



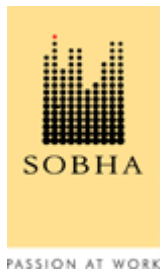
“Sobha Developers Limited Q3 FY 2016 Results Conference Call”

February 5, 2016



ANALYST: MR. BHASKAR CHAKRABORTY – IIFL CAPITAL LIMITED

**MANAGEMENT: MR. J. C. SHARMA - VICE CHAIRMAN AND MANAGING
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MR. BALAMURUGAN - HEAD OF IR – SOBHA
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Sobha Developers Limited
February 5, 2016

Moderator: Ladies and gentlemen, good day and welcome to the Sobha Limited Q3 FY2016 Results Conference Call, hosted by IIFL Capital 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 would now like to hand the conference over to Mr. Bhaskar Chakraborty from IIFL Capital. Thank you and over to you Sir!

Bhaskar Chakraborty: Thank you. On behalf of IIFL, I welcome you to the 3Q FY 2016 call of Sobha Limited. We have with us, Mr. Subhash Bhat, CFO and his team, Mr. J.C. Sharma, Vice Chairman and M.D. will join us in a little while. Over to you Mr. Bhat.

Subhash Bhat: Thank you Bhaskar. Good evening ladies and gentlemen. It gives us immense pleasure to communicate with you via this concall hosted by India Infoline post declaration of our results for the third quarter.

Coming to the market outlook, you must be aware since financial year 2013-2014 the real estate sector has been witnessing a general slowdown. It is pertinent to note that whilst the commercial absorption rates have remained steady, it is the residential space that has to endure these cyclical drops in demand. The slowdown has been more pronounced in the fiscal year 2016 with markets across the country reporting lower demand.

Coming to specific operational performance of Sobha, in Q3 of FY2016 the Company achieved new sales of 806,309 square feet valued at Rs.4,783 million with an average realization of Rs.5,932 per square feet. The new sales volume and the value are higher by 22% and 12% respectively as compared to Q3 of FY2015.

There were no new project launches during Q3 of FY2016 and new sales achieved is therefore entirely attributable to the existing ongoing projects of the company. As informed earlier in our operational updates, the first commercial project Sobha City Mall in Thrissur commenced its operation during the quarter. Suitably located on the Thrissur Guruvayoor State Highway and assessable from Kochi-Calicut and Palakkad and neighbouring districts, we believe that the Sobha City Mall will be a source of long-term revenue generation for the Company.

We expect that by first half of this financial year 2016-2017, we will have visibility on the performance of the mall on a full time basis. During Q3 FY 2016, the company delivered 5 projects with a total area



Sobha Developers Limited
February 5, 2016

of 3.28 million square feet, in nine months ending December 31, 2015 the company has delivered 11 projects with a total area of 7.38 million square feet.

The cash flow generated by the company has been stable to substantially meet the working capital requirements for these projects and 46.58 million square feet of the ongoing projects, which is a notable pairing in mind the slow down the sector is currently undergoing.

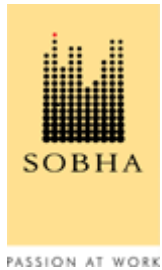
Coming to the inventory that we have, the ability to complete and handover projects on schedule is one of the prime reasons for our negligible level of unsold inventory in the finished stock area. At the close of Q3 FY 2016 our unsold inventory in completed projects was only 0.21 million square feet and even out of this, 0.09 million square feet of inventory comprises of plotted development projects. The unsold inventory in the ongoing project is 14.45 million square feet which comprises 7.07 million square feet which has still not been released for sale. Out of the total salable area available to the company the unsold inventory accounts for only 42% which we considered to be adequate in this market.

Coming to the financial performance in Q3 FY 2016 the Company generated net cash flows of Rs.302 million and this is after six quarters that the company is reporting positive cash flows on the full basis. The company has also generated net positive operating cash flow of 834 million after paying the financial outflows, the debt levels have stabilized and the debt equity stood at 0.81 as of December 31, 2015.

