



“Sobha Limited Q4 FY 2016
Results Conference Call”

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ANALYST:

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MANAGEMENT:

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Moderator: Ladies and gentlemen, good day and welcome to the Sobha Limited 4Q FY16 Results 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. If you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Mohit Agrawal from IIFL Capital. Thank you, and over to you, Sir!

Mohit Agrawal: Yes. 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 and Managing Director; Mr. Subhash Bhat, CFO of the Company; Mr. Kishore Kayarat, Company Secretary; and Mr. Balamurugan from the Investor Relations.

Mr. Sharma will join us during the call. In the meantime, I request management to start with their opening comments. Over to you, Sir!

Subhash Bhat: Thanks, Mohit. Good evening to all of you. This is Subhash Bhat, we are pleased to connect with you today post the declaration of our audited financial results through this con call hosted by India Infoline. We have shared the details of operational performance of the Company in the first week of April 2016. The investor presentation loaded onto website can be downloaded now, it is available.

Coming to the financials, focusing on the fourth quarter, during this quarter, the Company recorded a topline of Rs.5.59 billion, which is up by 10% year-over-year and 39% on a sequential basis. Real estate contributed Rs.3.77 billion, which is 67% of the topline and the contracts and the manufacturing business contributed Rs.1.78 billion. From a revenue recognition perspective, four projects reached the revenue recognition threshold during this quarter valued at Rs.1.6 billion.

EBITDA for the quarter stood at Rs.1.53 billion, which is up 6% year-on-year and 37% on sequential basis. EBITDA margin during the quarter was maintained at 27.4%. The PBT calls at Rs.948 million, which is marginally down by 0.7% as compared to the previous year, but up 83% sequentially. The PAT for this quarter stood at Rs.36 Crores, Rs.360 million, which is down by 41.5% year-on-year and up 12.3% sequentially.

There has been a reduction of debt by Rs.262 million during the fourth quarter; out of which, we prepaid Rs.20 Crores, Rs.200 million, for debentures issued by our subsidiary, Sobha High rise Ventures. The debt equity ratio as on March 31, 2016 stood at 0.80. We have generated positive net operating cash flow of Rs.797 million during the quarter, after meeting the interest

and the taxes. We are also happy to share that the Company generated net positive cash flow for the last three quarters consecutively after meeting the interest and tax expenses.

Our average cost of debt has been brought down to 11.83% as on March 31, 2016 from 12.6% as on March 31, 2015. The Company has adequate liquidity to meet all its obligation and expects a further reduction in interest rates going forward.

Coming to the full year 2015-2016 financials, the Company's topline for the financial year ended March 31, 2016 stood at Rs.18.79 billion, a decline of 23.5%. The real estate revenue contributed Rs.12.56 billion, and the contracts and manufacturing business contributed Rs.6.07 billion. Real estate business contributed 67% and the balance was contributed by the contracts and the manufacturing business.

EBITDA for the year stood at Rs.5.17 billion. EBITDA margin improved to 27.5% as compared to 25.75% for March 31, 2015. PBT was Rs.2.81 billion and PAT was Rs.1.53 billion. The real estate revenue continues to be impacted due to significant new sales volume coming in from projects which are yet to reach the revenue recognition threshold.

Coming to the cash flow, during FY2015-FY2016, the Company collected Rs.22.55 billion and spent Rs.17.72 billion in operations, resulting in a net cash flow of Rs.4.83 billion. The Company has utilized this towards servicing of interest and tax to the tune of Rs.3.28 billion. After meeting the interest and tax, the Company has generated a positive cash flow of Rs.1.55 billion. Also spent towards payment for land to the tune of Rs.1.67 billion, dividend of Rs.826 million, capex and CSR contributions to the tune of Rs.1.35 billion, and repayment of debentures of Rs.200 million, resulting in an overall excess cash withdrawal to the tune of Rs.2.5 billion for the full fiscal year 2015-2016.

Coming to the performance highlights for the full year 2015-2016, we are pleased to report that, despite the slowdown in the real estate sector, our new sales volume was maintained at 3.38 million square feet, which was 3.2% higher than the previous year. The total sales value is at Rs.21.46 billion; of which, Sobha's share is Rs.20.12 billion, with the average price realization of Rs.5946 per square feet. During FY2016, we launched four new projects measuring 5.72 million square feet of a total developable area and of 3.91 million square feet of the total saleable area. In addition to this, we released about 0.93 million square feet of area from the existing projects for sale. We have completed and handed over nine real estate projects and 16 contractual projects, totaling to a total area of 11.1 million square feet of developable area, which is the highest ever completion and delivery since our inception. On the operational front, we would like to share that our foray into the Sobha Dream Series segment has been met with success, and this is reflected in the FY2015-FY2016 pre-sales numbers.

Coming to the inventory and future launches, at close of Q4 FY15-16, our unsold inventory in completed projects was only 0.18 million square feet; and even out of this, 0.08 million square feet of inventory comprised of the plotted development projects.

