we are concerned, we believe we are reasonably well placed, except this quarter there may be a volume impact.

Sameer Baisiwala: And they also say that the area which will get more impacted possibly is the land sales where the deals will dry up and therefore the discounts will widen. So is that an opportunity for you, are you hitting some deep discount deals?

J.C. Sharma: No, we have not got anything. Maybe in NCR somewhere people talk, not that it has happened, the FSI value seems to have come down. Even except that we have not hears per say, any fall in the rent prices.

Sameer Baisiwala: And I am referring to your slide number nine in the cash flows, you have mentioned Rs. 50 crores of land payment. What is this for?

Subhash Bhat: These are land deposits and, Sameer, if you remember we have this big parcel of land on the old Madras road at Bangalore, we do keep buying small lands which come out for aggregation purpose, so that process is still going on. Plus, we take Rs. 10 crores on the Pune land also out of this R. 50 crores where if you remember we got Rs. 40 crores last quarter and Rs. 43 crores this quarter. So Rs. 10 crores was the payout on account of that to the original land owner from whom we had brought. So we had held back his money for the completion of the sale. So that we have paid out when we have got the money from the new buyer from that period.

Sameer Baisiwala: And just one final question, I am looking at the notes to the quarterly in number seven, it says that you had revised the project cost estimates roughly about Rs. 30 crores for the quarter, so what is really driving this?

Subhash Bhat: So basically, Sameer, as I had said to you earlier also during our interaction, as the project come to a close we do keep revising the cost estimates. So there were two projects which were handed over during this quarter and there are three or four projects which will get handed over in the current quarter Q3. So we do keep revising the cost estimates to bring them closer to the actual cost which would be incurred. And most of the cost increase happens only in the last two or three quarters because that is where you come up for finishing the project.

Sameer Baisiwala: And none of this is charged in the quarterly numbers?

Subhash Bhat: Yes, it would get charged in the percentage completion method, not fully but that is the estimate revision, proportionate to the sale that we have recognized revenue till date, only that portion would get impacted in the cost.

Sameer Baisiwala: But if it is a late stage project, I am assuming you would have sold 80% - 90% or maybe recognized 75% - 80%, so…?

Subhash Bhat: So if 80% - 90% of whatever has been estimated to be the extra cost would impact even the quarter.

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

Abhishek Anand: Sharmaji, actually again going back to the demonetization issue. So sir just wanted to understand, you mentioned that you are going to see disruption in the short-term. Firstly of course I will like to know what is your horizon of short-term, is it a quarter, two quarters or you see it slightly more than that?

Secondly, when does it start troubling us or industry in general? So if we do not see sales pickup for say next six months, do you see then players finding some issues on the liquidity side or how do you see the industry evolving?

J.C. Sharma: Abhishek, both are very good questions, I wanted to again answer these questions. As far as your first question is concerned, as I said there are so many positives and so many negative sentiments taking place. The positives are on the ground, negatives are in the mind, this is what my understanding of the current business environment is. We also probably are not giving due weightage to the impact of RERA which will have on our sector. My belief is when the Prime Minister responsibly talks about that there will be a short-term pain till 30th of December, I think somewhere something here and there is kind of a fear to what can extend with bank or the government are likely to get impacted positively or negatively, we have to watch. So this quarter because of the clear cut announcements being made by the government, we are not very confident that anything can be turned around.

Coming back to the next quarter, we all hear that housing under construction it also constitutes 7% to 8% of our GDP. If the government has to generate the employment, if the government has to carry out any kind of a fiscal stimulus, hopefully next quarter the budget or without the budget a certain announcement should be taking place which should directly benefit our sector. The interest rate aspect itself can become a great beneficiary when you have almost (+90%) of your customers who form that white collar kind of a constituency. So that means where underlying comfort and confidence is there, that is the macro part. The micro part, as far as Sobha is concerned, we have a clarity of about Rs. 33 billion of cash coming from our existing customers and about Rs. 7 billion of cash coming from the contracting side. Now this money should come against the existing sales, the interest rate currently of Sobha stands at 11.26% which should come down to around 11% by the end of this quarter itself. And then proactively we will ensure that it keeps coming down and brings down further benefit to us in our indirect cost. We also have sanctioned an unused limit of more than Rs. 900 crores which we can use or drop whenever we wish. We do not have any commitment at large on any CAPEX or on the land side. Operationally we have demonstrated last five quarters that how we have been able to manage the cash flows. So somewhere we believe that even if the problem persists and continues for even more than one quarter or two quarters also, we are well geared to face and overcome that challenge. Hope this satisfies you.

