



“Sobha Limited 2QFY15 Earnings Conference Call”

November 12, 2014



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Moderator: Ladies and gentlemen, good day and welcome to the Sobha Developers Limited 2QFY15 Earnings Conference Call hosted by Ambit Capital Private 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 “*” followed by “0” on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. ASV Krishnan from Ambit Capital. Thank you and over to you Sir!

ASV Krishnan: On behalf of Ambit Capital, it is my pleasure to extend a very warm welcome to all of you to this earnings concall of Sobha Limited for the second quarter ended September 2014, financial year 2014-2015. I am given to understand by the management team that the presentation has been e-mailed to all of us and it has also been uploaded on the website. So those of us who may not have received the E-mail yet could access this presentation from their website www.sobha.com.

Let me now take this opportunity to welcome on board the senior management team of Sobha Limited, led by Mr. J. C. Sharma, Vice Chairman and MD; Mr. V Ganesh, CFO; Mr. Kishore Kayarat, Company Secretary; and Mr. K. Balamurugan, Head of Investor Relations at Sobha. I now request Mr. J. C. Sharma to take us briefly through his opening remarks about the environment as well as specifics for the second quarter ended September 2014. Over to you Sir!

J. C. Sharma: Thank you Mr. Krishnan. Good evening ladies and gentlemen. It gives us immense pleasure to communicate with you once again via this concall hosted by Ambit Capital post declaration of our Q2 financial results.

We have already shared with you the details of our sales performance for the first half of the year and the financial performance has been uploaded on the company’s website as part of our investor’s presentation.

As far as the market outlook is concerned while we all see around us that the initiatives taken by the new government should be expecting positive results and sentiment definitely is looking up. We do not find that kind of improvement in demand as far as the real estate market is concerned almost throughout India except in the Bangalore market.

We do believe that the recent relaxation in the FDI norm is a welcome measure. We also believe that as the commodity prices keep coming down as the tool prices keep coming down, the improvement or increase in the commodity prices of steel, cement and sand should be now much less than what it used to be in the past, but as things stands today basically the commodity prices have remained stable but the labour cost and salary cost it has been rising and we have not been able to pass via a price increase in our project as far as our ongoing projects are concerned.

We also believe that hopefully the macroenvironment should start giving the positive results in the next 2-3 quarters. The real estate market also should be showing clear signs of improvement. We have also informed that Sobha is planning to launch aspirational homes in Bangalore in the south east part of Bangalore in a place called Balagere which is well within the Bangalore IT corridor. It will be the company’s largest real estate project spread over 81 acres and also the company’s first using precast technology.

We will be developing more than 10 million square feet in this particular area where most of the units will be consisting of one bedroom and two bedroom apartments with super built-up area ranging between 650 square feet to 1,200 square feet.

We believe that for the aspiring and quality-conscious and value-discerning customers this project will offer practical solutions and they will be buying this project in great numbers. All the approval real estate processes have been initiated from the Bangalore Development Authority; we hope that the project should be approved in this month and we should be able to launch this project in the next quarter. With the launch of this project, we believe that we also should be able to achieve the volume guidance for the financial year 2014-2015.

As far as the performance highlights are concerned we have shown revenue of Rs6.77 billion on a consolidated basis which is up 24% YoY and 16% QoQ. This is the highest-ever topline we have ever achieved.

We also had a PBT of Rs949 million which is up 10% YoY and 5% QoQ. Our PAT at 594 million is also up 5% YoY and 4% QoQ. We collected Rs7.25 billion in this quarter and our net operational cash flows were to the extent of 928 million on the positive side. We registered new sales value of Rs5.59 billion and also registered new sales value of 0.83 billion in this quarter.

Our average realisation was Rs6,703 per square feet and ICRA upgraded our long-term rating from A- to A. This is the second-consecutive rating upgrade we have had in the last one year.

We also believe that the way things are moving forward, we should be able to sustain a debt:equity ratio which currently stands at 0.7 to be brought back to 0.6 by the year end. Our current cost of debt is 12.64 and our net debt is 16.76 billion. The increase in debt in this quarter is primarily on account of pursuing investment opportunities in Cochin and Pune and the dividend payout of about Rs80 Crores.

Our EBITDA margin for the second quarter was lower at 25.5%. As I have been communicating, there has been an increase in the direct cost as well as in the indirect cost like wages, salary, other treatment expenditures and this kind of increase we have not been able to observe fully. I would like to assure that if we look at the overall margins of our all unsold inventory as well as the sold inventory still we would be achieving more than 30% EBITDA margin blended as we move forward, but in the current environment in the immediate next couple of quarters the margins will be under little bit of pressure.

The Thrissur mall is likely to be completed by this quarter and we should start seeing some revenue coming out of the Thrissur mall from the next quarter onwards. We are currently developing 31.14 million square feet of area across eight cities and we also planned to launch another 15 million square feet in the coming one year's time.

As far as complexes are concerned in this quarter we have clocked a revenue of about 200 Crores and we believe that we continue to have visibility for the next 3-4 quarters and this kind of a performance we hope to repeat in the next 3-4 quarters as well.



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Overall we believe that our topline and bottomline should be better than the last year, but it could have been a little bit much better had the operational performance been to our expectations.

