



## **“Sobha Limited Q1 FY 2017 Earnings Conference Call”**

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**ANALYST:**

**MR. MOHIT AGRAWAL – IIFL CAPITAL LIMITED**

**MANAGEMENT:**

**MR. J. C. SHARMA - VICE CHAIRMAN AND MANAGING  
DIRECTOR – SOBHA LIMITED**

**MR. SUBHASH BHAT – CFO - SOBHA LIMITED**

**MR. VIGNESHWAR BHAT – COMPANY SECRETARY - -  
SOBHA LIMITED**

**MR. RAMESH BABU – AVP – FINANCE - SOBHA LIMITED**

**MR. BALAMURUGAN – INVESTOR RELATIONS – SOBHA  
LIMITED**

**Moderator:** Ladies and gentlemen, good day and welcome to Sobha Limited Q1 FY2017 Earnings Conference Call hosted by IIFL Capital Limited. As a reminder, all participants' 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 telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Mohit Agarwal from IIFL Capital Limited. Thank you and over to you Sir!

**Mohit Agarwal:** Good evening everyone. On behalf of IIFL, I welcome you all to the conference call of Sobha Limited. Today from the management we have with us, Mr. J C Sharma – Vice Chairman & Managing Director; Mr. Subhash Bhat – CFO of the Company; Mr. Vighneshwar Bhat – The Company Secretary; and Mr. Ramesh Babu – AVP – Finance and Mr. Balamurugan from the Investor Relations. I request Sharma Ji to start with his opening comments and we can take questions thereafter. Over to you Sir!

**J C Sharma:** Friends good evening. It is pleasure to connect with all of you today post declaration of our unaudited financial results through this concall hosted by India Infoline. Thank you Mohit. We have already shared the details of sales performance of the company in the first week of July 2016 and investor's presentation had also been uploaded in our website.

The market for the first quarter real estate sector as a whole had remained primarily lukewarm only. As you have seen that we have done about 809,000 square feet of new sales with a launch in the last month of this quarter in Gurgaon of the Group Housing Scheme. You have also seen our results where we have shown a topline of about Rs.580 Crores consisting of about Rs.400 Crores revenue recognized from the real estate and the remaining coming from the contracts and manufacturing side.

We have also disclosed a cash inflow of about Rs.580 Crores and we have also seen the cost of debt coming down to 11.58% in this quarter the debt reduction of about Rs.35 Crores. While the EBITDA margin look a bit on the lower side, but in this quarter we have also recognized revenue of about Rs.108 Crores from the sale of the balance land parcel to the Pune buyer and in that we have had a very low margin. Besides that we have also incurred higher overhead primarily on account of the marketing cost. Prima facie, the core margins in the business remains stable and going forward and with Ind-AS now in place we believe that in substance the bottomline should be stable to start keep growing. Other details about this quarter performance, I will request Subhash to share it with you.

**Subhash Bhat:** Thank you Sharma Ji. Good evening friends. Coming to the financials for this quarter. During the quarter as Sharma Ji mentioned the company had adopted Ind-AS for its financial reporting and during the investor presentation we have shared the Ind-AS adjustments along with the earlier IGAAP result. So that it helps people who track the company performance to have a corresponding comparison for the earlier periods where we do not have Ind-AS in place.

Coming to the first quarter of Q1 2016-2017. All my comments will be based on Ind-AS results, unless specifically mentioning the IGAAP anywhere else. So during the first quarter the company has recorded a topline of Rs.5.78 billion which are up by 25% year-on-year

and 3% on a sequential quarter basis. The real estate segment contributed Rs.3.99 million, which is about 69% of the topline whereas the contract and the manufacturing business together contributed 1.71 billion making up the remaining 31%.

From a revenue recognition perspective, two projects reached revenue threshold during the first quarter which was valuing at about Rs.358 million mainly Sobha Avenue and Sobha Dream Acres did well.

EBITDA for the quarter stood at Rs.1.08 million. The EBITDA margins during the quarter was affected by the breakup of revenue bit as Sharma Ji had mentioned we have recognized 106 Crores of land revenues which was showing the cost of this would be based on historical basis as well as the revenue also on historical basis. The transaction was completed during the quarter.

The PBT was at Rs.532 million and the net profit for the quarter stood at 360 million, which was up 1% year-on-year at about 30% sequentially.

