



“Sobha Limited Q4 FY-15 Earnings Conference Call”

May 12, 2015



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Moderator: Ladies and gentlemen, good day and welcome to the Sobha Limited Q4 FY-15 Earnings Conference Call hosted by Ambit Capital Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, 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. Nitesh Bhadani of Ambit Capital. Thank you and over to you, sir.

Nitesh Bhadani: Thank you. Hi and welcome to the Earnings Conference Call for Sobha for the fourth quarter of fiscal 2015. It is my pleasure to welcome the senior management team from Sobha led by Mr. J.C. Sharma, he is also accompanied on the call by Mr. Subhash Bhat – the Chief Financial Officer and Mr. Balamurugan – Investor Relations. Mr. J.C. Sharma, I hand the floor to you. Over to you, sir.

J.C. Sharma: Thank you, Nitesh for hosting this con-call once again and good evening. We are pleased to connect with you once again today post declaration of our audited financial results through this concall hosted by Ambit Capital. We had already shared the details of our operational performance of the company in the first week of April 2015 and today we have announced the financial results for the financial year ended March 31st, 2015. The Investor presentation based on this audited financial results must have been downloaded from our website and can also be downloaded whenever you wish.

In this financial year 2014-2015 we can say it was a mixed bag. Except the Bangalore market we had to encounter a kind of a challenge in the demand scenario in all other 7-8 markets where from currently we are operating. Somehow, the Bangalore market remains resilient and it is getting reflected in doing 2.59 million square feet of sales numbers which had helped us to show improvement in our both real estate income top-line and improvement in our bottom-line as well. This revenue of 24.55 billion is a 12% growth, EBITDA is at 6.32 billion and PBT at 3.72 billion and PAT at 2.38 billion also had shown small improvement vis-à-vis the last financial year.

Real estate revenues have shown an increase of 8% where good amount of growth has come from our contractual manufacturing operations which had grown about 23% on a year-on-year basis. As you are aware, the real estate division yields higher margins as compared to the contractual and manufacturing division that is why we have shown relatively a smaller operating margins. There were other couple of reasons also factored for margin drop, the prices could not be increased and the cost pressure need we had to absorb, which are resulted into a lower EBITDA, PBT and PAT margins then the last year what we had achieved.

As far as the Q4 is concerned, we recorded a top-line of 5.09 billion where real estate contributed about 3.2 billion and the manufacturing and constructing business contributed about Rs. 1.87 billion. From revenue recognition prospective we could recognize only one project in Sobha City- Casa Paradiso Block 4, about Rs. 21 crore was reflected in our top-line. This has resulted into lower bottom-line in absolute terms

whereas on percentage terms there has been some improvement. The debt also had gone up in this quarter by about 52 crore which was primarily on account of schedule land payments to the extent of some Rs. 26 crores and certain CAPEX we had incurred in Bangalore and Kerala market.

As far as the performance highlight for our year '14-'15 is concerned, we already shared the numbers of 3.28 million square feet and 20.95 billion at an average price realization of Rs. 6,389 per square feet. We launched 14.12 million square feet of total developable area. And total numbers of projects launched were eight; this included four projects in Bangalore, two in Chennai and one in Thrissur and Pune. In addition, we released about 1.41 million square feet of area from existing projects for sale. We also completed 10 real estate projects and 15 contractual projects total about 7.61 million square feet of developable area. With this we have crossed 70 million plus square feet of development in this financial year and have delivered 364 projects across 24 cities and 13 states since our inception.

As far as cash flows are concerned we collected 25.77 billion and spend Rs. 22.43 billion towards meeting our operational requirements of real estate, contracts and manufacturing division. The company generated about 3.34 billion as surplus cash which got utilized towards servicing the interest and taxes to the extent of 3.24 billion leaving a small sum of about 102 million as positive cash flow. We also had incurred to Rs.3.8 billion towards the land payment, the dividend outgo was about 803 million, the general CAPEX was 572 million and Commercial CAPEX for our Thrissur Mall and Bangalore St.Mark's Road projects, incurred about Rs.546 million resulting in an overall cash withdrawn to the extent of Rs.57.93 billion which resulted into our debt to equity going up to 0.75.

The rate of interest had come down from about 12.7 to 12.6 during the year and we hope that going forward there should be a significant reduction as on 31st of March 2016 by at least 100 basis points. The contracting division had performed credibly well and we believe that this reflects not only the company's execution capability and the scalability of the same but also had helped us to generate free cash flow in a tough environment maintaining about 15% or so margins in this activity.

The board has recommended a dividend of Rs. 7 per equity share which is 70% subject to the approval of our shareholders. We are giving a guideline, considering the current environment as well as looking at that the company had launched Dream Acres only in the last quarter, we should be doing 4 million square million feet of new sales in the current financial year and in value terms about 2,600 crore, which means we do expect in volume terms 24% and in value terms from 22% increase. We believe that the immediate one or two quarters still may have some kind of demand constraint but going forward the Chennai, the NCR market, the Pune and even the Bangalore market also should start showing much better performance in the second-half than in the first-half.



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As far as the Dream Acres is concerned, it will continue to do better in all the four quarters as it continues to keep getting good response from the customer.