Thank you very much. We also now can take questions from you.

Moderator: Thank you very much Sir. Ladies and gentlemen we will now begin the question and answer session. We have first question from the line of Akshay Rao from Edelweiss. Please go ahead.

Ashish Agarwal: Good evening Sir. This is Ashish Agarwal here. Thanks for taking my question. Sir my question is on Aspirational Homes may be I have missed a couple of details I just go to it again could you elaborate on the kind of mix that we have between the 1 and 2 BHK?

J. C. Sharma: The 1 BHK will be about 15% with whole project will be launched in five phases. The fifth phase we will take up after we finished the four phases and take out the precast machinery from the existing project which we may do it on a conventional basis. The first four phases if we look at about 15% or so is 650 square feet one bedroom apartment and remaining 85% is two bedroom 1,000 square feet and 1,200 square feet consideration.

Ashish Agarwal: In terms of the cost of construction, do you see the cost of construction in this being different from what we normally have or would it be largely identical Sir?

J. C. Sharma: There will be an initial extra expenditure when you are putting up the plant and machinery, but the overall cost of production is expected to come down significantly from our current 6,000 plus we do believe that the cost of this particular project will not be more than 2,500.

Ashish Agarwal: Okay and in terms of selling price what are your expectations here?

J. C. Sharma: The selling price that we will be fixing near to the launch but in the similar locations this project will be priced quite competitively wherein the Whitefield area the productive price range at Rs6000 or so we hope to launch it at a significantly lower price.

Ashish Agarwal: That is very exciting. On the phasing you mentioned you launched it in four phases, so how should we look at the phases you will do like a million or to one and half million square feet in each phase?

J. C. Sharma: You are right it is about one and half million square feet in each phase.

Ashish Agarwal: At what frequency you intent to launch like every six months or how do you see that?

J. C. Sharma: It all depends upon what kind of response we get that the plant will be capable enough of handling high volume; it is a dedicated plant which can do much better under ideal conditions.

Ashish Agarwal: In your expectation what could you expect from the launch in the first quarter you would be having some plans or targets in mind?



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- J. C. Sharma:** We believe it is a new category for us. Currently we believe that yes this is one project which should help us to achieve our 4 million square feet target, beyond this it is difficult to guesstimate.
- Ashish Agarwal:** Finally in terms of branding would you be looking at doing this a under separate brand or would you be doing this under your existing Sobha brand and if the latter and do you see any impact of project like an affordable housing segment diluting a brand?
- J. C. Sharma:** No we will be doing it under that brand name Sobha only. As far as that the quality of the project is concerned, as far as the amenities are concerned there is no compromise. The same quality what you are seeing in Sobha City project you will be seeing from the functionality and from the specification point of view will be provided in this Aspirational Homes also. There will be no brand dilution. The precast needs larger size developments that the advantage is that you complete the construction faster and there will be a lesser dependence on the labor cost which has been going up. The downside is that you cannot do modifications on such rooms, so we believe that now if you have designed it appropriately have taken care of the light, have taken care of ventilation, have taken care of amenities and there will be five club houses also per phase and have taken care of almost everything and anything which is otherwise normally you provide there is going to be no dilution rather it will have a brand investment for us and it will be complementing our existing portfolio.
- Ashish Agarwal:** In terms of since this is entirely new project so I just squeeze in one more question over here so I am sure you look at having this as a regular project in your portfolio what kind of percentage of sales mix would you look forward to garner from this segment?
- J. C. Sharma:** I think a lot of planning had gone into so far in designing the project. We need to learn something once we launch the project and thereafter believing that we have large land bank in Chennai, large land bank in Cochin, at Hoskote and other places also, if the experience is good definitely it will be complementing our existing product line at wherever the large land bank or the possibility of developing a large area exists.
- Ashish Agarwal:** Thank you so much and wish you all the best.
- Moderator:** Thank you. We have next question from the line of Puneet Jain from Goldman Sachs. Please go ahead.
- Puneet Jain:** Good evening everybody. Sir my first question is again with respect to your Balagere Property. Now why do we choose the Aspirational Homes and this size for this property? Could you have not just gone with the normal say 3BHK units at that project given the fact that location seems quite reasonable?
- J. C. Sharma:** We have planned for that also in the near future next quarter will be giving some clarity. Another large project, we will be launching with the three bedrooms plus configuration. We thought this area we could have experimented with the precast if you do 15 acre, 20 acre, 25 acre development you need 10-15 acre of space otherwise if you are importing these elements the infrastructure of Indian cities are not okay and it may have an adverse impact when you are putting up those elements in the project so looking at the location looking at that you can go up to 7.5 million square feet of development if a latest experiment in this technology reduce a part from the benefit without compromising on your margins and go ahead with Aspirational Homes and use other

land what is available to us for the conventional method of doing construction and selling at relatively higher price.

Puneet Jain: You are indicating that you more than a bit of apart from 81 acres in this location?

J. C. Sharma: Yes, you are right.

Puneet Jain: How much will that be?

J. C. Sharma: There are two, three lands one Nagadenahalli is there about 30 acres plus. One another Hadosiddapura so all these things are there in the left side or the right hand side of this land bank.