Coming to the cash flow, we are happy to share that the company has generated net positive cash flow for past four quarters now consecutively after meeting the interest and tax expenses. Our average cost of debt has brought down to 11.58% as of June 30 2016, which was at 12.5% as of June 30 2015, which was one year back.

The company has adequate liquidity to meet all its obligation and further reduction in interest rates are expected. The company collected about Rs.5.81 billion and spent about Rs.4.38 billion for operations resulting in a surplus cash flow for operations of Rs.1.43 billion during the first quarter.

This collection includes Rs.400 million towards sale of land development rights for the Pune Hinjewadi property. The company has utilized towards servicing the interest and tax to the tune of Rs.712 million and after meeting an interest and taxes the company has generated positive cash flow of Rs.714 million. Also we have spent towards payment for land to the tune of Rs.34 Crores 240 million. Capex and CSR contribution to the tune of 131 million resulting the overall cash flow to the tune of Rs.342 million which are utilized to reduce the debt. The debt equity ratio as on June 30 2016 now stands at 0.78.

Coming to the performance highlights for Q1 FY2016-2017 we are pleased to report that despite the slowdown in the real estate sector our new sales volumes was maintained at 0.8 million square feet. The total sales value was at Rs.5.13 billion of which Sobha share are Rs.4.7 billion. The average price realization was Rs.5806 per square feet. We would also like to share that Sobha Dream Acres product continues to clock good sales number during the first quarter and the sales volumes from above 2 Crores category has also increased during the first quarter of FY2016-2017 as compared to the corresponding quarter last year. This is mainly on account of improved sales performance that we have seen in the specific product like Palladian, Sobha Morzaria Grandeur and Sobha Lake Edge. During the first quarter we have completed and handover two real estate project measuring about 0.9 million square feet of developed area, namely Sobha Morzaria Grandeur and Sobha Forest View Cedar.

Coming to the inventory and future launches. At close of Q1 FY2016-2017 our unsold inventory in completed projects was only 0.2 million square feet. Out of this also 0.06 million square feet inventory comprising plotted development project. We have a total area, which is lease of sale in the ongoing project at 16.34 million out of which we have sold 9.33 million square feet till June 30 and we have a unsold area of 7.01 million square feet. This unsold area accounts only for 43% of the area released for the sale, which we consider to be adequate in this market and will support our ongoing sales process. In addition to this 9.33 million square feet area is yet to be release for sale. The company is planning new launches measuring total area of about 9.1 million square feet of which Sobha share will be 5.62 million square feet in Bangalore, Cochin, Chennai and Coimbatore in next four to six quarters. Please note that the company has soft launched two projects namely Sobha Square at Kogilu Cross in Bangalore and Marina One at Marine Drive at Cochin during the last week of August 2016.

Coming to the contracts business, the contract and manufacturing vertical continues to support the company in not only executing significant number of projects but also augmenting the topline and the bottomline at the same time contributing to the positive cash flow. We have ongoing project measuring about 8.7 million square feet of area with unbilled value of about Rs.6.8 million is to be delivered over next two years. As of date we have delivered 391 projects totaling 282.55 million square feet in a span of 21 years. We are grateful to all stakeholders who have made it possible for the company to make this a reality. We thank you for your participation and we now request the participants to put forth their questions that they have on this. Thank you.

**Moderator:** Thank you. We will now begin with the question and answer session. We take the first question from the line of Pooja Bhatia from Morgan Stanley. Please go ahead.

**Pooja Bhatia:** Very good afternoon. I just wanted to know if you could throw some light on the Kochi market, as we have now had a soft launch of Kochi Marine Drive project and we know that there has been a lot unsold inventory in the past few years in premium segment. So what is your pricing strategy in that market?

**J C Sharma:** As far as the Cochin project is concerned despite being aware of the fact that, yes there is disturbance due to the Gulf factor and its sales velocity had come down, but this is a unique location and it is being marketed by two fairly well established players in that market in Kerala. The location is unique and we have developed the required strength and the reach. We believe that we will able to offer you some pleasant surprise from this quarter onwards as far as the outcome of this launch is concerned and since there is hardly any inventory in that market in that particular area of this kind of project where the project starts from about Rs.8000 and odd per square feet with every apartment having a view of this thing. We believe that this product should do reasonably in times to come.