We have a total area release for sale in the ongoing projects at 16.77 million square feet; out of which, we sold 9.21 million square feet till March 31, 2016 and have unsold area of 7.56 million square feet. This unsold area accounts only for 45% of the area released for sale, which we consider to be adequate in this market. In addition to this, there is 9.49 million square feet of area which is yet to be released for sale. The Company is planning new launches measuring total area of about 9.1 million square feet, with Sobha's share being 5.62 million square feet in Bangalore, Cochin, Chennai, and Coimbatore in the next four to six quarters. These projects are in various stages of approval.

Commercial malls during the financial year, we have commenced our first commercial mall operation, Sobha City Thrissur. We have leased out about 80% of the area; of which, 58% of the area is already under operation and the balance areas are in various stages for fit-out. We will share the detailed financials on the commercial mall in the coming quarters.

Coming to the contract vertical, the contract vertical has also shown consistent performance during FY2015-FY2016. It continues to support the Company in not only executing significant number of projects but also augmenting the topline and the bottom line, while at the same time contributing to the positive cash flow. We have ongoing projects measuring 8.07 million square feet, with unbilled value of about Rs.7.63 billion in hand to be delivered over next two years.

The business model of the Company built on backward integration helps in delivering superior quality product and at a competitive price. As of date, we have delivered 389 projects totaling to 81.64 million square feet in a span of 21 years. We are grateful to all the stakeholders who have helped the Company making this a reality.

Coming to the dividend and the buyback decision, which has been announced by the Board to the stock exchanges, the Board of Directors have proposed 20% of the face value of Rs.10 per share as dividend, which amounts to Rs.2 per share. In addition, the Board has also approved an equity share buyback program for 2,275,000 shares at a price of Rs.330 per share amounting to approximately Rs.75 Crores. This will be subject to regulatory approval and it should fructify in the next few weeks.

Coming to the guidance for FY2016-FY2017, considering the current market environment and the new projects that have been planned in Gurgaon, Cochin and Chennai regions for the

coming financial year, we are confident of achieving new sales volume of 3.5 million square feet and with a sales value of Rs.20 billion.

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

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Adhidev Chattopadhyay from Elara Capital.

A Chattopadhyay: Thanks for taking my question. Sir, firstly just could you give some guidance on how much will be the real estate revenue recognition for next year, just a ballpark because obviously that has fallen this year, so are you expecting an uptick next year? And similarly on the contracting business as well, if you could please?

Subhash Bhat: Adhidev, as a practice, we do not give this guidance on the sales revenue, the revenue that will be recognized on the projects, the reason being that it is completely linked to the spends we do on the projects in terms of the completion of the work and the percentage completion achieved. But we do expect that we should have numbers which are better than the current year, because there will be projects which would come up to the revenue threshold.

A Chattopadhyay: Okay. Sir, which would be the major projects among on this?

Subhash Bhat: The biggest would be the Dream Acres, because today we have only recognized about 25% of the sales that we have done on Dream Acres phase 1 in the revenue recognition. So, remaining would come on board during this year.

A Chattopadhyay: Sir, on the contracting business, what is the outlook for the revenues? Do you expect it to be better than last year or flat?

Subhash Bhat: I would say, flat to slight growth. That is because the order book has not changed much, Adhidev.

A Chattopadhyay: Could you give us some sense on this Kochi project which you are planning to launch, so what is going to be your strategy, because I understand the NRI market is pretty weak right now because of the situation in the Middle East. So, how do you plan to generate sales out of that project?

Subhash Bhat: One is, we do see some lack in demand in the Kochi market. But certainly as you said, the market is a bit slow there and especially because of the situation in the Gulf. We have still not go full approvals on the Marine Drive project. We should get start probably in next two, three weeks. And once we have that, we will sit together with our joint venture partners in it,

Puravankara, and then decide on the strategy because it is a project which will be constructed by Sobha but marketing will be jointly done by Sobha and Puravankara.

A Chattopadhyay: Sir, lastly, any clarity on the Chennai projects on the possible launch this year?

Subhash Bhat: Chennai, you are asking about Sholinganallur?

A Chattopadhyay: The larger one.

Subhash Bhat: Sholinganallur, now since the election result have come, whatever it maybe, but we expect some first phase some portion of the row houses and some kind of an apartment block will get released by second quarter end or in the third quarter beginning, which will be done in a phased manner of course.

A Chattopadhyay: I will come back in the queue for more questions. Thank you.

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

Amit Agarwal: Thanks for taking the question. My question basically pertains to the decision for the buyback. I think this is the first time I am seeing Sobha doing a buyback. What was the reason for having a buyback especially in the market which is still continues to be a bit weak and spending money on that, any thoughts on that?

Subhash Bhat: The exact reason for doing the buyback is that we feel the price which is being Sobha's share is getting quoted in the market today is below the intrinsic value and therefore there is an opportunity for Sobha to come in and buy these shares out, okay, and reduce the equity base so that the long-term investors can continue to benefit from this lower price.