Now, I leave this house open for you to raise any questions you have on our quarterly or financial results.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. Our first question is from Anubhav Gupta of Maybank. Please go ahead.

Anubhav Gupta: Sir your fourth quarter revenue was 5 billion you said you were able to recognize revenue from only project. So were there any delays in other project deliveries or you think there were some slippages which would result in execution in first quarter or second quarter or current financial year?

J.C. Sharma: There was one project touch and go in Bangalore Silicon Oasis, right we wanted to recognize the revenue but it did not happen. Otherwise most of the projects there have been getting executed more or less on a timely manner.

Anubhav Gupta: Okay. So was there any land sale included in this Rs. 5 billion of revenue?

J.C. Sharma: No, there has been no land sale included.

Anubhav Gupta: Okay. And on full-year basis what is the break-up between the contractual revenue and real estate revenue?

J.C. Sharma: About 796 crore was towards contractual and manufacturing revenue and the balance had come from the real estate. Total revenue was 24.55, 16.44 was from the real estate and 7.96 was from this contract and manufacturing.

Anubhav Gupta: Right. And do you think this growth in contractual revenue is sustainable over the next few quarters? You must be having backlog on the books base back. What is your outlook?

J.C. Sharma: We are at this point of time quite comfortable but at the same time, right now our focus is gradually shifting from a primarily doing maybe Infosys activities where we feel that going forward the kind of visibility what we have enjoyed over the last 15 years it may not have that kind of a visibility. We would like to compensate with other contracts and we will see that at least what we have achieved in this financial year it must get achieved in this financial year also.

Moderator: Thank you. Our next question comes from Abhishek Anand of JM Financial. Please go ahead.

Abhishek Anand: Sir, my first query is on the guidance actually you have given 3.3 million square feet to 4 million square feet in FY-16. Sir, if possible can we have the break-up of this 4 million square feet?



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- J.C. Sharma:** It is very difficult for us that way while giving the guidance to do guidance product wise or city wise sort of I think.
- Abhishek Anand:** Okay. Yes, let me reframe my question then. Sir, can you tell us which all market apart from Bangalore which could be the significant contributor which market will be the key monitorable for us to understand whether we achieve or exceed or miss the guidance?
- J.C. Sharma:** It is a good point. We believe that the Bangalore market this year also will relatively better than what achieved in the last year. We also believe that the Chennai market, the NCR market as well as the Cochin should show improvement in this financial year vis-à-vis the last financial year. So the incremental sales should come from these four markets.
- Abhishek Anand:** Sir, any reason we are optimistic on NCR, Cochin market?
- J.C. Sharma:** Yes.
- Abhishek Anand:** Last year also NCR, are we seeing any green shoots in these markets?
- J.C. Sharma:** We do see that the local environment is changing. The word green shoot I do not know as such how to interpret but the location is becoming increasingly better and popular, the accessibility also is improving, and from a price point of view this particular location should show better performance. Last quarter also was a better quarter relatively speaking vis-à-vis all the three quarters in the last financial year and we hope that this kind of a momentum should continue. As far as the Chennai market is concerned, we have launched one project which should give us incremental revenue on top of this one more large project is being planned to launch. So with the help of that we believe that the Chennai market should show improvement. From our forthcoming projects we hope that the project what we have with Sobha Puravankara also should this showing some numbers in the current financial years once it gets launched. It is also at the final stage. So taking those things into accounts we have based that with the guidance what we have given of 4 million square feet versus what we have achieved. We should achieving this time.
- Abhishek Anand:** Okay. Secondly sir on the collection especially from real estate we have seen significant downtrend on those 90 crores lower number this quarter if I am comparing quarter-on-quarter as compared to last year seen further down. Sir we have been clocking a sales of roughly around 550 crores on an average in last if I am looking at few quarters. Sir why are we exactly seeing a downtrend in this collection? Is this just a quarter phenomenon or should we read into it?
- J.C. Sharma:** See it is like this that when you have a higher sales of the new product where you can only collect either the booking money or 30% vis-à-vis right at the sales where your progress is 50% 60% 70%, it also gets reflected in your cash flows. So you have to recognise that from 3.5 million square feet we could achieve 3.28 million square feet there has been slowing down in the volumes there has been a slowing down in average

realisation also and within that category if you have projects which do not come for recognition you can hardly collect either booking money or 30% sort of scenario. As the construction cost will start incurring on those projects at some point of time there will be a significant improvement in the cash flow we believe that this financial year the cash flow will be showing relatively significant improvement over the last year because of this accumulated benefits of the construction activity what you will be doing on the new projects launched and increase realisation from that.

Moderator: Thank you. Our next question comes from Punit Jain of Goldman Sachs. Please go ahead.

Punit Jain: Sir what the size lease in Oasis in terms of value?

J.C. Sharma: I think let it be large, as far as this financial year is concerned what we are saying is this about 876 crore worth of revenue should come from the pre-sold projects that is what in totality. And this quarter right Silicon Oasis should be showing some kind of improvement which will result into better performance in what we achieved in the last quarter.

Punit Jain: If I got back 3Q presentation you had mentioned that in fourth quarter around 3.4 billion will come up in revenue recognition in fourth quarter?