**Pooja Bhatia:** And we have launched it at what rate, Sir?

**J C Sharma:** 8000 plus per square feet is the starting point. The base rate is 8000.

**Pooja Bhatia:** Thank you Sir.

- Moderator:** Thank you. We take the next question from the line of Mr. Mohit Agarwal. Please go ahead with your question.
- Mohit Agarwal:** Sir just wanted to understand the impact of Ind AS on your financials, so both on the P&L side and on the balance sheet side, if you could just help us understand. On the P&L we have seen about 200 bps impacts on your EBITDA margins. So what has resulted in that? And also the balance sheet size has expanded, so if you could help us understand what are the key changes that will be helpful sir. Thank you.
- Subhash Bhat:** Mohit basically the impact of Ind AS is not 200 bps on the P&L. P&L as I mentioned we have to look at from a perspective that we had to do a land sale of booking of 106 Crores which gave the margin of only about 12.9 Crores. So if you factor that out then the margins in the IGAAP result are almost in line with what we have achieved in the earlier quarter that is likely better. The P&L impact otherwise of the only the Ind AS if you see is mentioned on our slide 8 and most of that impact is basically coming in from the revenue recognition on the joint development projects as of March 31, 2015, which is the start date for Ind AS adoption. We have to adopt it one year back because of the comparative. On that date the company recognized almost Rs.1958 Crores of land value in the joint development agreement. So these are balancing entry now also takes this as a land value on the inventory side and on other payable and the project continues to reach percentage completion. We have to recognize the cost as well as the revenue. So as of March 31 2015 itself we have recognized 875 Crores of revenue and 796 Crores of cost of opex leaving us almost 80 Crores as extra profit from these projects as of March 31 2015. So this 80 Crores of profits will keep coming back and hitting the P&L as Ind AS adjustment till this project get over. That is the reason why we have give IGAAP separately and Ind AS separately, so that people do not confuse between what is the Ind AS impact.
- Mohit Agarwal:** That is helpful. Thank you.
- Moderator:** Thank you. We take the next question from the line of Nitin Agarwal from IDFC Securities. Please go ahead.
- Nitin Agarwal:** From a cash flow perspective, what has been the impact of this land sale transaction? What is been the cash proceeds from the land sale?
- Subhash Bhat:** As we mentioned during the concall now it is 40 Crores that we have received from the land sale.
- Nitin Agarwal:** And balance is received in the previous quarters?
- Subhash Bhat:** Part of it was received earlier. We will expect another 40 plus Crores in the current quarter.
- Nitin Agarwal:** On the overall growth guidance, I guess what we have done in the quarter is more or less in line with what you have guided for the year and this obviously is not a very aggressive growth number that we are looking at. In general, when do we see when you look out, when do we see a pickup in business really coming through much beyond the current level of run rate that we are targeting for the year?

**J C Sharma:**

It is like this today we having a two parallel contradictory forces working in our sector while on the one hand the metro environment is becoming better almost on a regular basis in this rate in that couple of years they are down by more than 200 basis point as the home loan is considered will see the availability and good schemes being offered both side the benchers and the developers. If you look at otherwise from a commercial space absorption point of view if it is from where we are operating there had been a continuous increase in the absorption of this commercial space. The prima facie the other indicators of this Seventh Pay Commission payment also, installment wise it has started getting disbursed. Inflation is under control and the pricing has not gone up in last two, three years. So these are the positive things we look at where the pipelines still remains of there would be buyers quite okay. On the other hand what we have seen that there is some kind of reluctance in the minds of the customers. Customers are per se not in a hurry to buy. They still believe that price may not go up if they are not going to come down a small section of that is going to believe that the prices may come down as well and it may happen in this confused state, primarily on account of that unsold inventory A or B structural challenges most of the companies in our sector today they are setting where despite the interest rates coming down their cost are carrying business cost is absolute so otherwise not coming down. So these are the two parallel forces working. According to me these are in place and within one year according to the act being passed this is also it is need to be put in place and we need to start disclosing on our ongoing project if there is no work is no OC received hopefully the things still become much clearer may be during the festive season for upcoming or may be in the beginning of the next year. In that environment we were cautious for last couple of years we are not able to meet our guidance. So we thought that we would need to still show the growth, but not necessarily the growth has to be spectacular in given environment but despite what is our first quarter performance is there. Overall confidence is there that we should definitely be achieving the target of square feet of 3.5 million or value of 20 billion in this as a whole.

**Nitin Agarwal:**

Lastly, on the construction expense for the quarter, at about 222 Crores, I mean, do we see this run rate picking up through the year or this will be around these levels?