Amit Agarwal: But looking at the cash flows probably, you would be buying back with the help of debt, not from internal cash flows, given the fact that you had even in FY2016, you had dividend payout and you had capex and so you had net negative development and I put this way post the dividend payouts in capex. So, you'll be taking on debt for this particular buyback, would that be your rational?

Subhash Bhat: No, last two quarters, we actually have generated almost Rs.50 Crores plus positive cash flow. So we expect this quarter also to have a positive cash flow, which we will be using for the buyback.

Amit Agarwal: Thanks a lot.

- Moderator:** Thank you. The next question is from the line of Parikshit Kandpal from HDFC Securities. Please go ahead.
- Parikshit Kandpal:** Sir, in the notes to the accounts, you have mentioned there is Rs.23.7 Crores of tax, so what is it exactly? I mean why is this liability coming now?
- Subhash Bhat:** What has happened is in this quarter, we got eight years of assessment completed, eight years past eight years, and there were some old tax reversals, tax hits that have come. So, basically, it is a deferred tax entry which has hit. There is no impact on the cash flow for this.
- Parikshit Kandpal:** Second question pertains to again, the cost revision which Rs.38 Crores hit you have taken during this quarter. So in full year, it is now Rs.84 Crores. So I think last time when we had the call, we had said that most of the cost overruns the cost revisions have been provided for. So, now this again comes as a negative surprise. So what is the reason? Why, I mean, this has come in?
- Subhash Bhat:** What we do is, we do cost revision on a very regular basis every quarter. We look at the future deliverable, which is there on the project, how much it is going to cost us to deliver, and those are the cost revision which is hitting in P&L on a regular basis. So, we have now included a mechanism where we do a cost review every quarter, and that's the reason why you see these changes happening you have to understand we have got about 40 projects which are going on.
- Parikshit Kandpal:** Okay. So, but what kind of quantum we should build in on a quarterly basis which could hit the P&L?
- Subhash Bhat:** No, I cannot give you that because that would be a future looking statement and we would we have now the mechanism of reviewing this every quarter, so it would continue both the ways, if I say I could see some savings that will get strong, and if there is extra cost, which will hit the P&L then.
- Parikshit Kandpal:** But what changes in a quarter, I mean if suppose you have done this estimation right now and probably you will be finalizing your numbers in two months' time, so what changes this cost revision so sharply?
- Subhash Bhat:** The labor cost on the site, the efficiency of the labor. See, you have to understand we operate in an environment where most of the labor that comes in is unorganized. So, sometimes we have to use more labor, sometimes the material if labor is not filled properly. There is material wastage at the site. And as I have mentioned, it is 40 projects. So, this overall cost revision is not a big amounts if you look at it on an average basis for each of the projects.

- Parikshit Kandpal:** This will be largely pertaining to the labor cost?
- Subhash Bhat:** Mostly labor and some material wastage.
- Parikshit Kandpal:** Sir with regards to your pre-sales guidance of 3.5 million square feet for this year, I think you've big launch planned in Gurgaon, out of that, I think, 5 million square feet of your share, how much are you building in the new launches?
- Subhash Bhat:** Gurgaon is not 5 million. Gurgaon...
- Parikshit Kandpal:** No, no. The total I'm saying. 3.92 million you have the total saleable area of your share in new launches of 5.72 million, right?
- Subhash Bhat:** Yes. But it is not only Gurgaon. It is Gurgaon...
- Parikshit Kandpal:** Yes. Of course, three projects put together.
- Subhash Bhat:** Typically we are looking at about 600,000 to 700,000 coming from the new projects.
- Parikshit Kandpal:** Okay. So, 0.6 million you're building from the new project and the balance will be from the existing inventories.
- Subhash Bhat:** Yes.
- Parikshit Kandpal:** It will include the part of unreleased inventory as well?
- Subhash Bhat:** Yes, naturally.
- Parikshit Kandpal:** And Bangalore will continue to drive this volume basically?
- Subhash Bhat:** Yes, sure. So, I would just like to announce that Sharma ji has joined us from the press conference, Sharma ji, welcome.
- J. C. Sharma:** Good evening, all. Sorry, apologies, this time the board meeting got delayed, we had to request you as well, right. But I am available. Next time we'll be more planned while having this timing.
- Parikshit Kandpal:** Hi, Sharma ji. This is Parikshit here from HDFC Securities. I want to ask the last question. Now the elections of the five states are behind us. Chennai, we are quite prominent there. So in Kochi also, now Kerala new government is there. So, how does it change for us in terms of new launches, because we have some big land parcels there which we were planning to launch and also if you can give some light on your own macro market, the largest contributor which

in Bangalore, and then Gurgaon, so if you can give us some trend and what is happening in these markets.