However, measured across broad parameters there has been a decline in the financial performance of Q3 FY 2016 as compared with Q2 FY 2016 and Q3 of 2015. The primary reason for the same is lower revenue recognition. Only two projects reached revenue recognition threshold and accounted for about Rs.715 million of the total revenue. We would see improvement in the topline in the next few quarters as revenue recognition starts increasing.

The EBITDA margin has improved at 27.9% during Q3 FY 2016. The PBT and the PAT margins have been sustained at 12.92% and 8%. While the current market does not provide the flexibility to increase selling prices in order to absorb the increase in input and labour cost, the company has nevertheless been able to restrain its construction cost and protect its margin. This has been achieved through judicious control on the fixed cost combined with a comforted effort in reducing the borrowing cost also.

Coming to the key highlights, consolidated revenue of Rs.4.01 billion as compared to the previous Rs.6.87 billion during corresponding period of the last year and Rs.4.56 billion during Q2 FY 2016. Income from our real estate operations stands at Rs.2.48 billion versus Rs.5.04 billion for Q3 of



Sobha Developers Limited
February 5, 2016

FY2015 and 2.85 billion for Q2 FY 2016. Real estate revenue impact is due to significant new sales coming in from projects that are yet to reach the revenue recognition threshold.

Contractual and manufacturing revenue for Q3 FY2016 stood at Rs.1.5 billion as compared to Rs.1.81 billion during Q3 of FY2015 and Rs.1.67 billion during Q2 of FY2016. Real estate operations contributed 62% while contract and manufacturing contributed to the remaining 38%.

Coming to the EBITDA, PBT and PAT numbers, EBITDA for third quarter stood at Rs.1.12 billion against Rs.1.56 billion during Q3 FY2015 and Rs.1.21 billion during Q2 FY 2016. EBITDA margin improved to 27.9%. The profit before tax for Q3 stood at Rs.518 million as compared to 909 million for the corresponding period last year and Rs.621 million during Q2 of FY2016. The profit after tax after adjusting for minority interest for Q3 FY2016 stood at 321 million as against Rs.600 million during the corresponding period last year and Rs.401 million during Q2 of FY2016.

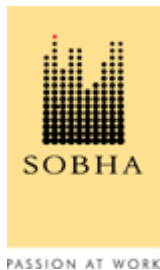
Coming to the cash flow, during the third quarter of FY2015-2016, the Company has collected Rs.5.71 billion and spent Rs.3.98 billion in operational cost resulting in a surplus cash flow of Rs.1.73 billion. The Company has utilized Rs.898 million towards servicing interest and taxes, Rs.531 million towards advance and refundable deposits for land, general and commercial capex resulting in an overall surplus cash flow of Rs.302 million, which has resulted in absolute debt reduction of the same value.

Coming to debt, as the slow demand and decline in sales volume, an increase in debt levels to finance working capital requirements would have been inevitable. During FY Q3 2016 we have reduced our debt by Rs.302 million and brought down the cost of borrowings to 11.98%. The interest outflow was also lower by around Rs.50 million. This indicates an efficient working capital management by the company. Loans that were repaid during the third quarter amounted to Rs.2.28 billion and the debt equity ratio stood at 0.81 as of December 2015.

Coming to the contracts business, during nine months we have completed and handed over 11 contractual projects, amounting to Rs.4 million square feet. We have ongoing projects measuring 7.88 million square feet in area in nine cities. These will be delivered over the period of next two years. As of end of Q3 FY2016 our contracts project pipeline remains strong with an order book value of Rs.769 Crores to be executed over the next two years. We expect a steady stream of revenues from the contractual activity in the coming quarters also.

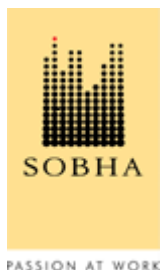
As of date we have delivered 380 projects totaling to 77.92 million square feet since our inception. We are grateful to all our stakeholders who have helped the company to make this a reality.