Puneet Jain: Then why limiting it to 81 acres why not...so just wanted to understand thought process as to what is the right size you are indicating for this project?

J. C. Sharma: It is one consolidated, a conjoined land. You can take one single plan approval and you can experiment with that. You cannot club two different locations under one category that is the point I am trying to highlight.

Puneet Jain: You also mentioned that possibly you can offer at a lower price. So what will be your thought process in terms of maximising your margins vis-à-vis price on this project?

J. C. Sharma: The margins will still remain adequately protected when you talk about the lower prices the current cost whatever we are incurring because you take more time to complete the project and there is lot of labour element, lot of blocks, lot of plastering which is going into conventional homes once it gets eliminated and that cost is passed on there will be 15-20% savings in the construction cost accordingly that saving and margin on that can be passed on the end customer; that is what I am trying to convey.

Puneet Jain: Two more things on this. Has this been attempted in India before this precast technology and second thing is that like you mentioned that you have got most of the approvals in place. So what prevents you from launching say December instead of say January or February?

J. C. Sharma: As I said we should get the approval from the Bangalore Development Authority in this month. It is scheduled for their consideration and thereafter there are certain other approvals which are needed because the project needs to be approved by BDA as well as by the BDMP. So once you get this stamp drawing from the BDA you are in a position to submit before BDMP you would not like to launch the project and some relinquishment has to happen of certain area. There are certain formalities which we hope we need to comply with before we take this call.

Puneet Jain: Has it been done before in India?

J. C. Sharma: Yes it has been done before. If you look at a Shapoorji Pallonji or Larsen & Toubro today right they have also been constructing some of the buildings on the basis of precast technology.

Puneet Jain: Also for any reason can this launch get delayed beyond Q4 this month you are targeting this month in Q4?



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- J. C. Sharma:** Yes we are targeting in Q4.
- Puneet Jain:** Which month in Q4 is there a possibility in the rest of Q4 it get pushed forward to say?
- J. C. Sharma:** It is quite unlikely until unless something happens which is not otherwise normally accounted for. There had been a meeting of the environment also. The fire force has started processing the approvals to BDA already listed it is other approvals more or less are in place. Per se, we do not foresee much of a problem.
- Puneet Jain:** Just one more question, one last question on margin. Sir two projects hit revenue recognition in this quarter so which are they and are those projects responsible for lower margins in this quarter?
- J. C. Sharma:** Two projects what we have recognised is in Gurgaon correct and yes somewhere their margins are a bit lower.
- Puneet Jain:** So what will be the margins for those projects?
- J. C. Sharma:** I keep saying, the overall right margins it is not only limited to these projects, Puneet. This time had been impacted and likely to be there at least for next couple of quarters. At the same time when we look at the unsold inventory you find that their margins are quite okay at the current prices. So the further input cost that did not happen which would be back to normal margins may be in couple of quarters.
- Puneet Jain:** Thanks a lot.
- Moderator:** Thank you. We have next question from the line of Anubhav Gupta from May Bank. Please go ahead.
- Anubhav Gupta:** Good evening Sir. Just a followup question on this affordable housing?
- J. C. Sharma:** We call it Aspirational Homes, not affordable.
- Anubhav Gupta:** This 81 acre is full paid up?
- J. C. Sharma:** Fully paid up.
- Anubhav Gupta:** Just wanted to get some sense on the price band category whether I mean obviously majority of the homes will be two bed and three bedrooms?
- J. C. Sharma:** No only two bedrooms, one bedroom and two bedrooms. Majority of them will be two bedrooms either 1,000 square feet or 1,200 square feet.
- Anubhav Gupta:** So the price band and could have would be like below 50 lakhs or between 50 lakhs to 1 Crores.
- J. C. Sharma:** It is bit premature but you can say that it will be from 35 lakhs onwards and below 75 lakhs.
- Anubhav Gupta:** So like today the apartments, which are priced between 50 lakhs to 1 Crores they form almost like 17% of your presales right so this number will definitely increase after the launch of this project?



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- J. C. Sharma:** You are right that is what we are trying to convey.
- Anubhav Gupta:** What is your sense on the overall Bangalore market when you have the strong pipeline for the project launches over the next 2-3 quarters. How do you see the demand there and the pricing point for the projects obviously in the higher segment?
- J. C. Sharma:** We still believe that Bangalore market we will be doing better this year than the last year. So as far as the Bangalore market is concerned, it is holding on reasonably well where we are not getting the improved numbers is from all other market and that is what we have been trying to explain that the share of the Bangalore market despite having project half of our project inventory in other market is not proportionate when the 70% plus is coming from Bangalore and rest is coming from the other market and hence other market also starts supporting we could enter into a sweet spot. As far as Bangalore market is concerned we believe that the basis numbers whatever we are getting we should continue to achieve that.
- Anubhav Gupta:** How project going in the Gurgaon region?
- J. C. Sharma:** Gurgaon region we are not doing as well since the last six quarters and more or less the trend still continues.
- Anubhav Gupta:** Lastly what are the key projects which you think will have recognition rate in second half of this year?
- J. C. Sharma:** I may not able to say off hand, but we have conveyed it about 7 billion plus of revenue we will be recognising from the projects where the sales have already taken place.
- Anubhav Gupta:** You are talking about the second half?
- J. C. Sharma:** Second half.
- Anubhav Gupta:** Thank you so much.
- Moderator:** Thank you. We have next question from the line of Prakash Agarwal from CIMB. Please go ahead.
- Prakash Agarwal:** Thanks and good evening. Question on outlook that you shared on your opening remarks despite being festival season and lot of policy measures being taken so what I am trying to get is even October or say the start of November you have not seen better pickup or you are just saying your outlook till September?
- J. C. Sharma:** I am saying that there has been no decrease but normally we have been sounding and we have been conveying that Diwali the second half it does well. Some sentimental buying does take place. This time that kind of incremental numbers we have not witnessed.
- Prakash Agarwal:** Secondly on margins like you said that higher value properties which have probably higher margins you will see them in the quarters to come and since you have not seen much of a volume there and hence to right mix the launches you have launched this Aspirational Housing. So I mean what is your thought process in terms of high end in the volume when do you expect this to come back any thought there because that is what will drive margins?