J. C. Sharma:

Out of all the markets our view remains that Bangalore should continue to do relatively better. Whatever feedbacks we are getting even in the Bangalore market also, it also had some kind of a pressure in the last year regarding what it had witnessed, what it was showing maybe two years back, three years back sort of a thing. We have been always talking that the real estate is actually been too lower, what we call, rate of interest; and if the prices are right, people should be buying. Last couple of year's prices has not gone up good and the rate of interest had come down by almost 150 basis points to 200 basis points; but still on ground, something is amiss which probably you people know better. My view point, which I feel is that it is the sentiments where they are not in the hurry. The excess supply price is not going to go up, kind of a scenario is affecting. But at the same time, looking at the commercial space absorption, looking at the economy is expected to continue to grow 7% plus, Seventh Pay Commission, Rs.100,000 Crores plus money, and then the state government and others should also start basing properly, all such things at some point of time trigger a big demand revival. We have been always positive, but the actual performance has not been up to the expectations. This has been worrying us as well. But net-net, we believe that with the launches whatever we have done and likely launches at least we should continue to do better both operationally and on realization basis in this current financial year.

As far as revenue recognition also is concerned, our belief is that this financial year should be better because Dream Acres has started giving us and will continue to give us incremental extra revenue along with the other projects, so we are confident on that front also. We have been able to protect our margins despite certain pressures here and there, either on the pricing front or on the cost front. On the liquidity front, we have been absolutely comfortable and going forward, we believe that our present interest rate, which is on an average 11.8% to what it was on April 1, 2016, it may come down and maybe we will be below 11% is what we are targeting. Cash flow wise also, we hope that this year also will be much better. We are not planning for any large buying.

Our capex program more or less as far as shopping mall is concerned or setting up of the precast project is concerned, or large commitments towards the real estate projects are concerned, this year it may not be as intensive as what we had witnessed in the last three four years. So hopefully this means there will be less pressure on the borrowed funds and debt equity should come down further from where we are at this point 0.8, at this point of time. At the same time, as a cautionary note, these elections according to me will have no impact. The Zero Act we have to yet to see that people say that 6 months to 12 month time it takes. It should not become another challenge. Another problem we face NDT related issues. I would like to assure that none of our projects ongoing are going to get impacted or the future projects

which we are planning will have this NDT issue but the plan approval process and people to redesign their projects based on NDT orders sort of a thing is a big dampener as a whole, does not augur well. Hopefully the authorities should take care of these concerns as well, because in Bangalore if the residential space takes a hit, it is not a good sign for the overall Indian real estate market.

From a construction and manufacturing side, the margins remain okay. This year, that is the March 31, 2016, Rs.600 Crore plus we hope to do better, not significantly, but definitely better than what we have achieved in the last financial year. So, our real estate revenue recognition should be better, our construction and manufacturing recognition also should be better, margins should remain, and the investment on CapEx part or land part should be minimal than what we have achieved in last three years. That is what the net-net, I foresee for the market as well as for Sobha.

Parikshit Kandpal: Okay. And sir, what about the NCR market, if you can also touch upon that?

J. C. Sharma: NCR market, we have a very good hope. From a location point of view and from the accessibility point of view also, right, this project is far better accessible. It's on the edge, two sides of Delhi, I keep telling. We hope that with the marketing setup and the mockup apartments, people are showing interest visiting the conversion ratio will improve and this year, definitely we are going to do significantly better on the NCR market because of this apartment projects. And as I said, Dream Acres contributed and complemented us in achieving better sales in Bombay market the NCR market also will get complemented with the formal launch of this Gurgaon Sobha City project also.

Parikshit Kandpal: Okay. And sir, lastly in the new launches we have Kochi and Sholinganallur, these two properties missing, which used to be earlier carrying in our presentation. So do we...

J. C. Sharma: It is a good point. If you look at the square feet area and others, it remains the same, right. One of the board directors when he was going through the Investor Presentation, legal guy, he suggested that since this is not coming don't put till a project is approved. So that way, on the forthcoming projects, area may change, time may change, it should not mislead the general market. This presentation is used by the customers as well. So for that purpose, we are not showing. Otherwise, definitely we'll be sharing the forthcoming project launches. There has been no reduction in that.

Parikshit Kandpal: But we are targeting it within this financial year?

J. C. Sharma: Yes, Parikshit.

Parikshit Kandpal: Okay, sir. Thank you, and all the best. That's it from me.

- Moderator:** Thank you. Next question is from the line of Sandeep Mathew from ICICI Securities. Please go ahead.
- Sandeep Mathew:** Sir, first question is regarding this arbitration case footnote that is there in the results. Which sale does this pertain to and how much has been booked and how much is pending to be received, sir?
- J. C. Sharma:** We are on a very strong wicket. I think out-of-court settlement should happen hopefully before this quarter sort of a thing. It pertains to a land parcel in Pune, which we have sold half of that about five, six years back and then there was an issue on other things. The Company will not have to take any hit at all on this.
- Sandeep Mathew:** Right. But how much is the amount in question, sir?
- J. C. Sharma:** Amount in question is about Rs.100 Crores, yes.
- Sandeep Mathew:** So this has already been passed as revenue in your P&L earlier, right?
- J. C. Sharma:** That is not going to be reversed.
- Subhash Bhat:** So that is not at risk. So, there were two land parcels which we have sold, one of them has completed the deal, the second deal is what we are forcing the buyer to complete. So on the second deal we have not recognized any revenue and we are also not forcing them to buy, but neither we're buying nor is right releasing, so arbitration should help us.
- Subhash Bhat:** It is more of a pressure tactic to bring the person to a table to settle it.
- Sandeep Mathew:** How much has been the revenue that is recognized from both of these deals together and the second is, how much of the cash flow that is pending to be received?
- Subhash Bhat:** Zero from the second parcel. On the first parcel, we have received 90% of the value in money, 10% is pending, but we have received 10% advance on the second parcel.
- Sandeep Mathew:** Okay. Sir, the second question was on relation to your guidance. So, you mentioned that you will be targeting sales of about 3.5 million square feet next year. Now my question is how much of this does it relate to the fact that historically Sobha has struggled to meet with its guidance and hence is there a case of probably the Company lowballing the number here or is it really reflective of the market that sales are not coming in anticipated or the sales velocity is not as anticipated and hence you think this is a reasonable number to work with?
- J. C. Sharma:** See, your answer lies in the questions what you have said, we have been positive, we have been doing relatively better, but some days we have not been able to meet the guidance