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



Sobha Developers Limited
February 5, 2016

- Moderator:** Thank you very much Sir. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Anubhav Gupta of May Bank. Please go ahead.
- Anubhav Gupta:** Good evening everyone. My first question is on the presales numbers. Fourth quarter is seasonally strong in terms of presales for the company and in nine months if you look at Sobha's sells the presales are kind of unchanged at 15.7 billion on YOY basis. So do you think we can see this quarter being strong if not what are the new launches which are scheduled, which could boost the presales, if not in this quarter but in the first half or the second half of the next year?
- Subhash Bhat:** During the quarter we are hopeful of launching the Gurgaon project which was supposed to be launched in Q3 but due to some approval issues we had to postpone the launch as well as we are looking forward to launching the Marine Drive project also subject to approvals coming in and in addition to that there are one or two other smaller projects which are there, so we should have a strong Q4 if that is your question.
- Anubhav Gupta:** How is the pipeline for FY2017? Do you think in terms of guidance would you be able to give some numbers or some growth pattern you see?
- Subhash Bhat:** Not right now Anubhav. I think, we would look at doing the guidance number somewhere in the next quarter.
- Anubhav Gupta:** What is the current backlog on the books in terms of unrecognised presales?
- Subhash Bhat:** Un recognised presales is about 2600 plus Crores.
- Anubhav Gupta:** Which are the major projects in this?
- Subhash Bhat:** Sobha Dream Acres is one of them and there are rest of the projects.
- Anubhav Gupta:** Last question is on the contracting revenue, which has been declining if you see on nine months basis, so how is the visibility there in terms of revenue growth although EBITDA margins have been quite stable, but there is a decline in revenue?
- Subhash Bhat:** Yes, last year we had few major projects, which came to a close at end of the last year in the last fiscal year. That is why you saw that growth in the revenue, which was far more than what we normally achieve during the earlier years. So this year we are back to the normal growth that we have in the contracts business.
- Anubhav Gupta:** Thanks so much.



Sobha Developers Limited
February 5, 2016

- Moderator:** Thank you. The next question is from the line of Puneet Jain of Goldman Sachs. Please go ahead.
- Puneet Jain:** Thanks for taking my question. My first question is actually with respect to the comment you have made in your financial statement that there has been some revenue adjustments in this quarter can you throw some light on that? It mentions that there has been some revision in project cost estimates. Now most of the project cost seems to be going down, so just some more idea will be very helpful on that?
- Subhash Bhat:** So the project cost estimates we keep revising the cost estimates every quarter, on the projects, which we are constructing and naturally the impact of that is taken of the cost revision in that particular quarter itself. So therefore you see that number that we have taken an impact of 212 million. That is the number you are talking about right?
- Puneet Jain:** Yes.
- Subhash Bhat:** So that is something which would happen every quarter and there has not been a cost reduction in any of the projects, so I do not know where you are getting that feeling from because even though the commodity prices have come down it is only steel cost which has a direct impact on most of our projects and the cement cost in the areas that we operate has not seen a reduction at all, whereas the labour cost the minimum wages have always been on the upswing with each state government increasing the minimum wages at every possible opportunity that they have.
- Puneet Jain:** Sir will that cost escalation be for particular residential projects?
- Subhash Bhat:** It is residential projects only. We do not have anything which is commercial.
- Puneet Jain:** Going forward in Q4 do you think you will be able to recognize the Dream Acres Project?
- Subhash Bhat:** We have already recognized Dream Acres this quarter but very, very mini scale amount. So three wings have been recognized.
- Puneet Jain:** What do you have in terms of total number of wings?
- Subhash Bhat:** About 60 on an overall basis for the full project.
- Balamurugan:** Overall five phases consists of some 66 wings, the first phase we have about some 12 to 13 wings, out of which construction we have started already four to eight wings.
- Subhash Bhat:** Four wings is full swing, so out of that three wings have hit the revenue recognition threshold.