J.C. Sharma: You are right.

Punit Jain: So the entire means which could not come up in fourth quarter you are saying is because of Silicon Oasis.

J.C. Sharma: Primarily yes.

Punit Jain: Okay. Sir second thing is that about this new project so, what are the timelines when do you think it will come on revenue recognition for this project and what is your sales strategy for this project like you had launched at a reasonable price and what is the pricing strategy you plan to undertake for that project? And any idea on the margins whether it is going to be margin-dilutive for you?

J.C. Sharma: See as far as this Dream Acres concerned it will be margin additive it will not be a margin dilutive. As far as the sales strategy is concerned though it is sold in Sobha's brand name only we have created a new logo because this will be the number one we hope series of such product will be launching using this technology on the larger land parcel. We believe that as far as the pricing is concerned as long as it is not margin-dilutive if I am borrowing your language kind of a thing and if it has allowed us to improve volume we definitely would go for this thing it require a lot of planning and a lot of initial investments but on larger size projects the sales will be significantly better. The sales and marketing office has been created at site itself where currently 2 dozen plus people right they are working from. We hope that at some point of time you or all of you or some of the investors they are most welcome to see one of the most modern precast plant and one of the most

modern sales and marketing office for a 5,000 square feet kind of a product. We also hope that as far the price tags are concerned because structural cost it only takes extra cost from plastering from getting the right kind of finish sort of thing. So hopefully the kind of price increase pressure we otherwise normally see in such kind of products it will be least.

Punit Jain: So how much do you intend to sell this year from this project in FY16? Because the total size of or project is close to 8 million square feet and assuming you take four years to sell the average run rate will need to be close to 2 million square feet.

J.C. Sharma: See these numbers we do not know right whether we will be able to achieve or not market only determine. But yes, we can say with confidence that as a single product amongst all our ongoing projects this product quarter-over-quarter should be giving highest number without diluting the margins and should improve the cash flows and everything going forward.

Punit Jain: Okay. And also when do you think it will come up revenue recognition?

J.C. Sharma: Okay. I forgot to answer this question. We are planning that in the later half if not in the third quarter definitely in the fourth quarter the product will come for revenue recognition.

Moderator: Thank you. Our next question comes from Abhinav Sinha of CLSA. Please go ahead.

Abhinav Sinha: Sir, first of all, on the balance sheet the gearing is now at 0.75x and so going forward I mean do you see a need for say raising fresh equity or what is the guidance for the gearing for next year?

J.C. Sharma: It is a good question, going forward now with the improvement in our volumes we hope that this debt equity of 0.75 as far just now you talked about it should start coming down. We are targeting to bring it down below 0.07 in this financial year itself. And as far as the dilution of equity or rising everything is concerned most of the project that we have launched we have not taken construction finance so far. The new loans have been raised below 12% so we prefer to take those loans then to do any other thing.

Abhinav Sinha: And do we start the CAPEX of that big project this time APMC project?

J.C. Sharma: If we start there will be two things we have got extension till September as far as our this year's accrual is concerned but till September it is okay. We have started working with the government a little bit more proactively but looking at the planned approval process and other things if at all we start there will be very nominal cost not exceeding 10 crores to 15 crores towards the construction cost in this financial year.

Abhinav Sinha: Okay. And sir this time the capitalisation of interest has gone up right so from about 15% last year to 25%. So where do we see this next year?



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- J.C. Sharma:** Overall, I think we will maintain the kind of capitalisation what we have been doing over a period of time. I think in the first three quarters there has been something right which got adjusted in this quarter to bring the rationality and the parity part.
- Abhinav Sinha:** And sir one more question if I may, again this is on the early guidance that you have given say 4 million square feet for next year so and the realisations are almost flat YoY. So does this indicate that the mixture of mid-income basically the Dream Acres is going to be substantial this time around?
- J.C. Sharma:** See because if you sell one or two Dream Acres at 5,000 rupees the realisation comes down significantly so you have to sell. It is a kind of thing where on the mid income you cannot get this kind of a realisation of 6,500 this used to be our realisation last year without this Dream Acres. What we believe that yes, the other projects today have average realisation exceeding 7,000 plus where as the Dream Acres realisation will be around 5,500, a mix of that should be 6,500 which should be good enough for us to give guidance.
- Abhinav Sinha:** But you are not building in any say price inflation in general?
- J.C. Sharma:** We are not building in this year too much of either price increase or cost increase as we move forward as things can today. We are seeing that except Bangalore as I keep repeating at other places there is no point increasing the prices to be fair.
- Moderator:** Thank you. Our next question comes from Adhidev Chattopadhyay of Elara Capital. Please go ahead.
- Adhidev Chattopadhyay:** Yes sir, I have got a few questions. Firstly my question is on the margins. Now in our notes you have mentioned that for the quarter our profits are lower by around 13 crores and for the year by around 34 crores so just wanted to understand the cost escalation how much to happen in the contracting segment, how much happened in the real estate segment for the year and for the quarter?
- Subhash Bhat:** See there has been a one second, yes I will take it.
- J.C. Sharma:** See the entire cost escalation that has happened is in the real estate segment because contract with go by the milestone basis, okay. And as we have said, okay, the impact of this in the full year is 34.3 crores for the full year and for the quarter it is 12.8 crores.
- Adhidev Chattopadhyay:** Okay, sir. Sir then just wanted to as an follow-up on that now we have our EBITDA margins reached to pretty high in this quarter despite real estate revenues not being very high and there having being cost over-runs in that segment during the quarter. So what is the project which got recognition at a very high margin is that correct way to look at it?
- J.C. Sharma:** Yes, it is a blend of...