because the macro environment has not been supportive and especially only Bangalore has been driving the sales but we have projects in multiple cities. So, somewhere we remain positive but yes we should continue to do better, but at the same time we need to reflect our sales in the past, especially last two, three years, the way we could not achieve what we have been advising, the Board felt that this time reflect what you see on the ground as a guidance and then see to it if there is scope to do anything further, we can talk to you in the subsequent quarter.

Sandeep Mathew: Sure. Sir, also as I look at this number or guidance that you've given, so almost like 50%, 55% of your sales last year came in the category of apartments priced less than Rs.1 Crore. So, how do you see that kind of shifting?

J. C. Sharma: It's not 50%, 55%, it is much lower than that. It is around 30% only. So and that on square feet, it maybe more and on value term per square feet is even lower but what we need to look at is, this should have been an additional sales, it could not happen. So looking at that scenario, we believe that still we should do better but how much better and the market gives clear sign that all of us will start knowing. At this point of time I have 70 million square feet of inventory. We are completing the projects on time we can always accelerate the construction activity if the sales numbers improve. All the projects have being delivered the way they are intended to. So, let's just wait for the macro environment also to reflect what we believe is likely to happen. But while giving the guidance, we need to be bit conservative due to our past two years' experiences.

Sandeep Mathew: Finally reversing again on the tax rate question, if I understand correctly, there is no cash flow impact and this is essentially just relating to prior periods where you had already made provisions for this particular tax number, which has finally hit your P&L, is that understanding correct?

Subhash Bhat: Yes, it is the deferred tax hit that has come.

Sandeep Mathew: Okay. And no cash flow impact, right?

Subhash Bhat: No cash flow impact.

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

Sameer Baisiwala: Thank you very much, and good evening everyone. Sir, for last four years, since fiscal 2013, your pre-sales have been stuck at roughly about Rs.20 billion, Rs.22 billion, Rs.2000 Crores, and Rs.2200 Crores. And in the fifth year and the running, again we are at the same level as

per guidance. So, do you think that we are sort of stuck at this level? And second related point is, you had guided to us for fiscal 2019, 7.5 million square feet, if I'm not wrong.

J. C. Sharma: You are right.

Sameer Baisiwala: And for this year, you are planning to do 3.5 million square feet. So, how do we reconcile that?

J. C. Sharma: From our stance, when we started investing three to four years back on projects in Delhi, in Pune, in Chennai, in Kerala kind of a thing, the idea was the other regions should also support the sales momentum of Bangalore. We also had planned this project in 2013, which culminated in launch in the beginning of 2015 first quarter the Precast homes considering our large land bank. So what you call the fundamentals still remain the same. It is that the market unfortunately in last two to three years' time had remained stuck, and especially in other markets, which now after the event we are luckier to be wiser, but we could not have anticipated. With the launches and the inventory levels what we look at also is right now at the highest level. So we believe that nature of the industry is cyclical. The new launches are coming down. We remain, among the few companies, where these act will not impact us adversely, but probably will help us in getting differentiated from the rest and the demand intrinsically remains. If the commercial space absorption in India is 36 million square feet, 38 million square feet on a yearly basis and Bangalore contributes more than 10 million square feet, some of this people have to buy. If you look at the age of the people who are buying our products from 21 to 40, they contribute about 60% plus of the total sales. Dream Acres, people are buying at the age of 21, 24, 25 as well. So, these are the mixed signals in this the medium to long term conditions remain that the Company should be doing and that's why aggressively we are launching these large-sized projects which we have never launched. At the same time, the ground reality remains that the efforts what we have made versus the outcome what we've achieved, it's not to our satisfaction also and as you very correctly said, remaining at that level it has not come down, but it should have gone up which is not happening.

Sameer Baisiwala: So, sir, what's the bottom line? So do you still retain your fiscal 2019 target or do you want to?