Sobha Developers Limited
February 5, 2016

- Puneet Jain:** Also if I look at your project launch schedule, it has remained kind of static for the last couple of quarters, so if you look at various place in Bangalore they have remained in that sheet for the last two to three quarters, so any reason why this delay is happening. Is it linked to market sentiment or will it be linked to more approval linked delays?
- Subhash Bhat:** Three of them are approval linked delays whereas one or two of them are clearly deliberately we are holding it back to ensure that the current projects that are going on the level of inventory that is there in those projects is brought down to more realistic levels.
- Puneet Jain:** Like in case of Bangalore you are the number two, your Sarjapur Road Property has been there for some time?
- Subhash Bhat:** That still approval is pending.
- Puneet Jain:** The Chennai property?
- Subhash Bhat:** Chennai is also linked completely to approval. Marine Drive also is linked to approval and Group Housing in Gurgaon may get launched this quarter. It was supposed to be launched last quarter but approvals did not come through so we had to pull back the launch.
- Puneet Jain:** Mysore also?
- Subhash Bhat:** We have launched the Mysore one.
- Puneet Jain:** Thanks a lot.
- Moderator:** Thank you. Our next question is from the line of Gunjan Prityani from JP Morgan. Please go ahead.
- Gunjan Prityani:** Thanks for taking my question. I do not know if you already answered this. With respect to the projects that you said that they were two projects which hit the revenue recognition. Can you tell us which were these two projects?
- Subhash Bhat:** Part of Dream Acres, so three wings of Dream Acres, which is the first phase of the projects, part of the first phase of the project, so that has hit recognition, and we have got recognition in Sobha Arena the Park.
- Gunjan Prityani:** Sir, I thought Dream Acres whenever it hits revenue recognition should have led to a sharper increase in revenue recognition, so I mean it is a bit surprising that despite Dream Acres coming in to



Sobha Developers Limited
February 5, 2016

recognition in Q3 there has not been any spike and in fact there has been a degrowth in revenue recognition, so I mean what this means?

Subhash Bhat: That is because it is a very small part of Dream Acres which have touched revenue recognition this quarter. It was a touch and go for the Q3. Just about in the last week it hit the recognition threshold of 25% spent. It is only three wings out of 60 wings for the entire projects, 60 plus.

Gunjan Prityani: Sir, just to make it clearer for us because we thought that Dream Acres whenever it happens will lead to a spike in revenues. If you could just give us some sense as to where, how much is the outstanding booked from the Dream Acres and when do you see that chunky revenue recognition coming through from that project, will it be Q4, will it be next year?

Subhash Bhat: Possibly Q1 of next year.

Gunjan Prityani: What is the outstanding recognition from that project, if you can share that?

Subhash Bhat: Nearly 78 Crores of shift happened. Out of 700 Crores we have taken only 78 Crores this quarter.

Gunjan Prityani: How much is that?

Subhash Bhat: This is pending on that particular project.

Gunjan Prityani: How much was recognized during this quarter?

Subhash Bhat: About 60 plus.

Gunjan Prityani: 62 Crores will be recognized in this quarter and Sir any other big project that you think will have a significant impact on the revenue, I mean, Dream Acres is one, but in the pipeline, any other projects?

Subhash Bhat: There is Silicon Oasis the remaining wings.

Gunjan Prityani: This has not hit revenue recognition at all?

Subhash Bhat: Two of them have not hit, two wings in the Silicon Oasis.

Gunjan Prityani: This happens when Q4 or next year?

Subhash Bhat: Q4 only one will happen. Silicon Oasis will happen in Q4 and Dream Acres also one wing will happen in Q4.