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- Subhash Bhat:** Yes, it is a mix.
- J.C. Sharma:** This product has come in what kind of margin prime facie it was a number in the last quarter itself we said, that the way the cement prices had gone up and labor cost where we could not anticipate that kind of thing. But the base-level margins still remain intact and the newer sales definitely should come with this relatively higher margin. So going forward whatever the margins we have shown they cannot come down chances are that they can only go up as the things start looking up.
- Adhidev Chattopadhyay:** Okay, fine, sir. And second question on this Bangalore affordable housing whatever we have hearing on the policy. So that issue is sorted out for your project at large how launch you have done in Bangalore is that issue behind us now or there is still clarity to come?
- J.C. Sharma:** No, the policy was to the extent that they wanted EWS homes to be constructed after BDA has approve fortunately the Karnataka High Court has granted a stay and the old policy continued. So there is no issue now.
- Adhidev Chattopadhyay:** Okay, sir. And final question sir is Indraprastha project when we do we see it hitting the revenue recognition because it is a pretty large project in our portfolio.
- J.C. Sharma:** Indraprastha had already hit. It already hit the revenue recognition. I think you can talk to our Bala, our CFO, separately about that.
- Moderator:** Thank you. Our next question comes from Nitin Adnani of Axis Capital.
- Nitin Adnani:** Just one question a follow-up from the previous caller regards to the margin I see other expenses is down some 22 crores in this quarter in fact, it is the lowest in nine quarters. Could you help us understand this and whether this is going to be sustainable?
- J.C. Sharma:** It should be sustainable. It should be sustainable
- Nitin Adnani:** And where we have got this 22 crores savings odd, I mean if you can tell me?
- J.C. Sharma:** Relatively when your sales are low right you tend to reduce some of your promotion marketing things on percentage basis you do budgeting kind of a thing. So normally you have some control on your indirect cost whereas you do not have that kind of control on the direct cost.
- Nitin Adnani:** Okay. And we do not see ourselves going back to the previous level of spending in this front?
- J.C. Sharma:** This will be in proportionate to the volume part kind of thing.
- Subhash Bhat:** The new sales can be achieved.

- Nitin Adnani:** Okay. On the debt equity target of bringing it down to 0.7...
- J.C. Sharma:** Immediately this year at least that is the target we have set out for selves.
- Nitin Adnani:** Right. I was just wondering I mean you cleared out that commercial CAPEX is not going to be more than 10 crores - 15 crores. Just on the land side, I know we have the 160 crores to Puravankara for the Cochin land balance payment to be paid out. This year we spend about 380 crores on land. Do we have an idea of what that number will be for FY-16?
- J.C. Sharma:** See as far as Puravankara is concerned, right, the project gets launched now and our next installment will come only in the next financial year. So there will be no outflow sort of a thing. There will be some opportunities here and there, correct which we have to work within our this debt equity if you see a kind of framework there as such immediate requirement or outflow in this quarter at least as far as this thing is concerned.
- Moderator:** Thank you. Our next question comes from Amit Agarwal of SBI Cap Securities. Please go ahead.
- Amit Agarwal:** My question pertains to your strategy going forward for next probably couple of years you have already come into the mid income housing if I have to say with the launch of Balagere. Now, is there some kind of clear identification by the management that out of the launches you do in future probably 30-40% or some percentage which is going to be in this particular segment and the rest is going to be a high income segment, any particular strategy on that front?
- J.C. Sharma:** See strategy as far as this kind of precast home is concerned definitely we are looking at where 4 million square feet to 5 million square feet if we are getting for development from one single location we will examine that okay whether it should be done a pre-cast basis or not. And this is only the first in the series definitely we have plans to do this kind of project in Bangalore especially in Chennai, especially in Cochin especially going forward where we have the land bank. At other places also depending upon how things shape up in the near future we will be looking at. Kindly also understand that these projects take longer time to materialize because everything every mold every order there is huge lead time also which we are planning to take one year to get the project launched.
- Amit Agarwal:** That is the reason for my question sir. I mean as a strategy for example if we are looking to launch I am just giving a number 10 million square feet every year can I say that a mid-income housing would be 5 million square feet out of that or roughly around about that range, am I correct on that?
- J.C. Sharma:** No, we cannot look at like this. Whatever point of time when we start planning about some other projects like this definitely we will be sharing and this size will vary in the beginning the quantum will look much larger but in that particular location thereafter



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there may not be for couple of years or three years any new project launch. Whereas the normal project what we are selling this 3 bedroom apartments we will keep launching in all the locations almost on a regular basis.