Abhishek Anand: But of course, industry could be in a different shape then what Sobha is and we as a company cannot be immune to the overall changes in operating environment which others might be facing. So do you see, let me just take you into a hypothetical circumstance where in next six months or maybe next nine months so basically we are in a stalemate situation where the prices are not correcting and sales are also not happening. Do you see this situation actually panning out or you think that sales have to pick up in the next three to six months?

J.C. Sharma: I think there is a big fallacy when you say when prices correct the demand goes up. To begin with, if the prices start correcting I do not think people get that impressed, they always believe things may go further wrong. So that is not in our experience a good indicator to see that the demand is getting revived, A. B, one has to also look at that where what kind of prices are prevailing and whether there is a scope. So if you are having any kind of a windfall margins then you can say that yes you enjoy huge margins, why don't you pass it on. We are talking about at the macro level. So looking at that sector, technically I do not think prices can come down. But prices are coming down by way of lower EMIs when interest rates have started coming down and that process should continue which satisfies the criteria at the end of the day what is your cash payout and overall cost of acquisition, that is what the buyer is looking for. So the buyers today are buying at the age of 21 to 30 years, 20% of our customer base is there. So my gut feeling is that yes we are low on confidence and that will definitely impact the market because if the consensus is like this we have to go by that. But at the same time at the ground level this demand cannot be filled up through any kind of an import, only we have to satisfy it and we will be satisfying it. And we have that kind of resilience.

Subhash Bhat: And Abhishek, to answer your question on what happens it fails test, stalemate for six months? So as far as Sobha's Rs. 900 crores of undrawn limit, sanction limits with banking system will come into a very big play. Banks will be flushed with fund transfers of demonetization, so we should be looking out for options to lend and options to lend to people who have a good track record of paying back on time. So I think that is something which will not be available with the other real-estate players which we have.

Abhishek Anand: That is actually very helpful. So just coming back to our results, again trying to understand on the margins, so did we have any land sale during this quarter as well? Pune you were mentioning, was it the previous quarter's sales you received or there were some new sales then?

Subhash Bhat: No, the money was received during this quarter for Rs. 43 crores, Rs. 40 crores were received last quarter. That entire sale and the cost was booked during the last quarter.

Abhishek Anand: So basically I am trying to see the margins, so it has gone down by almost 2.5% points YonY, any particular reason one…

Subhash Bhat: You are looking at EBITDA margin?

Abhishek Anand: Yes, EBITDA margins.

Subhash Bhat: Yes, 1.5% margin going down is basically marketing spend going up. In the current scenario we have pushed up the marketing spend, the channel spends on the brokerage and that impact is almost 1.4% of the top-line.

Abhishek Anand: And rest is the general cost?

Subhash Bhat: Yes, the general cost is aligned with the normal spends.

Moderator: Thank you. We have the next question from the line of Anand Krishnan from Kotak Infina. Please go ahead.

Anand Krishnan: Sir, in response to one of the earlier questions, you were actually saying that the number of enquiries and site visits have been maintained but there have been no real transactions that have been taking place. Sir, is it that you are planning or already started any incentives to actually spur this demand?

J.C. Sharma: No. See, we have a clear cut understanding or philosophy about how should we be operating. When we complete the project we do not carry the finished discount, it is always under that kind of a tolerance of 1% to 2%. So this inventory gets sold out during the cost of the completion. At the same time, we also believe that our margins are justifiable in any kind of an environment which is at par with generally the industry is expecting from this sector. The customers are also not looking for, that is why in the previous questions answer I was telling, you start offering them reduction in the prices, they become more tentative and they become more worried whether they will be able to do a right kind of a bargain, they start going to other developers as well. So it is a no win game either for the customer or for the developer. So as far as we are concerned, we believe that the prices will remain the same until and unless a meaningful reduction in the input cost either in the construction or in the length prices take place which we are more than willing to pass on. We have also checked with our fraternity members, the consensus what is emerging is most of them are very clear that there is no scope for price reduction.

Anand Krishnan: Sir, what would be your strategy on future launches? I mean, would you actually slowdown your launches in the current uncertain environment or would you just go full throttle, what would be?

J.C. Sharma: See, we have always done with multiple launches in Gurgaon, in Pune, in Chennai and in Bangalore, more or less it is done with. A couple of projects in Bangalore, they are at the approval stage and when we launch the project we finish in the next four to five years' time and we release it on a phase wise basis. So per say, the launch program will not be derailed.