Sobha Developers Limited
February 5, 2016

- Gunjan Prityani:** Sir, just on the footnote to the accounts that is there in the quarter regarding some deal where you were pursuing some litigation with the buyer, what deal is this and has this led to any revenue reversal?
- Subhash Bhat:** No, it has not led to any revenue reversal. It is a very old deal and this note has been there for the last three this is the third quarter the note is there.
- Gunjan Prityani:** This is not something new for this quarter, right? I wanted to make sure.
- Subhash Bhat:** It is a piece of land that we sold in 2010 in Pune where we have got about 85% of the money, 15% is still pending and there were two parcels of land that we sold, the second parcel we got 15% so in terms of cash we are not into any problems with the first phase. The second phase the person who brought this he is not willing to pay right now the amount that we have contracted and we have gone into arbitration on it. So there is no revenue recognition impact that you will see because of this arbitration proceeding that we have started.
- Gunjan Prityani:** Sir, one more question in regards to your launch in Gurgaon. Has there been any soft launch or any sense that you can give in terms of the demand that you would have seen for this project?
- Subhash Bhat:** We had some good amount of traction when we informed the market, but then the approval there was some pending issues on the approval which made a pull back that announcement also, so we did not get anything in Q3 of this year. In Q4 we are hoping to launch somewhere by end of February.
- Gunjan Prityani:** Sir, can you share the pricing or any details on the project?
- Subhash Bhat:** I do not think I have the pricing right now with me, but as closer to the launch we will put that up anyway.
- Gunjan Prityani:** Sir, this is for February end, right?
- Subhash Bhat:** February end is what we are hoping today, but again approvals are not something, which are in our hand the approval is handled by our joint venture partners, the landowners.
- Gunjan Prityani:** Sir, if this launch does not come through then will we be able to maintain, we will be able to keep the presales stable or do you think there could be even further decline in presales on a sequentially basis?
- Subhash Bhat:** I do not think we will see a decline from the current numbers that we have achieved in Q3 because Q3 does not have anything of that project.



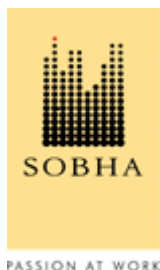
Sobha Developers Limited
February 5, 2016

- Gunjan Prityani:** Q3 was largely driven by Dream Acres, right because Bangalore was a big proportion in Q3 as well.
- Subhash Bhat:** Yes, you are right.
- Gunjan Prityani:** I have a couple of questions; I will get back in queue.
- Moderator:** Thank you. Our next question is from the line of Prem Khurana of Anand Rathi. Please go ahead.
- Prem Khurana:** Good evening Sir. Sir, my question was in respect to cash flow. If I were to look at our cash flow sheet for the quarter we seem to have seen a significant drop in our construction spend that we used to have on a quarterly basis and it has come off from some Rs.270-odd Crores of run rate to around Rs.170 Crores. So does that mean we have had significant slowdown in construction activity at the ground?
- Subhash Bhat:** There is no slowdown, Prem because if you see we have delivered on five projects, we have completed and handed over this quarter, overall 11 during the nine months so there is no slowdown that we have seen on the ground, but what we are doing is we are squeezing out efficiencies wherever possible. So there is a lot of focus that has been brought over the last nine months, close to 12 months basically and that focus is showing results now in this quarter.
- Prem Khurana:** If I have to consider that you spend almost Rs.2500 per square feet of construction cost on a per square feet basis and you were doing almost Rs.270-odd Crores which in affect which you are doing almost 1 million square feet of construction on a quarterly basis, and now you were to spend only Rs.170 odd Crores which in effect means the construction in million square feet terms actually would have come down, and which ultimately would happen.
- Subhash Bhat:** It does not happen. It is not linear. What happens is when you buy a set of tiles or you buy a set of plumbing for a particular project you buy that in a complete lot and the entire thing hits your project cost, so we are trying to spread out. There is no reduction in the square feet under construction. It is continuing as per the plan. There is no way we will delay on any of the projects that will come up for due date delivery.
- Prem Khurana:** So the spend that is there in this quarter the number would remain at these levels?
- Subhash Bhat:** 10 to 15% up or down, not more than that.
- Prem Khurana:** Land bank, we have seen some drop in our land for Coimbatore if I am not mistaken it has come down for Coimbatore by some 31 odd acres from 99 odd acres to 67?