J. C. Sharma: We retain our fiscal 2019 target of achieving 7.5 million square feet.

Sameer Baisiwala: Okay. Sir, second question is versus your pricing and the average pricing for fiscal 2016 at roughly, I think, 5,950 per square feet, how do you see this play out in fiscal 2017? And also, I think, in general you have maintained with your cost and the construction cost were roughly about Rs.3,000 per square feet, how do you see this panning out in a year or two?

J. C. Sharma: I think when you look at the presentation, the Delhi launch, realization is higher but what we do is the volumes we take because we are selling and the value part we're deducting the JD

partner share, if it is revenue share. So and it looks like the price increase in any of our existing markets do not appear to be a possibility being able to do it. We are also not going to reduce the prices as well. So prima facie around Rs.6000 or so, the realization at least for the coming couple of quarters should remain. If things change for the better, what we anticipate is, from here onwards, the prices can only go up.

Sameer Baisiwala: On the cost side, sir?

J. C. Sharma: Average EBITDA margin remains above 25%. Last quarter, it had increased. We do not foresee this kind of increase. Primarily what is happening that somewhere you have completed the project, you don't get the OC and preliminary cost continues while you have a contingency, what I was mentioning in the previous conversation with some analysts is that the uncertainty element at the fag end, when we're completing the projects, leads to some cost increase plus the labor cost, aggregate cost, and the sand cost, primarily these three cost always has been going up. While the cement prices have remained stable, the steel prices benefit definitely we have taken this quarter, they have also gone up by Rs.4000 to Rs.5000 but net-net I believe, that overall prices will remain at 6000 rupees as you have correctly put it across may not go up significantly in near term, as much as the selling prices are likely to go.

Sameer Baisiwala: What is the debt outlook for fiscal 2017 versus on a net basis, so versus Rs.20.6 billion that you are closing this year with?

J. C. Sharma: We hope that at the net level also, the debt will come down from Rs.20.6 billion to what I cannot say now, no guidance, but definitely it is expected to come down.

Sameer Baisiwala: Thank you very much.

Moderator: Thank you. Our next question is from the line of Adhived Chattopadhyay from Elara Capital. Please go ahead.

A. Chattopadhyay: Just a follow-up question. I believe you were supposed to get some revenues from land sale in the coming year, we have planned something on handing over land for metro. So any outlook on when that is expected to materialize during the year?

J. C. Sharma: These kinds of the things not in our hand, honestly speaking, but the way metro is pushing for acquisition of the land, it may happen this financial year. But it cannot be taken it as given. We can't develop the land either. It like this, we have been given a notice under 28(1) and we cannot do anything on that land thereafter, no plan will be sanctioned, no sale is permitted but when they will buy, it is left from themselves.

- A Chattopadhyay:** So, just another question now, if this land would get delayed, so would it delay our launch plan for the launch on that land parcel further by a year, possibly?
- Subhash Bhat:** We didn't have any plans to launch on that.
- J.C. Sharma:** We have not talked about any launch on that land.
- A Chattopadhyay:** The next two, three years other than Dream Acres, what are the plans to launch similar projects in which geography or which specific land parcel?
- J. C. Sharma:** I think looking at the current environment, we need not have to say long-term, this is what our interpretation is after this FERA Act, don't promise new launches, quantity, quality, prices that sort of a thing, some which may tantamount to giving a message of solicitation, something like this the advice has been given but prima facie, Dream Acres kind of a project, we are committed to launch more number of such projects in Bangalore and we are also exploring that whether these kind of projects can be launched in Chennai as well, and hopefully in Pune and NCR also, in times to come, we will focus upon as a strategy.
- Subhash Bhat:** As long as we get parcels, which are fairly large size.
- A Chattopadhyay:** Fine sir that is it from my side.
- Moderator:** Thank you. We have the next question from the line of Abhishek Anand from JM Financial. Please go ahead.
- Abhishek Anand:** Yes. Good evening, sir. Sir, my first question is, as far as I remember, you mentioned that the Kochi balance payment is expected in FY17. So, that Rs.160 Crores odd will be paid out in FY17? Is my understanding, correct?
- J. C. Sharma:** No, we never said that it is going to set out in 2016-2017.
- Abhishek Anand:** No, I thought that post, getting approvals, you have to make the balance payment to Puravankara?
- J. C. Sharma:** We do have to, but not in 2016-2017.
- Abhishek Anand:** Okay. So, it will be further delayed?
- J. C. Sharma:** Yes.
- Abhishek Anand:** Any particular reason for that? So the terms have changed, or?