Anand Krishnan: Sir and you were also talking about banks actually lending to good quality customers, does that mean they would be actually funding you for buying land bank?

J.C. Sharma: See, today banks have started giving corporate loan which tantamount to somewhere that you can use it for any other purpose, including the purchase of the land. And this facility has been extended, to the best of my knowledge, by so many so many banks and housing finance companies to other developers as well.

Anand Krishnan: Sir, in the given scenario you believe that the trend will continue wherein the banks would want to lend against land?

J.C. Sharma: I cannot say, it all depends upon their wisdom, it does not represent them per say.

Subhash Bhat: And the Rs. 900 crores that I mentioned here is on construction finance that is not on corporate side, undrawn balance that we spoke of.

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

Nitin Agarwal: Sir, over the last two or three years have you seen any meaningful change in your profitability profile as far as the residential part of the business is concerned on the residential project side?

J.C. Sharma: See, more or less it remains the same, because we work on exuberant marginl. I was telling in my last answer as well that the construction cost, the land cost and the time it takes to completely the project, all such things are been considered. Last couple of years somewhere you are right, we have not been able to increase the prices. At the same time fortunately the best commodity prices also have not gone up, that is they have generated on the lower side, cement prices more or less have remained same, steel prices have meaningfully come down and labor cost continues to inch up on a year-on-year basis. That scenario more or less should continue in times to come as well.

Nitin Agarwal: But sir then what explains the periodic revision that we have to undertake towards the closure of the projects on the cost side?

Subhash Bhat: See, what happens is that as we come closure to the project completion, you would rework on the quality, you would rework on some items that you have put in, so the cost estimates would go up where we have to do some amount of correction at the site to meet the quality standards that Sobha has set in the market.

Nitin Agarwal: No, I get it sir. What I really mean to ask is, so in the projects that we have delivered or have been delivering say over the last three or four quarters, has our realized margin been much lower than our benchmark margins eventually, have things really played out?

Subhash Bhat: No, that is why you see our margins in our financial statements have also remained steady, they have not gone down by much.

Nitin Agarwal: And sir going forward for the future launches what kind of margins should we go with residential projects?

J.C. Sharma: Between 30% and 35%.

Nitin Agarwal: And like a 15% sort of a margin on your construction projects?

J.C. Sharma: Yes, 12% to 15%.

Nitin Agarwal: So 30% - 35% EBITDA on your residential projects, 12% to 15% margins on your project business?

J.C. Sharma: Yes, that is right.

Nitin Agarwal: And sir, so while Sharmaji alluded to this earlier, there has been a lot of, at least from a government intent perspective I guess what the media bytes have been suggesting is government is keen on seeing reduction in real-estate pricing as far as the primary outcome of the whole demonetization drive which is going on. So that is the odds with the positivity that we are talking about for the sector going forward, right?

J.C. Sharma: No, I think we are mixing the issues. When you look at the end price, what a customer says is you should be knowing that everything is absorbed where you have multiple stamp duties, you have excise duties, you have VAT, you have service tax, you have income tax and you have other octroi and other concurrent taxes which you have to go through. So where the taxes in this sector range from 30% to 40% from place to place where ease of doing business in the construction sector India ranks among the lowest at 185 or 187 out of 190 countries, you can understand that in that given scenario until and unless the same government brings down its own taxes, brings down more transparency, and makes available the land clear title, clean parcel with a good infrastructure at reasonable rates, definitely that benefit will be passed on. We are only the aggregator of all such services. So why do we welcome RERA, why do we welcome GST, why do we welcome demonetization? We primarily welcome because this will bring transparency, this will stop leakages and this will allow the organized players to ensure that there is a level playing field. Today we have to compete with unorganized players as well as the secondary buyers and sellers also where demonetization impact, probably they will have much more significant manner. In our case every sale is tracked, every expense is tracked kind of a thing. So we believe this is a blessing in disguise where some kind of a level playing field is being made available.

Nitin Agarwal: Sir, is there a way for you to assess in terms of the market your sales into investment end user demand and if you have seen any changes in the profile over the last few quarters?

J.C. Sharma: You have seen our cash flows, it has remained steady. So customers who book our apartment they go through with the whole exercise of making payment. We do not permit, literally speaking, any kind of investors coming and bargaining with us and taking advantage, we may be the only company who had not offered any kind of a subvention scheme, we may be the only company where there is no place for investors. As an individual if you wish to buy I do not say that you are an investor, but "investor" what people understand Sobha is not getting into that kind of a business, it has not got also in the past and not likely to get into future also.