J. C. Sharma: You have a point. We have been guessing that yes the way things have virtually improved as far as our real estate market is concerned first time we are seeing a government which is understanding the importance of this industry. It had never happened before. You can talk to any person who is connected with the real estate this government is a listening government and it is implementing on those things. If you look at the reason the single most important factor which impacts most of the commodity prices, because the sizes have come down but the cement manufacturer or ready-mix concrete manufacturer or the steel manufacturer they have not reduced the prices. The labour cost has been increasing because every state government has been revising their minimum wages by 15% to 20% almost on a yearly basis. Then we have scaled up our operations. We have 3,400 people. The indirect cost also has gone up. The sales and marketing cost also you have more number of projects project now that has also gone up and that had not been matched with improved volumes and at the same time it has resulted into some small revision in our input cost and that is why the margins have been impacted.

Going forward if the sales of the new projects where the income can be recognised it keeps happening and these Aspirational Homes that numbers also come, we believe that the margins also should improve, the cash flows also should improve, volumes also should improve and we get back into those trajectory where again we are confident that in next four years' time we need to touch 7 million square feet of new sales and we will be achieving that target also.

Prakash Agarwal: Understood on the cost side. Just trying to understand on your expectation in terms of demand on the high-end where we can garner more than 30%?

J. C. Sharma: High-end also not exactly speaking very high-end. In Bangalore context if you look at it is just that there is slowdown even in some of those affordable homes as well. So if the demand picks up demand will pick up in all the segments; that is my take.

Prakash Agarwal: Understood and sir secondly on these precast technology that we speak about so is this an imported technology and is there a licensing fee that is required and if yes have we paid it or something is pending?

J. C. Sharma: No, it is an imported technology. The plant and machinery mostly it has been imported. The order has been placed with German companies and some Italian companies for pellets and others. So 99% of the equipments are imported primarily from Germany and little bit from Italy. There is no feeding paid the manufacturer right will be handholding for about a year to ensure that conditions happens and what we are looking for we achieve that. The designs and other things have been said with them and they feel quite confident that this technology will work in Indian context as well.

Prakash Agarwal: So the cost has been already been incurred or we will be spending at over stages?

K. Balamurugan: There would be capex cost will be there which will spend more period of time.

Prakash Agarwal: What is the number we are looking at?



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- K. Balamurugan:** Overall capex would be around 70-75 Crores we will be spending we will credit for the manufactures plus if imported buyer's credit available. It should be comfortable for us to service it from our internal cash flow.
- Prakash Agarwal:** This we can replicate for other projects without any extra cost we have to pay another similar amount for?
- K. Balamurugan:** At any point of time I can remove this and replace or take it some other place. If I want to do two projects simultaneously then I have to import some other machines otherwise the same plant can be at any point of time can be removed and move to any other place in the country that is not an issue at all.
- Prakash Agarwal:** Understood and lastly on the Cochin project where are we in terms of launches or have we already seen some test launches or where are we Sir?
- J. C. Sharma:** Again this is the project some problems have happened. You are talking about the Puravankara Sobha Project. So the approval-related things, things are progressing at a lower phase. We hope that in the first quarter next calendar year this project also should be launched.
- Prakash Agarwal:** First quarter next calendar year?
- J. C. Sharma:** Subject to approvals coming in.
- Prakash Agarwal:** You mean slower approvals I mean in terms of any specific area you stuck on?
- J. C. Sharma:** I think some of our fellow developers who have already completed a project those projects have come under some coastal regulation zone so that authority is independently looking into all the new projects once again and though the land also has been sold by the same government.
- Prakash Agarwal:** Thank you and all the best.
- Moderator:** Thank you. We have next question from the line of Gunjan Prithyani from JP Morgan. Please go ahead.
- Gunjan Prithyani:** Thanks for taking my question. Just a followup on this Aspirational Home projects, sorry I missed what is the realisation in the vicinity that you have mentioned?
- J. C. Sharma:** Ms. Gunjan good evening. We have not mentioned asset realisations what we have mentioned is that we are confident of launching this project in the next quarter. We hope to get the best layout approvals from BDA this month. We believe that with the launch of this project currently where we are lagging behind in our targeted volume of 4 million square feet we did roughly 1.6 million square feet the first six months we should be able to achieve the targeted volume of 4 million square feet. Also conveyed that if the construction cost of this Aspiration Home will be significantly lower than the conventional method what most of the developers including us follow that benefit will be passed on. So we will not compromise on our margins and still the project will be competitively priced.