**J C Sharma:**

Run rate may pick up because few projects are also now at the take-off phase. So as we move forward while our production and erection capability at this place, Dream Acres, it has stabilized beautifully at other places also the construction activities are picking up. You have to bear in mind that last year we have delivered 3.5 million square feet or more projects finishing. So there is relatively little bit higher cost. Now these new project at the activation level or beginning stage does not need that kind of a money as the construction picks up the construction cost also start increasing.

**Nitin Agarwal:**

So I guess sir, versus last year we may not probably see too much increase in the construction spends for the year?

**J C Sharma:**

It may be little bit higher may not be significantly higher. We do not hold back spends where it is required. So keeping the brand value in mind we ensure that delivery on time. So that is also more important than just managing the cash flow.

**Nitin Agarwal:**

Thank you.

**Moderator:** Thank you. We take the next question from the line of Abhishek Bhandari from Macquarie. Please go ahead.

**Abhishek Bhandari:** Good evening. Sir, I have just one question. Over last three, four years, we have had tough times in pre-sales. We were not able to meet guidance. This year looks promising; we might be able to meet guidance. But does the Board or the Company has any target ROEs in mind, given that lot of our cash flow actually is getting eaten up by interest cost?.

**J C Sharma:** I had said there is no target but then you must be also seen that we have started bringing down our debt on continuous base. If there also with the debt levels come down further so in absolute numbers the debt will come down at the same the interest rates also expected to come down by almost 100 basis point by the year end. So all such things should help us in improving ROE what you are talking about when the baseline margins still we have been able to focus.

**Abhishek Bhandari:** And the second question, Sir, given that the precast projects what we have been launching in last two years has seen a good response and it has also been beneficial for us given that we have somehow been able to protect margin and guarantee a timely completion. Are you looking to replicate that model in some of the other large land parcels, like let it be in Chennai or some other places?

**J C Sharma:** Of course yes. I think since last two, three quarters we have been communicating that definitely this product is not a one off product. There are lots of learning and we will be incorporating that it is just only about a year it completed from the production point of view and half years is completed from the sales point of view. We working on within that also that an improvement but definitely you can expect one such more project in Bangalore and the city what you have mentioned on the major city. We planned to have this product as we progress.

**Subhash Bhat:** Abhishek the viability of precast will certainly go up once the GST is rolled out. Today we get an excise exemption on the precast work that we do at the site okay. If you transport it to another site you need to pay excise and that is what something you should get as a moderatical item when you sell because only VAT and service tax is applicable. So if the GST rollout happening which is more likely from April 1 2017 we would certain look at choosing pickup as an option of a project which are less than 40 acres also. You cannot do that under project.

**Abhishek Bhandari:** Sir, do you think GST would actually be beneficial for the sector, because if I look at the current rates what has been quoted, you know, even if you look at the low run rate 18 and going as high as 27, do you think would not it be inflationary from a short-term to medium-term point of view for the sector?

**J C Sharma:** How government will look at our industry it was depends upon that. But my basic understanding is that so far on the work contract you are getting the credit in Bangalore say for example moderatable on the service tax and on the VAT but we are not getting any credit on the excise part. So many materials are excisable as well. So if the credit accumulated on excise plus service tax plus VAT plus other taxes if we get the credit and

then vis-à-vis the customer has to pay 18% and this is moderatable there should not be much of a problem from the inflationary point of view.

**Subhash Bhat:** Because the cost will also come down in that sense and in the current scenario I do not think any of the builders would try to go down to that cost and take it to the bottomline will get passed on. So more or less it should be neutral and if the government come to that 12% from the real estate that is also something that we have heard and no one knows the real number, which will come at. Some information that we have says it will come at 12 because stamp duty will still continue. If it comes at 12 it is a big win for the customers.

**Abhishek Bhandari:** If I can ask one more last question. Sir, some your competitors who have reported their results seem to be suggesting that the sentiment in Bangalore market has got impacted by this demolition, because of these drainage related issues and all, what is your sense, like is it only for those developers who are probably non-compliant that sentiment has changed or for the whole market there is some bit of uncertainty coming out of it?