Sobha Developers Limited
February 5, 2016

- Balamurugan:** I am Bala. One of our old land, in fact it was in the MOU stage only, it was quite long back before 2010, which we found that at this current situation not in a position to go ahead with the land bank, so we canceled it and whatever the small amount which we have paid only to that extent we will be signing an agreement and the balance we will be surrendering it to him, so to that extent the balance payable also has come down.
- Prem Khurana:** How confident are we of launching Gurgaon in this quarter, I want to get a sense as to where we have reached in terms of approvals, how many approvals would be pending, basically how confident are we to kind to see that.
- Subhash Bhat:** We were quite confident that we will launch this somewhere by November, so last time I had met most of you in the conference I said by November we will launch but there were some final delays that happened and it is handled by our joint venture partner, it is not handled by us. We can only tell you what he tells us and right now the commitment he has given is by mid of February he should complete all the approvals, so I am telling on this call that by end of February we should launch it.
- Prem Khurana:** Have we already activated our broker channel in this project?
- Subhash Bhat:** We had activated this in October itself, so we had quite a few booking checks with us which we sent back in November.
- Prem Khurana:** Sir Marine Drive if you launch this project by when would we be paying the pending amount to Purvankara, 180 Crores.
- Subhash Bhat:** As I have been telling most of you when I meet you the payment terms are very simple. I get an interest free payment term of three months and thereafter further I can delay for another six months by paying interest.
- Prem Khurana:** What would be the interest cost?
- Subhash Bhat:** I am not declaring that to anyone but it is in line with whatever is our borrowing cost.
- Prem Khurana:** Sir our fixed assets seems to have up substantially during the quarter, is it something to do with our Thrissur property, the retail mall,
- Subhash Bhat:** There is some amount of capitalization of Thrissur that has happened but not entirely it is related to only Thrissur.



Sobha Developers Limited
February 5, 2016

- Prem Khurana:** So what may explain the jump in the number in this quarter by more than 100 Crores if I am not mistaken?
- Subhash Bhat:** Thrissur mall would have moved from inventory which is WIPA 2 to fixed assets.
- Moderator:** The next question is from the line of Ritwik Sheth of Span Capital, please go ahead.
- Ritwik Sheth:** Sir if you look at slide #12, the projected cash flow slide we are expecting around 6000 odd Crores, so can you explain over the next three years is it safe to assume that we will be able to recognize in our books or it will be extended till FY 2020?
- Subhash Bhat:** This represents the entire project that we have launched and you should remember that this also has 7.07 million square feet which has still not been offered for sale.
- Ritwik Sheth:** Okay, so it includes that
- Subhash Bhat:** Yes it includes that, this is our total, you are right, this would take probably about anywhere between six to seven years to come in to your books but if you see most of that would be Dream Acres because out of the 7 million almost 5 plus million is Dream Acres, that is not offered for sale.
- Ritwik Sheth:** That is around almost 3000 Crores, is that understanding right?
- Subhash Bhat:** Yes.
- Ritwik Sheth:** Second question is on the Gurgaon project which we are planning to launch, what is hindering the approval part, we have been hearing that the approvals have significantly bettered up in the last three quarters, anything specific to the project or how is the approval overall?
- Subhash Bhat:** The approval is handled by our joint venture partner; it is not handled by Sobha. There are issues which he is facing. In our view, he should get it by mid of February and therefore I announced on this call earlier that by end of February we will launch the project.
- Ritwik Sheth:** That is around 3.2 million for that project right?
- Subhash Bhat:** But the entire 3.2 would not be offered for sale.
- Ritwik Sheth:** Yes we will be doing it in phase wise manner.
- Subhash Bhat:** Yes.



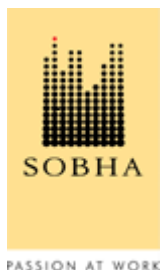
Sobha Developers Limited
February 5, 2016

- Ritwik Sheth:** Final question, if you can throw some light on Gurgaon and Bangalore markets, because Bangalore we have seen last two, three quarters all your competitors as well have been either downgrading their guidance because Bangalore has been hit, since the last three, four years we relatively well but last two, three quarters on a downward trajectory.
- Subhash Bhat:** Bangalore for Sobha has continued to be a mainstay anyway. If you see above 1 Crore there is some amount of slowdown that you see but below 1 Crore which is where our Dream Acre offering is a very sweet spot in the market.
- Ritwik Sheth:** On Gurgaon?
- Subhash Bhat:** As I said it is all in discussion stage with the channels for the group housing. For the row houses and villas we are seeing some amount of headwinds but as you know there is hardly any inventory that you put in to the project when you are selling of row house or villa, so once we launch this we should have some idea on the group housing flat market.
- Moderator:** The next question is from the line of Abhishek Gupta of Bank of America, please go ahead.
- Abhishek Gupta:** Just to recap on Dream Acres how many units have we launched and what percentage has been sold?
- Balamurugan:** First phase consists about 2100 units, 2150 exactly, that we started releasing it for sale tower by tower and as of now about 1800 plus units is already open for booking on the first phase itself and already you could see in Facebook and other marketing tools that about 1500 plus units are sold.
- Abhishek Gupta:** So 1500 out of 2100.
- Subhash Bhat:** But not entire 2100 is offered for sale.
- Abhishek Gupta:** So 70% has been sold comfortably.
- Subhash Bhat:** Yes, 70% of the entire first phase.
- Abhishek Gupta:** Have you launched phase II?
- Subhash Bhat:** On phase II we have just started booking; some two towers have been initially started in the third quarter.
- Abhishek Gupta:** How much have we launched in phase II?