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- Gunjan Prithyani:** Sir I mean this may help you address the volume target that you have set out but is there any change that you would want to make to the value guidance. You think that 2,700 Crores is achievable or is there a plan for that in second half or I mean we should assume that it will be lower or it will be in the range of 2,200-2,300 Crores?
- J. C. Sharma:** It again all depends we still remain positive that if we are achieving 4 million square feet we should be also able to achieve the 27 billion target also. Some, may be small miss, here and there; it cannot be ruled out but prima facie that is possible.
- Gunjan Prithyani:** Sir on the margin front you have mentioned there have been the cost pressures is this basically the cost escalations which have been seen on the older projects or is this across the board cost increases that you have seen or it is the project mix issue in this quarter. I mean it is if you could just explain how should we see margins because our realisations have continued to inch up over the last two years and I mean seeing this kind of margin pressure is a bit surprising?
- J. C. Sharma:** The cost pressure is across the board in a sense especially what we have been observing is if you look at my results also the salary, wages and the subcontractors cost it has been rising faster than any other item. If you also look at the salaries and wages also that had been also rising relatively faster so while the basic commodity prices has remained more or less stable the cost pressure on these items in the good days we were able to pass it on our unsold inventories and as they used to be sold and revenue would have been recognised on quarter-on-quarter basis that kind of a mix would have helped us to maintain the margins. Now more or less you are selling at the price point at which you are selling about six months back in most of the product that there has been an increase which we need to take into account and this has resulted into overall reduction in the EBITDA margin this time.
- Gunjan Prithyani:** This you expect would continue at least for the next couple of quarters?
- J. C. Sharma:** Yes.
- Gunjan Prithyani:** Secondly on this Aspirational launch basically are you looking this as a segment over the medium term that depending on how this projects goes. You could probably include this as a portfolio going forward?
- J. C. Sharma:** If the experience is good, it opens up the avenues for us wherever there is a possible to develop five million square feet plus kind of testing you can look at this option but we have to understand whether what we have been conceiving or we have conceived and put to the market it is also accepted. So may be couple of years we will be observing things, customers response, the design aspect, the functionality best in class and if you believe that yes this is what is India as far as cities are concerned definitely it will become a part of our stable portfolio going forward and in the locations where we have larger land banks like Hoskote and other say may be this can be replicated.
- Gunjan Prithyani:** This is an owned parcel which Sobha already has right and you own 100% of this parcel?



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- J. C. Sharma:** We own 100% that there is a small 15 acres of land which is during 2008 we had given to this another people. So that when the project is launched some of kind of ratio we will fix economic interest. We will have the maximum and that also will be factored.
- Gunjan Prithyani:** But largely this is part of your own land bank it is not a new tie-up or a new?
- J. C. Sharma:** No.
- Gunjan Prithyani:** Within the portfolio we have such bigger land parcels to exploit to launch as such large scale because this is an 80 acre parcel. Do we have those sizable parcels in Bangalore city limits to do such a big launch beyond this?
- J. C. Sharma:** We have Hoskote we have. There we have 10 acres plus.
- Gunjan Prithyani:** Lastly on Gurgaon what is the plan there? I mean I understand the market trends are very weak but is there something that we are thinking in terms of you are changing the projects specification or looking at the price point; any strategy internally that you are evaluating?
- J. C. Sharma:** We have been doing small changes in the configuration, say the duplex homes they have had problems and now we have been launching by revising some of the villas into the duplex homes but still there also the response is not that great but yes the availability today of row house or a duplex home and the bigger villas will continue to be there. Only thing we are hoping is that once if the road comes even if the tough market they have good number of buyers or if the sentiment improves then also they have a good number of buyers and if both things happens definitely this will be one of the best product available in NCR.
- Gunjan Prithyani:** Thank you so much.
- Moderator:** Thank you. We have the next question from the line of Shashikiran Rao from Standard Chartered. Please go ahead.
- Shashikiran Rao:** Thanks for taking my questions Sir. Congratulations on a good set of numbers. My question is regarding your capex that you have been doing on your commercial properties it has not significant in the first half. So any significant progress that you made in any of your commercial projects in the APMC project?
- J. C. Sharma:** There had been as such no significant progress as far as the APMC market is concerned. The work in the St. Marks Road property it is going on. Bangalore had experienced huge rains till September, October. So the escalation work while retaining over it could not be started to our satisfaction. As far as the Thrissur mall is concerned we hope that this quarter it should be completed and next quarter we should start getting some revenue out of that mall.
- Shashikiran Rao:** Thrissur mall will be leased property or you are looking forward to sell?
- J. C. Sharma:** It is about 3.5 lakh square feet we will be retaining about 250,000 square feet and the rest has already been sold out over a period of time.