**J C Sharma:** I think it is a good question you have asked it needs our point of view as well. Whatever we have understood the government is categorical been communicating that the people who have encroached on the government land they call it large 'Raj Kaluve' in our language which is a live 'Nala' (Storm Water Drain) which connects the two lakes. There if any construction had come up as per the division Bench High Court order of 2011 if are not implemented till the flooding of Bangalore happened, post flooding the government has take it upon itself to remove all those encroachments against which there is no stage vis-à-vis that the developers you are talking about and we are talking about primarily A grade developers on this guys they will not made this kind of mistake. Their land parcels are all on the residential zone. They have not enclosed any of the nallah land and they have gone ahead with the sanction plans and got the occupancy certificate in place. Unfortunately, in this environment still we live in a democratic situation where some like with non-stake hectares. So non-state or state hectares, whatever you define, sometimes they interpret it in their own way and one NGC order also is mixed up with demolition drive to confuse the market. Sobha had got also a stay order from the Bangalore high court, which clearly says that once you have done a construction as per the comprehensive development plan we call it CDP then even if there is nallah and some it had been deviated its legal and valid nothing can be done. This order of the high court has not been challenged by the government and it is still the law of the land. So net-net definitely it has created some kind of a confident in the minds of the buyers and to that extent in the Bangalore market some sentimental negative impact has taken place but from the actual demolition perspective I am clear that none of us should get impacted by this so called demolition drive.

**Abhishek Bhandari:** One last question, sorry for keeping other participants waiting. But Sir, if you can give us some more clarity on this Chennai approval thing. Since the new government has come in, do you think things have started moving faster because that project is getting lingered for quite some time now?

**J C Sharma:** The Winchester we have got all the approvals in place and it have been launched. The other one also now we are being given to understand that after this new government, same government but in the second innings is doing significantly better is than what is used to be in the previous time. we will clear the inventory and post last year's flooding in



Chennai market the market was not looking that great but hasten to communicate that even the Chennai market has started slowing the first glimpse of some improvement. This will help us in expediting our launches in Chennai further and we do not foresee the problem what we had encountered last time as per the approvals are concerned.

**Abhishek Bhandari:** Thanks and all the best.

**Moderator:** Thank you. We take the next question from the line of Saurabh Kumar from JP Morgan. Please go ahead.

**Saurabh Kumar:** Sir, just on your slide 16 projected cash flows on real-estate projects, what will be the value of completed inventory in this, like what is inventory we just completed but unsold?

**J C Sharma:** We have spent it is nearly about 200,000 so two lakh square feet and value of is if a feet 1.06 million.

**Saurabh Kumar:** So 100-odd Crores?

**J C Sharma:** 106 Crores. So that is a complete line or completed project that we show separately, this includes plots about 60,000 square feet. The average size of plots and the apartments is 106 Crores unsold inventory.

**Saurabh Kumar:** So that's not quite a lot. So just coming back to your debt question, Sir, I mean, given that our free cash is we have obviously turned cash positive, but it's still not enough to kind of get your net debt down in an accelerated manner and if the market remains weak, I mean, is there any thought that you should be selling three, four other land parcels to get this down to at least 1200, 1300 Crores, a number which you were there about two years back?

**J C Sharma:** The point is still the target but the beautiful thing is that though the cost average realization had remained stagnant the numbers of what you call the square footage or the numbers of units remained stagnant kind of thing we have been able to work on our direct and indirect cost to ensure that we start generating more cash flow without impacting anything as far as the activities of the company is concerned direct and indirect. Going forward also we are clear that some of the land parcels may get acquired sort of a thing. Timing I cannot say because again this is all in a democratic institution but one land parcel have been identified by the metro who may acquire this land safely if I say from now onwards to next three to four quarter times that transaction may materialize but cannot say when it will happen besides this also couple of other land parcels in Kerala also the acquisition preliminary notice has taken place but nothing had moved. So those things will happen at its natural stage. Besides that also if need be something required to be done we are always open but our guts meet that yes in a typical industry we need not have to unduly worried about the monetization part now. No sooner little bit of the volume increases we should be alright in doing the accelerated reduction.

**Saurabh Kumar:** That is all right, Sir. I mean, if volume increases and things are okay, but I am just saying if volumes do not move up or even move down, and then it can be a bit tricky. So that is what.