Subhash Bhat: Yes, because finally this investor sales will cannibalize your own sales later this probably does not help the Company in the longer run.

Moderator: Thank you. We have the next question from the line of Punit Gulati from HSBC. Please go ahead.

Punit Gulati: First of all, if you can give some more color on the quality of customers across regions. You mentioned broadly that you have largely salaried and IT employees. Is the consideration largely similar for Cochin and other regions?

J.C. Sharma: See, today we have given all possible color, 75% is Bangalore, 25% is outside Bangalore. 16% is NRI and 84% is non-NRI. 56% are the people who buy homes on home loan basis, rest they are able to afford, average realization is also given. Any other specific query if you have within that parameter please feel free what more bifurcation we should be doing we will definitely look into it.

Punit Gulati: No I understand, largely you are still Bangalore. But would you believe the mix is similar for Cochin and NCR and Chennai?

J.C. Sharma: See, when we come to Cochin you have a point, this NRI customer proportion is increased vis-à-vis the domestic customer kind of a thing. If you come to Gurgaon, the sample size is not that representative, but whatever it is within the overall picture, it mirrors Bangalore I would say. And Chennai is also very similar.

Subhash Bhat: Chennai, Pune, NCR and Bangalore would have a similar profile.

Punit Gulati: Then given that you are quite active in the land market, how much of the transaction in the land market do you come across where people ask for cash and which obviously I do not know if you can do it or give more color there?

J.C. Sharma: See, we have been operating in this business for last 21 years and most of the times this demonetization is only two weeks. But that kind of a thing has become a thing of past from the day one since inception, we get money from the bank, we get money from the shareholder and it is used to buy land or to go for the joint development. These kind of things what you are talking about the cash transaction, it happens at the primary level which I have been emphasizing time and again, even today also that primarily where the problem would have occurred is primary sale of land, secondary sales of apartment vis-à-vis place like buying and selling the way they are supposed to do it. That other two markets might have got impacted maximum which is welcome.

Punit Gulati: I understand, so primary sale of land is something which you still deal in right, I mean, secondary sales is obviously not your business but…

J.C. Sharma: When did we deal with?

Punit Gulati: No, whenever you have to buy land it will be a primary transaction, wouldn't it be?

J.C. Sharma: No, not necessarily because the land is primarily agricultural in nature kind of a thing, they are intermediary, they are the aggregators who do ask such things and then bring it to the Company's table.

Punit Gulati: So you are calling that part as really primary, the aggregators?

J.C. Sharma: That is something which we should not be talking at all.

Punit Gulati: And lastly, if you can give some more color on the margins, would it be fair to assume that the current level of margins could remain here or is there room to show better margins over next few quarters?

J.C. Sharma: See, it is like this, currently we have been operating around 3 million square feet for last few years. And within that we have been trying to sustain our cash flows and margins. No sooner we get into the next level you will see, because indirect cost has remained flat or as far as the interest costs are concerned they have started showing some kind of a decline. This is the fifth consecutive quarter where the Company has been able to generate, as Subhash was mentioning, operating cash positive scenario after meeting the interest part and the tax rate as well. So that thing should continue at such levels when there is a significant fall, as Subhash was telling, again, we have a backup from customers as well as from the banking side. And there is some improvement from the level where we have been operating in the recent past, it will have more than proportionate benefit accruing to our cash flow and to other margins also.

Punit Gulati: I understand, but what I still do not understand very well is if you look at FY16 or FY15 your blended margins used to be 25% - 27% and if I look at first half the blended margin is around 20%.

J.C. Sharma: You have to look at the impact of IndAS also before you make that comment.

Punit Gulati: Yes, so it will be what, 1.5% - 2% kind of impact on IndAS I would presume?

J.C. Sharma: If you look at it, we have put out the I-GAAP and the IndAS adjustments in the profit & loss, so you can see that impact at EBITDA level, except for the current quarter where almost 1.5% is because of the marketing spend, it is in-line with what we have been getting earlier.

Moderator: Thank you. We have the next question from the line of Samar Sarda from Kotak Securities. Gpa

Samar Sarda: Just a couple of things. One was on Dream Acres, so what we have observed is in the first half of this fiscal sales has slowed down versus what run rate you achieved last year. Now from a steady state basis, given that it is a big project, you will be delivering the project much before your committed times. What sales level or what sales velocity can we estimate or can you guide for the next few quarters or couple of years? And if at all, I need to say I need to increase the sales velocity from the current level, how will that happen?