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- Shashikiran Rao:** One more question on this prefab concept it is more at a conceptual level what stories can you build that in this houses under this technology I mean is there a limitation as we assume a lower...?
- J. C. Sharma:** It is a very good franchise. I think we missed out. There will be two basements. We are providing covered car parking we are talking about and it will be two basement ground and 13 stories.
- Ganesh Venkatraman:** As such there is no limitation from a technology perspective and number of floors.
- J. C. Sharma:** But people do not prefer this precast generally speaking what we have seen very tall because of the lifting.
- Ganesh Venkatraman:** Higher the floor, we lift it, it needs powerful cranes will lift the beams.
- Shashikiran Rao:** Regards you have been spending significantly on land I think for quite some quarters. Is there any pattern to this or is there any necessary land banking I think that you would need to do you have to launch next set of projects or is it long-term land banks that you are doing strategic land banking that?
- J. C. Sharma:** Not like that we invested in the first quarter in Puravankara opportunity and in Pune opportunity. In the next quarter we placed the balance money for the Pune opportunity and hence there has been certain balance payments on certain agreements we had already entered into on some small joint development here and there.
- Ganesh Venkatraman:** From our land selective perspective we have been always saying that post 2012 any land acquisition we are doing it is a view that we will put whatever we are buying we will put to use at the earliest. We were not accreting any buying land view of accreting to the land bank.
- Shashikiran Rao:** My final question is on Hosur when do you think you will be in first position to start you are planning project?
- Ganesh Venkatraman:** Hosur is we still feel it will take some more time. I do not think in the immediate future looking at launching something in Hosur at least I do not see any visibility happening for the next couple of years may be beyond that one has to see what happens.
- Shashikiran Rao:** Thanks a lot and best of luck.
- Moderator:** Thank you. We have the next question from the line of Adhidev Chattopadhyay from HDFC Securities. Please go ahead.
- Adhidev C:** Good evening Sir. Thanks for taking my question. My question mainly about your Chennai project so we have been hearing a lot of issues again with approvals in Chennai with again another building collapse was there. So what is the status of approvals of that project and do we see any chance of further delays over there?
- Ganesh Venkatraman:** I think there has been little delay approvals of Kovilambakkam land surely it was there but we are at the final stages we presume. We are hopeful that we should get the approvals this quarter and it should get launched.
- Adhidev C:** So you think that at least this Chennai project and this large Bangalore project both should launched at least in the next quarter?



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Ganesh Venkatraman: Yes.

Adhidev C: Secondly I wanted to know this Indraprastha project when do you see revenue recognition this quarter or the next quarter?

Ganesh Venkatraman: Indraprastha I think by the end of the year I am not sure, difficult today say Q3 or Q4. We are hopeful that by March we should get the revenue recognition.

Adhidev C: On that just whatever you have guided that margins may be under pressure for next two quarters as well. So I believe like Indraprastha is one of our highest margin projects. So even with that coming in the marginal state will remain weak. Is there a right way of looking at it?

Ganesh Venkatraman: I think various pricing does not mean that higher priced margins will be much higher because specific on overall basis the margins we do not compromise on margins whether depending on the price. We will try to maintain the same level of margins. Assumptions people have that price higher means margin is higher but may not generally be true and I know that too it is the joint development where we are pricing at the current phase of land where they are doing commercial for the developers. So challenges are very different. I do not think assumption that a high priced margin the higher is right.

Adhidev C: Just one more thing with Kochi you said you will be looking to launching the first quarter of the next calendar year. So balance land payment was that we will be making this year itself or only in FY16?

Ganesh Venkatraman: I think so it will come next financial year.

Adhidev C: It will come in next financial year and for the Bangalore project which you are launching like will have any significant outbound approvals or any other TDR FSI any payments?

Ganesh Venkatraman: I do not think so, and the regular process of the approvals that I think substantial will be there.

Adhidev C: Sir just wanted like get any case like for the entire zoning you have to pay all the expenses upfront or it will again whatever phases we launch the cost going accordingly just wanted to understand?

Ganesh Venkatraman: It is a single plan approval we are based by entire plan approval.

Adhidev C: Thank you.

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

Sameer Baisiwala: Good evening everyone. Sir I am looking at your presentation new launches that is slide 14 and 15, it looks like over next I think whatever time period you take may be 12 months or so it shows 15 million but your share is 11 million square feet and if I back calculate the other phases of Balagere other than the first phase then probably we are looking at more like 6 million square feet of launches. Do you think this is good enough to sustain the presales expectations that we have?