- J C Sharma:** I take your point but I think volumes will not come down right. How much it will move up not much significantly and if that kind of the thing is happened as in the past we will be doing something to ensure that remains under control.
- Saurabh Kumar:** So this 0.6 is what you will remain at, right, that is where you want so 1500 odd Cores is what you want to get.
- J C Sharma:** Somewhere your net worth also will keep improving up. So we have to look at from that relative terms you will be selling more you will be needing more working capital and all such things you need to work around within that.
- Saurabh Kumar:** Alright Sir that is it from my side. Thank you.
- Moderator:** Thank you. We take the next question from the line of Kunal Lakhan from Axis Capital. Please go ahead.
- Kunal Lakhan:** Good evening. Just a couple of questions on Ind AS again. Actually firstly on the margins. So just a little bit on the margins again. So, even if I remove the impact of, say, the land sale, the margins have not been that great as such even in this quarter. So, firstly, like in this quarter we have had two impacts, because of, one, Ind AS and second is on account of the land sale. So, how much of the impact is sort of like a one-off and how much will be recurring in nature and how do we look at margins going forward?
- Subhash Bhat:** So basically if you look at the slide 6 that we have put in our investor presentation we have given the Ind AS impact separately the IGAAP impact separately. So overall Ind AS impact for the full quarter is only about 2.2 Crores, which we are expecting to continue because there is an increase reserve that was happened as of March 31 2015. So Ind AS impact will continue on the IGAAP it is quite clear that if you look at the EBITDA level our EBITDA was much better in line with what we have achieved in June 2015. If we remove the land impact however certain times there is a onetime impact of some marketing spends that we have done about 3, 4 Crores extra during this quarter which we expect would continue for another one or two quarters but not beyond that.
- Kunal Lakhan:** So margins would remain, say, sub 20% for the full year FY2017?
- Subhash Bhat:** No not sub 20% it remains you are talking about EBITDA margins right.
- Kunal Lakhan:** I am talking about EBITDA margin, because if I remove the impact of, say, the land sale, I am still sub 20%, and if I am expecting the marketing spend to continue over the next one or two.
- Subhash Bhat:** You are talking about at Ind AS level or at the IGAAP level.
- Kunal Lakhan:** I am talking on the Ind AS level?
- Subhash Bhat:** Ind AS level you will see just remove the land impact it will continue at the same level.
- Kunal Lakhan:** The sub 20%?

- Subhash Bhat:** Not sub 20% it will be higher.
- Kunal Lakhan:** Okay. Because I am trying to do the numbers, on my side, if I remove like 106 Crores from the topline and say like 13% margin on that from the cost, then I am still getting a much lower number?
- J C Sharma:** Above 20% it is so next one quarter also it will continue at same level and thereafter it should improve do 20 plus.
- Kunal Lakhan:** Secondly, on the balance sheet side, can you help us understand what is this line item, other finance liabilities and basically it's there in the current as well as non-current portions. So what does it have?
- J C Sharma:** This basically is the land inventorization that we have to do for the joint venture development that we have with various partners of us. So one of the major impact for Ind AS impact you have to recognize the land value in the joint venture development that you have whether it is a area share or revenue share and take it both as an asset and liability and the asset would go towards your cost as the project completion improves and the liability would go towards your income in the P&L. Non-cash item okay.
- Kunal Lakhan:** Lastly, on the APMC front, any update there in terms of timelines, or even in terms of our plans to get some partners on board?
- J C Sharma:** APMC likely for the current scenario that this year we do not expect any further improvement to happen or any further updates to happen this year till March.
- Kunal Lakhan:** And any update on the partner's front, any partner that we are like finalizing on?
- J C Sharma:** I do not think we are talking to various people. You will hear in the market but that is more to just be in place that yes as and when it happens we do get a feel as soon if someone is interested or not. So it is nothing concrete.
- Kunal Lakhan:** Thanks.
- Moderator:** Thank you so much. Next question is from the line of Abhinav Sinha from CLSA. Please go ahead.
- Abhinav Sinha:** Thanks for taking my query. So first on the Gurgaon project, are you happy with the pace of apartment sales right now and where do you see the sales rate setting going forward?
- J C Sharma:** We cannot say we are happy because the potential of the Gurgaon market is immense right but we are not unhappy either, because the timing has been perfect. On a daily basis you are seeing incremental sentiments improving and the progress-taking place on the Dwarka Expressway. So it is just now a matter of time. So more we have to look at it an opportunity which will complement A our the existing product B it will help us in installing that overhead force of the particular place it get distributed and it brings a significant improvement in our numbers first and then in the topline and bottomline thereafter. So net-net we believe that it was a specific positioning of a good products in a good location

where definitely the performance will be significantly better on a lower base but from a potential point of view we believe we have a long way to go and as the sentiment still in that market despite we having the good track record remains difficult and challenged and difficult.