Amit Agarwal: Okay. The reason why I am just persisting on this because we have seen a down in sales in Sobha in the last couple of quarters and one of the reasons it was that Sobha is primarily in the high-end segment and it has not got anything in the mid-end segment if I put it this way so this is an entry in to the mid-end so, that is why I was looking for something which is regularity which is coming there I mean there is no regularity that means from your side.

J.C. Sharma: That is not the case. Since last 8-10 years we have been doing roughly on average (+3) million square feet of sales on a regular basis regular product sort of thing. Bangalore had been also giving us (+2) million square feet of this sales. There is market for this product also there is of course volume wise better market for this compact luxury homes as well. So going forward you are right there will be a mix whether it will be 50-50, 30-70 it will depend on that particular timing kind of thing and that location. But yes, you need to have some patience. There is no as such immediate launch you are talking about in the next two quarters.

Amit Agarwal: Sure, sir. And lastly sir if you can just give me a break-up of this land payment of 380 crores is this is possible I know one of them would be Puravankara the other one is it possible?

J.C. Sharma: No, we mainly first to the Puravankara then one land was purchased in Pune, Kothrud and thereafter there has been small payments here and there either for a joint venture or for buying the land, right, here and there nothing much.

Amit Agarwal: Okay. And next year you do not have much of target for land payment sir in FY-16?

J.C. Sharma: As such they are not that kind of especially the Puravankara payment as I have clarified it is not there some opportunities we will look into that but not as such. This kind of 300-380 crore kind of payment is not planned.

Moderator: Thank you. Our next question comes from Samar Sarda of Kotak Securities. Please go ahead.

Samar Sarda: I had a few questions. The first question was sir, which of your cities are like operating on a negative cash flow cycle right now?

J.C. Sharma: Negative cash flow cycle, real estate I do not think. See we still even in place like Delhi also so far whatever you are spending more than that we are recovering. The same logic applies in Chennai also same logic applies in the Kerala market. If you look at operationally from a cash flow point of view we have been generating almost close to 1 crore 334 crore we have generated. If I could understand your question from the size

what you are spending and what you are collecting. Day after when you start allocating the other cost the interest cost, income tax, the dividend, the land payment and the CAPEX kind of thing then the negative value starts otherwise all the projects they generate positive cash flow at the project level.

Samar Sarda: And the other two questions were on the collections, what is your budget for like collections from the residential segment in FY-16?

J.C. Sharma: See we are not giving as such any guidance for real estate or contracts per se cash flow but we did get 25 odd billion collections in the last year and in line with the improvement in the volumes of 25-30% I think the cash flows also to this extent will be higher in this financial year also.

Samar Sarda: So we can take cash flows in 2016 will be collections in 2016 from real estate will be better than 2015?

J.C. Sharma: 100%, yes.

Samar Sarda: Okay. Third on the debt, like you mentioned debt-equity ratio but on an absolute basis do you think that debt will cross 20 billion on gross levels for FY-16?

J.C. Sharma: I think it will come down from the existing level, right. That is what we have projected for this financial year FY-16 from the existing levels.

Samar Sarda: Okay. My last question was on the launches sir. If I like look at the launch pipeline you have given in the presentation excluding the JDA which you have added up on Sarjapur Road. Most of the other properties are like with you for some time or these are smaller properties say for example, the Chennai property or the Cochin property they are in the forthcoming pipeline for some time. So if we have to see sales increase other than the Dream Series, how will that be possible? Are you like to going to push sales from the existing projects more because the launch pipeline is a little for the lack of a better what weaker versus what it was last year.

J.C. Sharma: No, I think this is a very good point you have raised. Unfortunately see look back and analyze our last year except in Bangalore where only in the last quarter for two to three months some confusion got created otherwise in Bangalore the way that we will processes had been streamlined we find that are seeing other places these approval processes has definitely taken far longer clear then what they should be taken? What there maybe the issues but then we have face. And this has resulted in the delay but from our side since we have frozen the plans, we have got some approvals pending sort of thing we have been sharing sort of the thing. This year right whatever projections we have given the confidence is all this project definitely will fructify, required approvals will be in place, and the project will be launched.

Samar Sarda: Okay. Even the Sholinganallur property in Chennai?

- J.C. Sharma:** Yes.
- Samar Sarda:** Okay. And one last related question to this, sir you mean like selling before the Dream Series launch between 0.5 million square feet to 0.6 million square feet per quarter in Bangalore. Now of course you could say you have sold like more than 0.8 million square feet consolidated but if I say 50% or good amount of sales have come from Dream Series the sales from your regular products in Bangalore have been very low in this quarter. Now going forward could we take you will maintain this 2 million square feet to 2.2 million square feet of run rate ex-Dream Series in Bangalore also or will that come down?
- J.C. Sharma:** See believe that we should be able to maintain the 2.2 million square feet as you had correctly interrupted the (+500,000) square feet of the run rate in Bangalore even in this market also.
- Moderator:** Thank you. Our next question comes from Saurabh Kumar of J. P. Morgan. Please go ahead.
- Saurabh Kumar:** Hi, sir I had a question on your cash flow so, on Slide #25 if I look our construction expenses have gone up almost nearly 25% level but our collections have cap base. Why will that be the case and that essentially driving the weak cash flows for this year? Why should your construction expenses is going up when your collections are not keeping up pace for that?
- J.C. Sharma:** You are right, you are in a cycle when you had launched new product where some of the projects and expenses has been incurred you are not being able to recognize the revenue. At the same time, you have also delivered 4 million square feet or so of the real estate completed projects and some more projects are coming for completion as well. So in that particular site to sometime you might have sold and collected the money but you may have to incur the expenditure so why at the operating level we are still positive but then this kind of things happen when the volumes are coming down vis-à-vis the previous years. Had the volumes been the same this situation we would not have seen. And we do not wish to stop the construction program as such because that has been the lifeline for us in all times. It helps us to get from the paying customers payments on a timely basis and company does not have to face that problem of otherwise delivering the projects on a delayed basis and providing the compensation sort of a thing. So this is miss match sort of scenario where lower volumes projects coming for completion sort of thing and the expenses being incurred on the new projects all has resulted into higher construction expenses this financial year vis-à-vis this lower realisation.
- Saurabh Kumar:** So should this like normalised going forward next year?