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- J. C. Sharma:** As far as Balagere is concerned it provides us visibility for next four, five years to sustain it is the volume part A. B, we will be able to ensure that in Chennai as well as in Pune now we have good number of products availability than what we had in the beginning of the year and it will also ensure that next couple of years at least is in these two markets also we are comfortable. In Cochin also with the launch of Puravankara project thing should be okay. In Thrissur and in Bangalore they have further launches planned which as things more forward we should be able to do. Coimbatore I will say hardly any sales metros. They are also plans are approved to launch the project. The visibility in Delhi is already still very much there. So to sustain improvement in our volumes with about 9.56 million square feet of the current ongoing projects unsold inventories and also having visibility of about 15 million square feet we said is about 11 million square feet or more so 20 million square feet is available which takes care of roughly as this year target five year another 5-10 million square feet visibility will be providing in the next 2-3 quarters.
- Sameer Baisiwala:** So what you are saying here is that over next three or four quarters this list is going to expand further 12 months from now?
- J. C. Sharma:** Yes and specific areas say in Bangalore or so in Chennai or so in Coimbatore or so in Mettur or so in Cochin also some new project, and in Thrissur also some new projects will be launched.
- Sameer Baisiwala:** The other question is I am on slide number 7 and looking at unsold area 9.3 million square feet and the sales value of unsold stock at roughly 70 to 100 Crores. It works to roughly Rs7,800 or 8,000 per square feet average selling price. Is this a right way to look at it?
- J. C. Sharma:** This takes care of all the unsold inventory of Delhi all the unsold inventory of say Indraprastha, all the unsold inventory of Grandeur, Palladian and others where realisations are above Rs10,000.
- Sameer Baisiwala:** Final question is on Hoskote. What is the thought process over there and what is the rough timeline for monetisation over there?
- J. C. Sharma:** I think we are still couple of years away from launching this project. We believe that once this experiment at Balagere fructifies it will help us to design optimally that project also and then I think we will start working before that will be launching project in Nagadenahalli, Hadosiddapura, Belahalli, some southeastern and northern part of Bangalore, three, four projects.
- Sameer Baisiwala:** Thank you.
- Moderator:** Thank you. We have next question from the line of Tejas Sheth from Emkay Global Financial Services. Please go ahead.
- Tejas Sheth:** Good evening Sir. Just wanted to clarify one thing, so this quarter we are seeing any launch and in Q3 we will be launching the Aspirational Home and the Chennai project?
- J. C. Sharma:** This is Q3 this quarter. We already pre-launched this Halcyon this quarter right and the Elanza also in Pune we have launched so two projects have already been launched in this quarter.



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- Ganesh Venkatraman:** As far as the Aspirational Home you are talking about quarter four.
- Tejas Sheth:** Yes Q4 will be that one and the Chennai one.
- Ganesh Venkatraman:** Chennai also depends on the approvals coming.
- Tejas Sheth:** If you can just tell me what would be the land payments in second half of this year?
- Ganesh Venkatraman:** Should not be substantial because may be small payment. I do not think any substantial outflow would be there for land in the second half of the financial year.
- Tejas Sheth:** Committed construction cost?
- J. C. Sharma:** That will be there. All the projects progress continues.
- Tejas Sheth:** Sir this quarter we saw good jump in your construction cost outflow on quarter-on-quarter basis. So we need this kind of a runrate over next quarter?
- J. C. Sharma:** Yes it should be there.
- Tejas Sheth:** Thank you very much.
- Moderator:** Thank you. We have next question from the line of Sandeepan Pal from Motilal Oswal. Please go ahead.
- Sandeepan Pal:** Good evening Sir. My first question is basically there was one project KR Puram which was phase it last quarters slide. So just can you update that I mean that project.
- J. C. Sharma:** It is an eternally project where we had configured all such villa projects now we are doing a revision in the plan, making it little bit more than what we had planned for. So we have taken out that plant from the BDA and then resubmitting it.
- Sandeepan Pal:** Secondly Sir I guess most of our launch in second quarter has been towards the end of the quarter in September so whatever presales we might have seen in this quarters may have little contribution from those projects. So we have three from there and two more we have launched in this quarter. So how is the outlook very short-term point of view question I mean how is the outlook for may be this quarter given that it may pretty strong quarter and we have almost five projects in place.
- J. C. Sharma:** We thought that this new launches and overall improvement in the sentiments will help us to improve but I just look like the sales numbers as far Bangalore market is concerned it continues to clock at the similar pace launch or no launch sort of a thing. It has not been able to make much difference. Other markets you are seeing rather some kind of a muted response to the real estate phase everywhere we find that the way we have been expecting market to respond that is not happening.