J.C. Sharma: See, last year was an event when project took off and we offered a product at about 15% less than our normal product we have been sending of a size also which was about 25% in lower side. Now we plan to deliver the first phase with all the infrastructure almost 20 months ahead of time, hopefully we should get the partial OC and the fire approval in time. Once that happens our gut feeling is that when people see and that people have started actually living, it should give us another kind of a boost. This quarter because of the reasons already we have communicated, will be slow not only for the Dream Acres but for all the products of all the developers in all the regions. Hopefully things should change because at the ground level again and again I am emphasizing you people will be able to decipher it better that things are becoming better for the buyers. So in that environment this product post our delivery phase again should pickup and we are more than confident that next financial year Dream Acre should be doing better than this financial year, from our projections perspective.

Samar Sarda: My second question was on land monetization, a few quarters back you did mention about like there might be some land monetization with the government in South Bangalore, is that likely to happen in this fiscal?

J.C. Sharma: See, this is depending upon the government, they have already gone one more step ahead, there are multiple processes so the next step also has been completed. It may or may not happen, we cannot be sure.

Subhash Bhat: It is a touch and go for March but we are right now looking at a scenario where we should complete by June of FY16 or 2017, 2018.

J.C. Sharma: So the land monetization is confirmed, it might only get postponed by a few months?

Subhash Bhat: Yes, so the notification has been issued, so there is no question unless government cancels the notification.

Samar Sarda: And my final question is, if we assume that sales for this year is now Rs. 20 billion and a bit less, we have already generated roughly Rs. 1.5 billion of OCF in the first half. Is it possible that we might go into negative territory in the next two quarters?

J.C. Sharma: See, we had deliberated yesterday with our Board on this matter. And what we have reached to the consensus which we have been trying to articulate today now with con-call, it has been like this that this is too short a period to really evaluate. At the same time, there is no hesitation in agreeing that right now the sentiments are low. The real-estate market can fall, it can also rise up as well since there is almost five months' plus time. So if we do not foresee things improving on the ground, definitely with the current quarter's results we will be coming out with our clear contribution about this year's guidance.

Moderator: Thank you. We have the next question from the line of Palak Shah from Canara. Please go ahead.

Palak Shah: On operations I had just one question that a lot of construction companies have been complaining that due to this demonetization the last few weeks there have been workers who have not been coming to work because they may be getting employment somewhere else and they are not been paid in cash any more, the companies do not have cash. So are you seeing the same impact?

J.C. Sharma: I will tell you it is a good question, again, either we do not know the ground reality, let me make this statement first, a conditional one, but otherwise nothing of that sort. We have almost some large contractors who control about 13,000 to 14,000 workman, all of them are being paid the provident fund, everybody gets increment and this payment is done through RTGS and they have their bank accounts. So wherever we are operating we have not seen any kind of a slowdown or we have not slowed down in any of our projects as we stand today. If anything is happening, again that is primarily on the unorganized sector's part, this is what I have been trying to emphasize that research analysts and the people should be able to decipher this market is too fragmented and there are many sorts of people who are all being called as part of this large real-estate sector. Organized sector does not have anything of that sort where workers are not getting paid or there has been a slowdown in the off take.

Subhash Bhat: We pay our labor contractors twice a month and that payment has continued to happen and it goes through RTGS or NEFT.

Palak Shah: So you do not expect any delay in project completions?

Subhash Bhat: Not at all.

Moderator: Thank you. We have the next question from the line of Sonal Kolhi from E&R Advisors. Please go ahead.

Sonal Kholi: Sir, a couple of questions. Firstly, I am not very familiar with Bangalore but could you help me understand what would be the price difference between various of your key projects like in areas where Dream Acres is versus the secondary market prices, is the gap very large or is the gap small? And if the gap is small wouldn't a correction in the secondary market may lead to a fall on the primary market side?

J.C. Sharma: See, as far as the Dream Acre project is concerned, it is in any case priced lower by about Rs. 1,000 per square feet than the other luxury projects of the organized sector in and around that area.And, your question is about those people who remains unsold some 10 apartments, 20 apartments kind of a thing, there also the prices are not less than Rs. 4,500, so there is hardly any difference and the amenities and the benefits are far greater than that kind of a product. So, apple-to-apple we never competed with them and that will not be an issue even if they reduce the prices further.