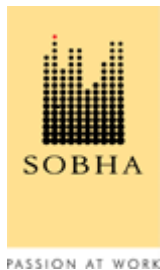
Sobha Developers Limited
February 5, 2016

- Subhash Bhat:** 250 units, it is a mix of 2 BHK, 1000 and 1200 square feet.
- Abhishek Gupta:** Good to see that you are in positive territory as far as cash flow is concerned after six quarters you mentioned that but actually frankly positive X of land payments on and off in the six seven quarters, is the land payment thing history, should we now consider that there will be no more land purchases and you will remain positive or there could be again those one off which could take you back in to the negative territory?
- Subhash Bhat:** In this industry you have to be open and if an opportunistic deal comes through at a very, very seed price I think it would be foolish for Sobha not to look at it and take an informed call on it. If you want a guarantee I cannot give you a guarantee.
- Abhishek Gupta:** That is absolutely fair but unfortunately.
- Subhash Bhat:** In this real estate market today we do not know once the real estate bill gets passed how many people would want to get rid of their land which they are probably hoping to launch projects later.
- Abhishek Gupta:** That is a correct strategy and you guys are following for some time now but my only concern is that if that continues when does it realize in to sales in to then revenues is something that we have been waiting for?
- Subhash Bhat:** That is what I said; we will take an informed call on it. We will not just acquire it for just upping our land bank but if it is something which is of value and we see development can be done within one year, one-and-a-half years we would certainly look at it.
- Abhishek Gupta:** Okay, understood, let me rephrase my question, do you think ex of land do you now see operationally you are going to remain positive cash flow and it will only get better from here on as Dream Acres also starts contributing more and more and Gurgaon gets launched or that could also be touch and go?
- Subhash Bhat:** No for the last nine months you have seen that right, operationally we have positive cash flows over last nine months, I think that will continue.
- Abhishek Gupta:** Will it get better?
- Subhash Bhat:** Slightly better.
- Moderator:** The next question is from the line of Nitin Idnani of Axis Capital, please go ahead.



Sobha Developers Limited
February 5, 2016

- Nitin Idnani:** I had a question on your cost revision which for this quarter you have put it down as 21 Crores, now I see your EBITDA margins are 28%, this is after providing for this 21 Crores.
- Subhash Bhat:** Yes.
- Nitin Idnani:** So if I have to look at it, your margins would have been 33% if it was not for this and that is pretty strong, if you can help me with which projects are really the ones helping with such strong margins?
- Subhash Bhat:** Sobha Dream Acres which is fetching 50% margins. These are specific projects. These are specific wings.
- Nitin Idnani:** So, you have recognized 62 Crores in Dream Acres is what you said and that carries with it a 50% margin.
- Subhash Bhat:** But that is at a gross level, not at EBITDA level.
- Moderator:** The next question is from the line of Abhishek Anand of JM Financial, please go ahead.
- Abhishek Anand:** I am just trying to understand our strategy going forward if I am looking at our proposed new launches slide I can see out of 12.65 million square feet we are going to launch roughly 8.6 million square feet in Chennai, Cochin and Gurgaon, so is there a focused strategy to diversify out of Bangalore or are we considering since Dream Acres is already there with 7 million square feet we are just trying to diversify our business model?
- Subhash Bhat:** Diversification has always been a goal that Sobha has been pursuing, that is why you will see that we have presence in these cities which are outside of Bangalore, right now Chennai does not seem to be coming in to a launch phase for at least next two quarters. Cochin is touch and go dependent on the approval that Purvankara has to get for this project. Gurgaon, as I said, by end of February we should launch it.
- Abhishek Anand:** But just trying to understand in Bangalore really we have been going extremely slow apart from Dream Acres, so is Dream Acres the only concept we are looking at Bangalore or are we actually going to see bigger launches there or different offerings, what is the strategy in Bangalore, we understand the market is a bit soft there but in terms of our launch strategy in Bangalore how are we looking at it?
- Subhash Bhat:** Dream Acres is basically a precast kind of technology product that we are using, so in the properties that we have listed out, the four properties, I do not think we will be looking at using the precast technology in any of these, it would be back to the normal Sobha style of construction for these