- J. C. Sharma:** No, no. Right now, no terms have changed, but we are not right are going to give this money in this financial year.
- Abhishek Anand:** Okay. So that Rs.165 Crores may be happens at a later point of time.
- J. C. Sharma:** You are right.
- Abhishek Anand:** Okay. And apart from that, any other land payment because I see, in this quarter as well as you've spent some Rs.38 Crores on land payments, now, do we have any further commitments in FY17?
- J. C. Sharma:** I have told that this year will be the first year where the commitments towards land commitment towards CapEx spend offsetting or any other thing will be minimum. Out of this, a significant payment has been made to our land development partners in Gurgaon.
- Abhishek Anand:** Okay. So the APMC is unlikely to take place.
- J. C. Sharma:** If at all it takes off also, it will be bare minimum expenditures.
- Abhishek Anand:** Okay. And also, sir, we use to share the breakup of home loan finance projects as well as NRI and non-NRI breakup, if you could help us out with those ratios.
- J. C. Sharma:** I think, Bala probably had missed out. I will ask him to work on that thing.
- Abhishek Anand:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Saurabh Jain from HSBC. Please go ahead.
- Saurabh Jain:** Hi, sir. Just wanted to know how much of area did we open for the NCR project?
- J. C. Sharma:** About 4,57,000 square feet of space.
- Saurabh Jain:** And a part of it must be also reflecting in your Q4 sales number, is that right, sir?
- Subhash Bhat:** Very minimal. We started collecting the technique depositing in the last week only, it's very minimal.
- Saurabh Jain:** And how have been the response in the current quarter?
- J. C. Sharma:** As I was telling, that the inquiries, the response and the site visits has been significantly better. The people still believe that the access was an issue, which when they come we decided that we should be able to help mockup apartments along with the marketing office. The work is going on in full swing. 17th of June is the formal launch.

- Saurabh Jain:** Okay. So, if you can give us some number like what would have been already sold out.
- J. C. Sharma:** I think, we are giving quarterly numbers. These things will create more confusion only.
- Saurabh Jain:** Okay, sir. And also in your opening remarks, you mentioned four projects each revenue recognition in this quarter. Can you help us know, one should be the Dream Acres, and what are the other projects?
- Balamurugan:** Silicon Oasis Block 7, Sobha Retreat at Mysore and Sobha Elan at Coimbatore
- J. C. Sharma:** Three top Bangalore plotted development. And Sobha Dream Acres, there are four towers, as far as the reach of 9, 10, 14 and 16. Sobha Silicon Oasis is block seven.
- Saurabh Jain:** Okay. So basically new blocks of some existing projects also.
- J. C. Sharma:** Yes. And Sobha Elanza to some extent and small portion from all that our Forest View project.
- Saurabh Jain:** Thank you.
- Moderator:** Thank you. Our next question is from the line of Abhinav Sinha from CLSA. Please go ahead.
- Abhinav Sinha:** Sir, first question on the guidance itself. When you're talking about 20.0035 billion square feet, can you dwell a bit on how the mix is likely to pan out next year? So, I mean is Dream Acres likely to be a similar or a bigger part of it and how are you looking at things city-wise?
- J. C. Sharma:** Dream Acres has given us good sales so far and continues to do well but we believe that, this year, the NCR sales should be relatively much better, because with that international city the sales is not happening. This should help us in selling both villa and row houses as well as apartment sales. We are keeping our fingers crossed for the June 17 formal launch. Once that happens, things should become clearer. But prima facie it looks like that the contribution of Dream Acres in 2016-2017 sales will be relatively less than what it was in the last five quarters.
- Abhinav Sinha:** Okay. And so essentially this next phase launch of Dream Acres is likely to be back ended, is that correct?
- J. C. Sharma:** No, we don't say back ended, so we are offering the towers after towers based on sales number. You talked about, if I could understand your question that how will the Dream Acres be contributing to our overall guidance numbers. So what I was trying to say is that Dream Acres should continue to do well. This year, it's contribution will be relatively lower than what it had in the last five quarters on the day of launch.

- Abhinav Sinha:** Okay. Sir, secondly on two clarifications, one is that on the INDAS accounting standard adoption, do you see any significant impact for you?
- Subhash Bhat:** Yes. So, I will take that question. So on INDAS, we are right now going an in-depth study with our auditors. There is nothing, which is significantly just coming out of the study, which will impact the financial except the day we will account for the Sobha Highrise Ventures, which is a joint venture with Sun-Area. So we may have to go for the joint venture accounting there under INDAS, which would mean you won't get the topline share, we would have only account for the results in our consolidated numbers.
- Abhinav Sinha:** Which project is this sir?
- Subhash Bhat:** The Highrise Ventures, Sobha Palladian. Not significant in terms of the overall size. We are still debating on the joint venture development accounting, because one of the views is that where you have a joint venture accounting, you usually saw the total revenue that we collect and so the last few areas are the revenue share given to the land lord as part of the cost.
- Abhinav Sinha:** Okay. So there was this another thing, also I think with some FMCG companies are mentioning that you need to include the excise duties and taxes also in topline, is that going to impact you?
- Subhash Bhat:** We have not seen that in our discussions really. Why? Because taxes, I think, is more of the way you actually account for those taxes because we charge VAT and service tax separately to the customer. The FMCG guys, they are always including it as part of their total numbers, possibly.
- Abhinav Sinha:** Okay. Sir, the second clarification I needed was on the NCR project, where realizations seem to be quite low this quarter. So, is it entirely because of the apartment launch or how should we look at it?
- J. C. Sharma:** Yes, because of the apartment launch only. And in that also, we are taking the joint development partner shares out.
- Abhinav Sinha:** Okay. So this is your revenue share or realization share. So, this is basically 62%, is that correct?
- J. C. Sharma:** You are right, you're right.
- Balamurugan:** The difference between the earlier NCR numbers and this is that, this number for the Sobha City would be a revenue share whereas earlier we had area share, so the entire revenue was coming only to Sobha.