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- J.C. Sharma:** Of course yes, when you look at the Dream Acres kind of thing you will have immediately 30% to 50-60% payments coming forward where the initial expenditures may not be that high.
- Saurab Kumar:** Okay. And secondly on this Dream Acres so will be the book value of this land sir? I mean I am just trying to understand like how much money can you potentially make versus what is the book value so just if you can help us?
- J.C. Sharma:** Right, if you look at we have been asked this question that whether this project because you are selling at below Rs. 5,000 whether it will margin dilutive or not. So I can only say that the land cost has been relatively quite low and despite being able to offer the product at 4,600-4,700 per square feet and considering that 100 crore investment in the plant and machinery to be written-off from this project itself, thanks to the land cost we have been able to not only keep the selling prices low, we will have higher margin and the average margin what we are realising from all our projects at this point of time.
- Saurab Kumar:** So sir the construction cost here should be at least Rs. 2,000 a square foot? I mean is that a fair estimate?
- J.C. Sharma:** Construction cost will not be 2,000 square feet because only on the structures and on the timeframe you will be saving the money with the finish age will be as high as what you can see and the structure is also tall with two basements and these specifications are as good as what we are providing to any new homes. So construction cost definitely will be higher than Rs. 2,400 to Rs. 2,500.
- Saurab Kumar:** So let's say 4,600 minus 2,500 that is like Rs. 2,000 on 7.5 so that is like 1,500 crore-1,600 crore sorry more than that 1,700 crores. So I am just trying to understand what will be the multiple of the 1,700 what will be the book value what will the multiple like 3x-4x I mean?
- J.C. Sharma:** That you people expect I have no comments.
- Saurab Kumar:** Okay, sir. And sir this Dream Series can you like replicated in any of your parcels where are there in Sobha maybe in next one or two years?
- J.C. Sharma:** Yes, we can replicate it.
- Saurab Kumar:** So where will that be just Bangalore itself or?
- J.C. Sharma:** In Bangalore two locations we have identified correct, Nagadenahalli and Hoskote we are examining whether we should go there with this kind of a Dream Series or not. In Chennai also Sriperumbudur we can think of right, doing it but it may not happen immediately.
- Saurab Kumar:** Immediately as in next year?



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- J.C. Sharma:** Immediately means right now in the Chennai market and that location still in our view will take at least one or two years more before we take that call.
- Saurab Kumar:** Okay. And sir in this cash flow sheet which you have on Slide #12 you have 6,400 odd crores which you made from basically running down your entire inventory. So this 12,000 odd crores value of unsold stock that includes the entire Dream Series or...?
- J.C. Sharma:** Yes, it includes the entire Dream Series.
- Saurab Kumar:** Basically this is the 6,400 crores which you make over five year Dream Series will take five.
- J.C. Sharma:** Yes, I have primarily said five projects will be there and this is a normal case scenario in which these things are getting projected.
- Saurab Kumar:** Okay. And sir just one last question your deferred tax liability I mean for the year has gone up I mean at 160 crores so what will that relate to?
- Subhash Bhat:** That is basically of the MAT we are paying taxes in the MAT, okay. And you are aware that the interest expense is fully charged-off in the income tax and that differential naturally creates that deferred tax liability.
- Saurab Kumar:** Okay. So this an actual payment you will have to do some point I mean...
- Subhash Bhat:** That is always like that the deferred tax is always sometime it..
- Saurab Kumar:** This is not like it will be there for I mean..
- Subhash Bhat:** But going forward the corporate tax is coming down you will see a benefit on that because today the deferred tax is based on current 4.6. So, Finance Minister keeps his promise of 5% reduction for three-four and we will see the benefit coming in.
- J.C. Sharma:** So this deferred tax liability will become an asset at the point of time, okay?
- Subhash Bhat:** It will reverse into the P&L.
- Moderator:** Thank you. Our next question comes from Sameer Baisiwala from Morgan Stanley. Please go ahead.
- Sameer Baisiwala:** Sir quick thought comes to my mind that for last two years fiscal '14-'15 you have been consistently missing your pieces target and by long margins. So what gives you confidence that you will be able to achieve what you are seeing for fiscal '16?
- J.C. Sharma:** It is a good point. Not exactly by a long margin but yes, we have not been... I know but try to the two years you took but anyway no defense, correct no excuse from