**Abhinav Sinha:** Sir secondly, if I look at slide 15 where you have given a breakup of apartments by value sold, so the percentage of 2 Crores plus have gone up, which I think you have also pointed out. So, is this a one-off, or are we seeing some interest coming back in the higher end of the market?

**J C Sharma:** What is happening is projects which are nearing completion in this particular segment 2 Crores and plus we are seeing significant amount of inquiries building up. So very clearly there is a market for it but that market the end consumer is not willing to wait for a longer period of time. So project which will get delivered within a year we are seeing a good amount of inquiry coming and the traction happening there especially Sobha Palladian and Morzaria we are able to deliver that project on time. So we are seeing good amount of traction there.

**Abhinav Sinha:** So the project mix, likely to stay the same going forward or I mean you are going to look at the say higher mid-income, higher premium?

**J C Sharma:** Abhinav it all depends upon like these products get launched as well. So what we will see like in this quarter with the launch of Cochin Marina One we will suddenly again find good number of increase in the high value item products but it is launch of Sobha Clovelly project in Bangalore, again it will bring down that average in Bangalore because it is being priced effectively at around Rs.6000 or so. So net-net what I am trying to communicate is let us not go by the last consideration it is only providing the visibility and clarity about what kind of product we have to offer to our customers in the respective regions. What we are feeling happy from the last quarter onwards that the sales are taking place in all categories. So you have high value items are also being sold and you would have the low value products of Dream Acres and Silicon Oasis as well getting sold. If these things keep happening it, augurs well for us because our average realization should improve and it will also help us because only Dream Acres will not able to take care of all the overheads. It will be needed to have the other products in Bangalore and other cities to also start contributing and that kind of a scenario has started emerging.

**Abhinav Sinha:** So, last question again, on the Dream Acres project, it was very good to note, I mean the accelerated delivery that we saw there somehow not translating yet to the topline. I mean it is still in the 300 Crores sort of a zone for the revenue side. Do the two somehow merge together going forward next couple of quarters; let us say Dream Acres becomes bigger? Thank you.

**J C Sharma:** What is happening is that the structure cost is still not that high. The initiatives in others when you do you will find accelerated revenue but it should help us in getting the cash flow partners and this quarter will be the best quarter from the execution point of view and should get reflected from now onwards in the remainder of the year.

**Abhinav Sinha:** Thanks.

- Moderator:** Thank you. We will take the next question from the line of Saurabh Jain from HSBC. Please go ahead.
- Saurabh Jain:** Thanks for the opportunity. Just one question on the balance sheet side again this item, the other financial liabilities, is this advances from customers or what exactly this item will be?
- Subhash Bhat:** No, as I said these are all in the Ind AS adjustment that you are seeing is non-cash adjustments. So what we have done is as I said we have recognized Rs.1985 Crores of land value as of March 31 2015, in our joint venture projects. So that is recognized both as an asset as well as the liability in the balance sheet on that date and after that also whichever projects have got launched or we have signed up we are inventorizing the land and showing back. So these are non-cash items so in my view you guys should not be too worried about that.
- Saurabh Jain:** Thank you.
- Moderator:** Thank you. The next question is from the line of Pooja Bhatia from Morgan Stanley. Please go ahead.
- Pooja Bhatia:** Thanks for the followup question. Just wanted to know on the Yelahanka property, are we planning launch in this year?
- J C Sharma:** Yes we have done that. That is Kogilu one. We have already done a soft launch this month August.
- Pooja Bhatia:** All the best.
- Moderator:** Thank you. Since that was the last question I now hand the conference over to the management for their closing comments.
- Subhash Bhat:** Thanks to everyone. Thanks to India Infoline also for hosting this conference for us and thanks for being patient with the results this time with Ind-AS adjustment coming through. I know it is very difficult for most of the analyst to understand Ind-AS in further detail. In case you have any questions you are welcome to post it to Bala or myself and we will be happy to answer those queries. In substance please understand Ind-AS is a non-cash adjustment. So business wise, there is no impact. It is just that to make comparables something, which will work, out well among all the peers in the industry that is why SEBI has got Ind-AS in place. Business wise has no impact of Ind-AS on the underlying at all. Thank you.
- Moderator:** Thank you. On behalf of IIFL Capital Limited that concludes this conference call. Thank you for joining us. You may now disconnect your lines.