Sonal Kholi: And sir secondly, please help me understand where could my understanding be flawed considering that for most of your buyers, since you do not have investors they need to buy a property only once or twice in their lives and even if the property prices would not fall but the fear of property prices due to bad press persists in the minds of people then people could even wait for 12 and 18 months because they have got nothing to lose.

J.C. Sharma: You cannot say they have got nothing to lose, they have to get married, the rental prices keep rising up even now also about 7% to 10%. And when the interest cost declines, this all any economist should be able to communicate, our economy has been still growing, commercial space absorption has been happening at a record pace. First time I witnessing the advance leasing out of most of the commercial space which is being built in every southern city of India. So if that is the case I do not foresee that the buyers will be able to hold back this decision for next 12 to 18 months' time.

Sonal Kholi: Sir but if the rental yield is only 2% and the interest cost is only 6% - 7%, in this scenario where the investor does not expect the property prices to rise and till they do not expect it to rise then why should they be in a hurry, unless you are saying that there are no flats available for rent in Bangalore.

J.C. Sharma: See, in the supply side I want but there are no flats available, but nobody asked this RERA question, with the RERA coming in, with the kind of penalties and with the kind of transparency which is happening with everybody having 500-meter square of land or eight apartments getting covered, I also foresee that there will be a supply constraint. I can also share that the BDA where the projects of 5 acres and above go for a planned approval, development plan, the spending plants are not in double-digits right now. So at the end of the day when the supply gets restricted and the demand remains constant, you may be right that okay somewhere people will be differing. How long? It is a question of opinion. We will see when we find that kind of a scenario.

Sonal Kholi: And considering this situation if the land prices were to fall further would you use this opportunity to buy more land or you would not want to do that since you already have a very large land parcel for many years?

J.C. Sharma: I have already said to one of the questioner that right now we do not have any commitment on the land buying and we are having enough of ongoing projects and enough of projects which we can launch in the near future. We will not look at land buying. The joint development opportunities or something interesting if it comes, we will also be vigilant but that also we will be doing within the cash flows if the demand does not pickup, not in a hurry.

Sonal Kholi: And sir my last question, what kind of assumptions do you make for the current sales when you recognize revenues for the cost escalation and for the property prices increase? Because the revenue recognition happens over few years, so you must be making some assumptions for the future while recognizing revenues currently for the projects which we are selling?

Subhash Bhat: Yes, so revenue is always recognized on a conservative method, so you would not recognize for the future increase. On the cost side also, because you do not recognize any cost increase in the sale price of the flat you cannot assume increase in cost also when you launch the project. So both of them happen simultaneously as the project unravels over the next three, four years. So the revenue comes in as we keep selling at a higher price for whatever small increases you take the cost estimate revision happens every six months per project and closer to the project finish because the finished lines are coming much closer and you are probably working on delivering the quality, the cost estimates do tend to go up slightly.

Sonal Kholi: Sir but currently when you recognize any revenues you do not inbuilt any increase in realizations for the future while doing revenue recognition.

Subhash Bhat: Post the size we do not take inflation of cost as well as the price.

Moderator: Thank you. We have the next question from the line of R Shreeshankar from Prabhudas Liladhar. Please go ahead.

R Shreeshankar: I have a couple of questions. First and foremost, the Trishur and Calicut have probably one of the highest realization per square feet in Q2 and you actually see that in both these markets it is higher than what is in Q1 as well. What is the specific reason, is it super premium apartments or is it getting a higher realization per square feet than even NCR?

J.C. Sharma: You have a point, in the Sobha City we will have our last project Lake Edge, we still have a much higher realization. As far as Calicut is concerned, we have got two projects, one is a villa and another one is an apartment. So when the Vila sales takes place the realization tends to go higher.

R Shreeshankar: And are both these projects completed, because if I go to the slide where the projects under progress I do not think I can see any Calicut project, is it already completed?

J.C. Sharma: No, under construction not completed. Villas infrastructure part is completed and on sale basis we keep building the villas. As far as apartment is concerned, it is under construction only.

R Shreeshankar: Now if I come to Cochin, Cochin is an area where you have got a realization dropping in Q2, do you have any villas out there or is there only apartments, again by the side of backwaters, that is a joint development if I am not mistaken?

J.C. Sharma: Right, that answers your question.

Subhash Bhat: It is not technically a joint development, it is a co-ownership between us and the Puravankara Projects. So every flat 50% of the value is towards our Puravankara and 50% of the value is sold by Sobha, that is the legal way of transmitting the title to the buyer. So what you see here is only 50% of the per square feet value.