perspective. See to begin with the industry is cyclical, to begin with that the reasons for the low demand as we have been identifying from both side your and our has been that our GDP has been showing down, our interest cost for buying home or for like funding a project has been relatively higher, to the job growth environment, commercial space absorption, the inflations rates all these things have been negative. While I do not say that everything had improved but yes, the indications are all such areas we have seen this significant improvement especially in the Bangalore market commercial space you can expect, the job market growth you can see, and the overall increment to the employee you can see so that is the macro environment you are talking about. As far as we are concerned today, we believe that we have products as far as Bangalore is concerned in all categories (a), and (b) we will have better products in other markets also going forward, (c) most importantly we relied on that the last quarter we did achieve 1 million square feet in the similar environment. Since we could achieve one million square feet in a similar environment last quarter there are no reasons that this kind of a performance cannot be repeated the environment has not become worse than what it was in the last quarter.

Sameer Baisiwala: So sir do we conclude that when you give these guidance's you look at micro and you do a drop down I would have thought that you probably have a spreadsheet and all the projects written-down and you probably give us a bottoms up kind of calculation?

J.C. Sharma: Both we work out when we take commitments from the people who are in-charge of the regions or the products sort of thing you are absolutely right that is the way they give but then you try to calibrate looking at actually what is the market scenario in that particular market whether things are working the way we wish it to happen or not so while giving guidance we do look at both these numbers as well as the macro environment and try to work around this is what we should be doing fairly successful but of course last two attempts you are right this did not happen that way.

Sameer Baisiwala: Okay. And sir in your bottoms-up approach and this is a question we ask quite often how much is really dependent on new launches versus what I see is 8.8 million square feet of unsold under construction projects that you have.

J.C. Sharma: You are right. Not much of dependent as far as Dream Acres got concerned it was one-off case so definitely the significance of this particular project was there but otherwise this will be the normal launches and normal kind of sales this is not dependent. So tomorrow suppose if these projects for any reasons if I could understand you do not get launched we should not have the excuse because of that we could not achieve the number.

Sameer Baisiwala: Okay. And sir the worry that I have in my mind is for this unsold under construction projects could we be looking at a situation maybe three years down the line when you would have a lot of finished inventory on hand. So how much weighted average time do you think you would take to complete these projects?

- J.C. Sharma:** Sameer, this point is very much valid. But last two years while the market has slowed down the finished stock inventory is negligible I repeat it is negligible. Even in this financial year also lots of projects will come for completion but in those projects also we do not foresee that inventory is going to be there of the finish stock while the projects all being launched because that is the land area and we would like to have one-time approval hassles. But while releasing the projects or constructing the project we have been quite fearful that what we sell and what we can deliver on that basis of stage wise only we are releasing and selling. Some of the larger projects like Sobha City or Sobha Forest View or in the past the Elite, Aspire, Basil, Beryl, and Garrison, on the larger parcels so where the apartments were in (+1000) sort of thing. This basis was applied successfully and we never had to suffer that kind of situation and it will not happen.
- Sameer Baisiwala:** Sir on the contractual business you mentioned that you no longer have a good visibility as you use to have from contracts from Infosys. Is it because Infosys is going slow or because they have chosen someone else to do the work as well?
- J.C. Sharma:** No, they have not chosen anybody whatever work they are doing we are doing including somewhere some renovation or retrofitting also. But since we know that yes whatever projects which were given to us two years - three years back when they come for completion then we realize that as things stands today the visibility is not as high as it used to be.
- Moderator:** Thank you. Our next question comes from Abhishek Anand of JM Financials. Please go ahead.
- Abhishek Anand:** Sir just wanted a clarification on notes to account fix the treatment of the CSR expenditure.
- J.C. Sharma:** See if you look at there have been two changes which has been done in this accounts. One is the provisioning of depreciation for which also new norms have been prescribed and accordingly the company today overall P&L account of 96 million and in the reserve about 16 million has been impacted adversely. Similarly as far as CSR activity is concerned The Institute of Charter Accountants of India has come out with a guideline since it is an appropriation of your profit you should provide it after your PAT and accordingly we have followed that particular guideline. So net-net if you analyse our PBT and PAT the depreciation access provisioning and the CSR treatment more or less neutralizes that impact.
- Abhishek Anand:** Sir this 124 million which has been netted off from other expenditure so other expenditure has been reduced by 124 million or has been increased by 124 million from the capital?
- J.C. Sharma:** As far as this quarter is concerned, right nothing has happened but as far as the preceding quarters are concerned along with this quarter this is a net impact of the 12 months.