Sobha Developers Limited
February 5, 2016

properties. These properties we are very close to approval stage in Kogilu Cross property. Rest of it is still under various stages of approval. If you ask me there is no deliberate strategy to delay any launches but we are not actively pursuing the approvals also.

Abhishek Anand: If I am looking at approvals from Bangalore market, is there a delay in the approval or is it the same as 12 months back?

Subhash Bhat: It is same. No change in process that we have to face.

Abhishek Anand: Going to maybe FY 2017 or FY 2018, you guys must be in the process of formulating the guidelines for the coming year should we be looking at these projects which you have listed out as definitely being launched in FY 2017 so that accordingly your guidance will also evolve around these projects or we should consider that maybe some of them will slip or maybe some will be added, how should we think about it by FY 2017 from hereon?

Subhash Bhat: You can certainly take at least two projects in Bangalore, the Gurgaon one and the Cochin one.

Abhishek Anand: Okay, those are for sure.

Subhash Bhat: Yes but the two projects in Bangalore depends on which approval comes through.

Moderator: The next question is from the line of Sandeep Matthew of ICICI Securities, please go ahead.

Sandeep Matthew: Sir, on the contractual side there seems to be a fairly sharp decline on the income from contractual activity as well as on the glazing and metal work if I look at it on a year on year basis, so any particular reason why this is the case?

Subhash Bhat: Last year in Q1 if you see the numbers we had few major projects which came to a conclusion with Infosys, that gave a big boost to the top line from contract and manufacturing last year, naturally these projects are not there this year and we have been saying this in our various meetings as well as calls that it would be difficult to match the contract number which we achieved last financial year, this year we are back to the normal growth that was there in the contract business.

Sandeep Matthew: Yes, I understand that, just one point I wanted to highlight was if I look at your order book the order book has consistently increased between what you reported in March 2015 and what you have reported now in December, so that used to be about 6.6 that is about 7.6, so what has effectively happened is your book to bill has come down, so is this Sobha specific issue or is this a client specific issue, are the clients basically differing the book to bill because your order book has increased right.



Sobha Developers Limited
February 5, 2016

- Subhash Bhat:** Basically the order book is there, but you are quite right, there is nothing that Sobha is delaying on completion of these projects. Sometimes the clients will come back and say you would want to go slow on some of the projects.
- Sandeep Matthew:** So you are effectively saying that the clients are pushing back on the order book that they have essentially given to you or they are basically delaying the execution of that, is that a fair understanding?
- Subhash Bhat:** Yes, some of them.
- Sandeep Matthew:** Also on Dream Acres just one point that you mentioned about precast, could we assume that given that it is on precast technology that the POCM Run Rate should be relatively faster than your other normal residential projects?
- Subhash Bhat:** I would comment on that probably in the next quarter because the project has just about started, so as I said we have worked on three wings. We are seeing a significant improvement in the time line but I would want to wait for another quarter before I say yes, it is significant faster revenue recognition mode. I would wait for one more quarter before I commit that on this call.
- Moderator:** Ladies and gentlemen, that was the last question. I now hand the floor back to the management for closing comments.
- Subhash Bhat:** Thanks for each one of you.
- Moderator:** Ladies and gentlemen, on behalf of IIFL Capital Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.