R Shreeshankar: This is the Marine Drive one?

Subhash Bhat: Yes, that is right.

R Shreeshankar: What about on the back-water side towards Tripunithura?

J.C. Sharma: Sobha Hight's, it is also there but this quarter what we have reported is detail of Marine Drive.

Moderator: Thank you. We have the next question from the line of Parikshit from HDFC. Please go ahead.

Parikshit : Sir, the Rs. 426 million of revisions in the cost during the first half, so this has been on account of what, overheads, material, labor or interest cost, what is it exactly?

Subhash Bhat: Most of times it will be labor and material.

Parikshit : I think now it has become more of a recurring kind of nature, every quarter we are seeing cost revisions and for last few quarters this never used to a phenomenon for you a couple of years or three years back, so how do we model this going forward?

Subhash Bhat: As I mentioned, when we launched the project we do not consider any cost revision, we do not consider any price inflation also. So as we come closer to the finish of the project, the last one and half years of the project completion we will see cost revision happening almost every six months. And that is part of our internal financial control also now that every six months every project goes through one cost revision cycle every six months.

Parikshit : And it will all reflect above the EBITDA in the financials?

Subhash Bhat: Yes, it would get impacted at the cost level, but then you get the revenue also. But the problem with revenue is that you start recognizing revenues the moment you sell it, because that has happened. Whereas on cost estimates you need to sit with a project team, engineering team, look at what has gone up, what has come down and do a overall cost revision.

Parikshit : I am saying so this rise in cost you may not get the revenue escalation because the pricing right now is difficult to take price hikes, so with the cost escalation then it will be directly hit on margins, right?

Subhash Bhat: Yes, wherever we have not been able to take a price increase commensuration the cost it will impact the margins.

Parikshit: And second this sir, so how much our presales is dependent on the resale of the secondary market? So people who are upgrading by selling their existing like 2BHK or 3BHK and upgrading to your property, so what will be the component of those that will come into us, is there any number you have?

J.C. Sharma: Can you be more specific about your question, upgrading in what sense?

Parikshit : I am saying some of your buyers would be living in say a 2BHK right now in Bangalore and they would be selling that…

J.C. Sharma: I think that will be very small proportion if we look at. Now 80% plus are within the age of 50%, 20% are the first time buyers within the age range of 21 to 30 kind of a thing. So that kind of a flipping I do not think is happening in large numbers. Probably when the Dream Acre's customers, they have lived there for three to five years, some of them may flip and go to a three-bedroom apartment. For us it had been always three bedrooms, this is the first experiment, so we have not seen that kind of upgradation happening in our customer profile.

Parikshit: And sir lastly just on your inventory which is basically offered for sale inventory which has not yet been offered for sale, so when I see the ticket sizes it is greater than Rs. 1.5 crores so when the demand does come back so how do you see these two segments behaving less than Rs. 1.5 crores and above Rs. 1.5 crores, so where do you see the demand coming back fast and recovery happening? Because I think more than Rs. 1.5 crores now are around 53% of your inventory which is offered for sale, around 35% which has not been offered for sale.

J.C. Sharma: See, we believe over a period of time this Rs. 1 crore to Rs. 2 crores kind of a rent most of the customers cannot afford. When you still have 44% of your customers' base who can fund the project, representative I am talking about, and when we used to do 3 million square feet plus sales without the Dream Acres, as such we have not experienced or felt that the affordability is a big question, it is only that the sentiments are somewhere and some kind of churning at the employment level, especially in the IT sector that has differed the buying decision. Hopefully with the interest rates coming down, this trend should be reversing, albeit post demonetization impact.

Parikshit: So say if there is a 100 basis points correction in interest rates over next six months to 12 months, so how much could be the volume, how much can it propel the volume of growth? So right now suppose you had to….

J.C. Sharma: I think it is a good question, around 8% I do believe that the demand growth can be double-digit between 15% to 25%.

Parikshit: So 100 basis points which is roughly 10% reduction in a sense in the EMIs…

J.C. Sharma: Currently it is 9.15% which the leading institutions are offering. If it comes down to 8% which is the great spot, with the income tax benefits and other benefits or incentives on the savings kind of a thing you can see a demand growth of 15% to 25% happening on a sustainable basis for the next two years thereafter.

Parikshit: And the building built out of commercial which is in southern market right now has picked up a lot of steam, so that will also incrementally add to this growth, right?