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- Subhash Bhat:** Yes, it has got restated in the 12 months.
- Abhishek Anand:** So basically 124 million has been deducted from other expenditure is that how we should look at it?
- J.C. Sharma:** For the year not for the quarter.
- Abhishek Anand:** For the year but reflected in the current quarter?
- Subhash Bhat:** No, not in the current quarter in the full year number. Current quarter impact is only the difference between 13.8 and 12.4 crores.
- Moderator:** Thank you. Our next question comes from Punit Jain of Goldman Sachs. Please go ahead.
- Punit Jain:** My question is with respect to launches like you had mentioned that you can possibly launch this Dream Acres at more size at a later point of time so, why not earlier? So what constraints do you think you have in terms of launching those projects? Is it location? Is it capital deployment or is it confidence of absorption of product?
- J.C. Sharma:** No, it is everything. The technology is new right, it need 10 acres to 15 acres of land to put up a new plant kind of thing understanding and then the overall repeatability of because this plant will last for 30 years - 40 years sort of thing. So we need to examine all such things, and then we need to look at whether this project can be done in a good location. If you look at this overall slowdown in the India real estate it is not restricted only to the luxury homes. In Bangalore also, in other markets also affordable products because of these wrong locations they have not moved forward. So somewhere you have to see the overall configuration and then take the call but to answer your questions specifically as we said but okay we have identified our land parcels and in Bangalore, Chennai, as well as in Cochin we are working of it will take time so when it takes time it is not good to commit now and then keep reviewing it on every quarter the timeframe is more than one year for such projects.
- Punit Jain:** Okay. And second one is that you given up guidance which is far higher then what you could do last year so it possible to bring the guidance between two half? Should we will the sales of 26 billion more towards second-half or how could this split between the two half and to the fact that you already hit Rs. 6 billion in fourth quarter?
- J.C. Sharma:** It is true that while we have month-from-month basis target kind of thing but we believe that lets the maturity level improve of the market and our predictability somewhere you have seen that in the last two years we have been missing the target so as I had explained without repeating myself we believe that this 4 million square feet is definitely doable we also believe that obviously the second-half because of what all you have been talking about should be relatively better than the first-half.



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- Punit Jain:** Okay. As a momentum which you have seen Dream Acres in fourth quarter has it continued in this quarter because when you launch your project initially the sales can be quite large but as subsequently the sales tend to get into a more stable zone so, any light you can throw on sales for dream markers?
- J.C. Sharma:** I think we are quite happy with what we had envisaged because from the day one we have telling that we will take five years to sell this product and accordingly things are progressing at least in dream makers the way we had envisaged so far.
- Moderator:** Thank you. Our last question is from Samar Sarda of Kotak Securities. Please go ahead.
- Samar Sarda:** One was on the cost escalation part, if I remember correctly in last quarter sir you mentioned there was a cost escalation of 32 crores and this quarter it is like 12 crores and for the year it is 34 crores. Just wanted to check which number was correct?
- Subhash Bhat:** The current number is correct Samar because what happens is when do you a cost estimation, okay the impact comes on the revenue recognition then once you do the cost estimation the new cost estimation start hitting the pre-percentage completion method and this is what we worked out and the full number that we have shown in the note is what is correct reflection for a full year.
- Samar Sarda:** So what is the overall budgeted cost escalation only on the cost side not looking at the income statements?
- Subhash Bhat:** This is a number that we have said here which is about 34 crores.
- Samar Sarda:** Impact on the P&L.
- Subhash Bhat:** Yes.
- Samar Sarda:** But if I say for example on your overall set of projects hypothetically Rs. 100 was the cost and you took an escalation to Rs. 110 or Rs. 120.
- J.C. Sharma:** It is not reflected on all the projects. At what levels where we are there suppose if the cement requirement is there in particular project then the cost escalation, cement, RMC, blocks may not be there. It varies from the project to project sort of the thing.
- Samar Sarda:** Okay, sir not a problem. The last two questions were on the sales target like sometime back you had mentioned your intent to achieve 7.5 million square feet to 8 million square feet of year sales from FY-18, if I am not wrong.
- J.C. Sharma:** You are right.
- Samar Sarda:** So do we still maintain that?



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- J.C. Sharma:** Yes, yes we do maintain because as I repeat that the way we have increased our launches we have launched, last year also good number of products this year also to we are launching good number of products. We are also deepening our presence in other markets so what does it show wherever we are there the product is accessed and the company is not losing money per se from that particular investment so going forward with Dream Acres in our city and the existing projects also starts showing the results definitely by 18-19 we should be achieving more than 12 million square feet of new sales.
- Samar Sarda:** This means typically doubling our sales in the next three years if we achieve our guidance this year?
- J.C. Sharma:** Yes.
- Samar Sarda:** Okay. And something relating to this was like again couple of probably 18 months back you had mentioned in your presentation other than whatever are these launch guidelines for the next four quarters you will be launching 21 million square feet over the 12 months to 36 months and Dream Acres is one of those projects and some of the projects you are showing here or part of that. Could there be something like this which you could disclose for building up cash flows for people like us?
- J.C. Sharma:** Yes, I think more or less if we have achieve just now your previous question answers that part if I have to get into 7 million square feet and 8 million square feet of new sales we have to create the pipeline and definitely their working and working with the constraint that okay the debt cannot up and still we have to show the improvement so as things move forward we definitely talk to each other on a quarterly basis and otherwise also we will keep sharing those information a little.
- Moderator:** Thank you very much. Thank you very much members of the management. Ladies and gentlemen, on behalf of Ambit Capital Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines. Thank you.