- Abhinav Sinha:** Okay. And sir, finally you used to give a number on the unrecognized revenue, I couldn't locate it in the PPT, is it have I missed it or do you have a number somewhere?
- Subhash Bhat** Yes. About Rs.2600 Crores plus.
- Abhinav Sinha:** Thanks sir that is all.
- Moderator:** Thank you. The next question is from the line of Parikshit Kandpal from HDFC Securities. Please go ahead.
- Parikshit Kandpal:** Sir, just a clarification on the Pune, this land litigation. So you said in the first parcel, 10% is pending to be received from the buyer, and second parcel you have received 10%, but has the land possession already been transferred to buyer or it is and what kind of money is stuck up there?
- J. C. Sharma:** It is still with us. Let me put it like this, either way if we get the land also, company tends to win; if the land goes also, company gets the cash sort of a thing. And hopefully this should be what we call over within this next quarter.
- Parikshit Kandpal:** And how big could be the value of the deal, I mean the second land, how much was the deal value?
- J. C. Sharma:** Let it happen, let it happen, right. It will not be significant per se.
- Parikshit Kandpal:** Okay. But how much is the advance of 10%, which what is that amount?
- J. C. Sharma:** I think 10% advance was about Rs.10 Crores, yes.
- Parikshit Kandpal:** Thank you.
- Moderator:** Thank you. We have the next question from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.
- Sameer Baisiwala:** Thanks for this. Just a quick take on when do you want to launch, monetize Hoskote and Hosur land parcels?
- J. C. Sharma:** Before Hoskote, we are looking at Nagadenahalli actually speaking, which is about 36 acre development on Whitefield, right. That should happen soon. The Hoskote parcel also, it is difficult for me to communicate, but it certainly has been worked out where it has been subdivided into four or five kind of testing. Things are progressing. We don't think things are not progressing, but it may take still more time. Right now, I may not be able to confirm but when we talk about the 2019 kind of setting, Hoskote also will be there.

Sameer Baisiwala: Okay, that's fine. And Hosur?

J. C. Sharma: Hosur will take some time, because we keep hearing government acquiring this X company coming, Y company coming, one SEZ getting converted into some big companies coming, all those things are happening but there are some other thing we're trying to do, where we are trying to work out on some leasing out of that land, about Rs.120 Crores of land may get leased out, because of some industrialization development is happening in and around that area.

Abhinav Sinha: Okay. And sir just while we're at it, Kochi, the island land that you have 200 acres in the lake.

J. C. Sharma: You are right. In the island, yes.

Abhinav Sinha: What's the update on that sir?

Subhash Bhat: The update is we are not ourself pursuing, when the elections happen we don't do and looking at the current environment, we believe that the environment issues when the development related challenges remain, we pursue those things also. The government is sensitive and supportive, but when it comes to giving the required backup, the required political climate is required because Kerala doesn't have the lands and they are also looking that we develop this, but they're not being able to support us well, we can go ahead with 100% surety. This also with this new government again coming, who had given us the first approval, we'll try to pursue and may be on a quarter-on-quarter basis, some kind of update we will keep giving.

Abhinav Sinha: Okay, and that's very helpful. And finally, sir, on Dwarka Expressway, how important is that and what's the outlook on this how important is that for your apartment launches?

J. C. Sharma: We feel that accessibility has been one of the single most deterrent for this side of the projects not doing that well. Now, there has been good access on both sides, the Delhi side to the Dwarka Expressway, the government has declared it as national highway, Jaipur Highway A and this is highway B like the same number they have given the state government also actively is pursuing but on ground, if the connectivity from the airport to the Dwarka Expressway becomes I think this particular area will replace the currently developed area due to better infrastructure, better sewage and better quality of residential development already hasn't taken place. This year, Dwarka Expressway should be a reality, they have been assured by the Haryana Chief Minister and India's Transport Minister, Roads and Transport.

Abhinav Sinha: Thank you very much.

Moderator: Thank you. Ladies and gentleman as there are no further questions, I would now like to hand the floor over to the management for its closing remarks. Thank you, and over to you, sir.



Sobha Developers Limited, May 19, 2016

J. C. Sharma:

Thank you everybody. We believe that the year has been a mixed year, somewhere there have been hits, the realization, the basic core margins, the cash flow, last two quarters, the debt is not going up kind of a thing, 11 million square feet of delivery, everything on record, but nothing we have been able to, what shall I say, nothing has happened which had impacted the Company adversely sort of a thing in a tough market. But really find other developers getting impacted due to multiple reasons, we consider it as a positive sign. At macro level, we still believe that the demand has to improve; and if that happens, we believe that we are rightly poised to take advantage of the same. Thank you.

Moderator:

Thank you very much. Ladies and gentlemen, on behalf of IIFL Capital, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.