J.C. Sharma: Of course yes.

Moderator: Thank you. We have the next question from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.

Sameer Baisiwala: Sir, just a quick question on the supplier side for Bangalore. If I look at the JLL data it looks like we have about 80,000 under construction, unsold inventory. Is this something that worries you and versus that what is getting sold is about 8,000 a quarter. So is this something that worries you?

J.C. Sharma: No, see that means you are carrying about two years' inventory and what I am foreseeing is that new plant approvals, they have stopped considerably, both at BDA and BDMC level. So going forward there will be not many projects coming for development whereas the good markets like Bangalore have seen an absorption up to 50,000 to 55,000 on a yearly basis. So both these factors should ogre well from a demand-supply scenario perspective, if I understand your question correctly.

Sameer Baisiwala: Absolutely yes sir. But I worry because if I look at Greater Mumbai, it is about 45,000, if I look at the absolute number and not in the context of demand. And if I look at Gurgaon it is about 25,000 - 30,000. So in that context Bangalore is 80,000 just on an absolute basis looks significantly higher. And the fact that it will get all taken out in 2 - 2.5 years is assuming that the current pace of sales continues. So do you feel confident that this…

J.C. Sharma: I do feel confident. If we look at even our product itself in that will be about 7,000 or so. So I do not foresee per say this is going to have a problem. See, today we are going ahead, you have to see the nature of the supply. First time ever in Bangalore some of the large developers they have gone ahead and have launched projects where unit size has ranged from 1,000 units to almost 7,000 units. And this will be completed over a period of time on a state wide basis. Our own projects also, the Dream Acre which we talk about will be done in five stages. So approval is one-time whereas the completion will go over a period of seven to eight years. So you have to look at when you have this kind of a time horizon this 80,000 will get suitably adjusted.

Sameer Baisiwala: And sir just on RERA, you mentioned that it may be retrospective in affect or it may not be, so is this a discretionary for every state or I thought since center is positive so every state would have it on a retrospective basis pre-OC?

J.C. Sharma: But whatever our limited knowledge was, the state government has been empowered to frame the rules, RERA is a central act, land is both state and central somewhere. You must have seen during the debate also and the stand of the Tamil Nadu Government. Now the Gujarat Government has come out with the Act effective from 1st November, 2016, which talks about any project launched from 1st of November, though the Act will come in place from 1st of May, will be coming under the RERA ambit. Most of the state governments are trying to emulate that. At the same time, we have heard that the Gujarat High Court has granted some kind of a stay that why they have not covered the ongoing project, so it becomes a sub-judice issue. So I would not be able to comment what will be the likely outcome of this scenario. But what I am clear and communicating it is that the supply side will get severely impacted because most of the people in Bangalore you have thousand guys according to commercial tax department who are called real-estate developers. I think 80% of them do not have the required wherewithal to comply with the RERA law.

Sameer Baisiwala: And in terms of what provision of RERA can they not comply with? I mean, they have land, they have architect, they have plans…

J.C. Sharma: No, see the deviation, though smaller, when it covers a 500 meter square feet kind of a thing, ground plus three approvals and it goes up, occupancy certificate is not collected, past track record has to be given, 70% of the money has to be deposited and then to be withdrawn through a mechanism that may not be comfortable for them, everything has to be put in the website. Deviation and delay means 10% in our case here for any offence individually. So when we look at such kind of a situation and when we get the feedback, what I have communicated is likely to happen.

Sameer Baisiwala: And finally, you said that in six months you expect the government to announce, you are talking about Karnataka Government?

J.C. Sharma: No, there has been a directive from the Central Government that by 27th of November, 2016, all the state governments must notify the Act. Now in our case in Karnataka the draft rules have been circulated and lots of people, including CREDI, have put forward their suggestions. So we hope that the Karnataka also not be far behind in coming out with its RERA rules soon.

Sameer Baisiwala: And in their draft are they having retrospective or prospective and 70% escrow remains?

J.C. Sharma: 70% cannot be changed is what we have been given to understand, so it is paid. As far as the draft is concerned, it definitely takes into account ongoing projects but the suggestions what have been given is that make it prospective and include every single project without the size or without the number of apartments, as far as CREDI vendor is concerned.

Moderator: Thank you. That was our last question. Thank you, Members of the Management. Ladies and Gentlemen, on behalf of SBI Cap Securities, that concludes this conference call. Thank you for joining us. You may now disconnect your lines.