- Sandeepan Pal:** Also Sir earlier you articulated about your entry to some other cities like Hyderabad now also you have also said that may be going forward you are accretion will be more from the point of view that you can launch the project fast then only you will probably go through. So keeping both these two things in mind and probably those plans of entering into these cities can be considered as postponed?
- J. C. Sharma:** No nothing as such that we have postponed. Pune we paid money in the last quarter and this quarter we have launched the project. You have to look at that way. In case of Puravankara we should have launched in this quarter it is being extended by one quarter sort of a thing. Going forward also we believe that whenever will be acquiring some land or getting to such type of a deal you will be ensuring that money is well spent and it is linked to the project launch. Hyderabad we have though the market remain tough somehow we must be able to crack from a pricing point of view because the product sizes are very low and our construction cost remains very high relatively speaking vis-à-vis the Hyderabad market for the tentative couple of parcels have been identified touch and go we do not know how things will pan out.
- Sandeepan Pal:** Finally Sir probably I missed out you might have said this. What is the downside for the precast technology I mean what stops us using other Sobha project given that you mentioned these specifications are same? I understand that tailor made or customisation may be is limited but any other downsides which can stop us because anyway if you can say once the construction is good?
- J. C. Sharma:** If we are doing 0.5 million, 1 million, 1.5 million kind of a thing because it is infrastructure in India is good enough to transport these elements from the place where you produce them to the place where you need them. That is the biggest challenge. So here you need the large space where we have taken about 15 acres of land to put up this factory. The festivals have started at Balagere. Now until that you do not have that kind of a space to offer this precast in our view may not give the desired quality and the desired satisfaction.
- Sandeepan Pal:** So it is size of the projects which only matters otherwise you can use these?
- J. C. Sharma:** Of course yes but as the downside is once you have designed the building you cannot it is modulus. You cannot make any changes. You can have a different configuration above the apartment what you have below the apartment what you have. Here you do not use blocks. So you are using concrete and steel everywhere.
- Sandeepan Pal:** Thank you very much.
- Moderator:** Thank you. We have next question from the line of Puneet Gulati from HSBC. Please go ahead.
- Puneet Gulati:** Thank you for the opportunity to ask these questions. Just wanted some clarity on two things number one because of rising cost particularly labor cost you have not been able to pass on the pressures. Are you also including this Bangalore market in this as well?
- J. C. Sharma:** It is across the labour cost in Bangalore market, in Tamil Nadu market price increase. On our most of the products which we have launched there has been hardly any increase this financial year.

- Puneet Gulati:** Secondly is there any major risk that you foresee in this precast technology that you are trying to use that you would like us to be aware?
- J. C. Sharma:** I do not think it is very well proven abroad. The vendor what we have selected is amongst the world's best sort of thing. Our sales have been using this precast in Dubai and the contractor as the company who had delivered maximum number of buildings in India in last decade we believe that yes we have understood this technology reasonably well. We also run a ready-mix concrete plant and block making plant at multiple sites with absolute confidence. There has been an understanding about the blocks, concrete, steel and the technology basically speaking. Now the question executing at a large scale that is why we are going on a stage wise basis and as we said that it is manufacturers will be providing and transferring the technology by keeping its key engineers at sites for about a year. We also have German masterminds and engineers about six guys they work for us full time then we have the design engineers again from Germany, from Italy, from South Africa, from England who have worked on this technology. So their insights also are available. So we do not per se foresee any problem.
- Puneet Gulati:** When did you tie up this Balagere property?
- J. C. Sharma:** There is no question of tie-up. This has been there in our books for last 7-8 years.
- Puneet Gulati:** Lastly if you can share some insights on where you are seeing differences in sentiments movement of price bands in terms of various projects?
- J. C. Sharma:** We are selling high priced projects as well as no priced product that is why the average realisation remains Rs6,700 in the last quarter also, which is bit better. The improvement what we see all the basic market what we see is Bangalore. At other market we are definitely crossing sales but it is not up to our expectation.
- Puneet Gulati:** Just lastly your land bank has not come down even if you take out the future launches. So have you added anything new there?
- J. C. Sharma:** I think when we launch that 50 million square feet at this point of time the acreage whatever we had talked about 150 and odd acres by that these land banks will come down.
- Puneet Gulati:** So when you launch then you bring down this land banks.
- J. C. Sharma:** Not before the launch.
- Puneet Gulati:** Thank you so much.
- Moderator:** Thank you. We have next question from the line of Ketan Shah from Comgest. Please go ahead.
- Ketan Shah:** Good evening. My question is on your price increase, which you can take depending on the market condition because the margins have fallen a bit so if you can guide on that?
- J. C. Sharma:** Margins have fallen because of that input cost increase. When the market is depressed and you have an inventory of 9 million plus square feet to your account we believe it is not that advisable. The overall margin

again I will say on the unsold inventory and sold inventory if you take into account where we have to collect about 7,000 Crores if everything is sold out then the margin again jumps up significantly. It is on that 2,000 and odd Crores what we have to recognise we have to collect money from the customers. We find that here the construction cost increase the way it is happening you are not being able to compensate with the new sales where normal cost we could have increased the prices this time it is a bit difficult if the volumes pick up if the improvements happen not only us overall market itself will be showing improvement in the prices.

Ketan Shah: Sir but you said even if your volumes increase your net margins remain same?

J. C. Sharma: I am saying initially you will be recognising more of revenues like 7 billion revenue is assured which will be coming from the existing customers. There whatever input cost increase is there it has to be factored. Now if you are recognising the similar quantum of revenue so from the new sales the current margin what we have shown definitely it will show improvement.

Ketan Shah: Let us say if you take one project over a period of lifetime of that project will the sustainable margins be the current levels of margins will the margins go back at normal levels?

J. C. Sharma: Better. That is the good point. If the blended margins are considered they will be higher than the margins what we have shown in this quarter.

Ketan Shah: So it is just one of which you are saying that is the temporary phenomenon of 2-3 quarters?

J. C. Sharma: Yes.

Ketan Shah: Thank you.

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

Samar Sarda: Good evening. Thank you for taking my question. In fact I have a few questions, one is on the cash flows. Now obviously our sales have dropped and hence our real estate cash flows have not been growing. Would you maintain a guidance of like FY 2015 cash flows from residential real estate being better than FY 2014 cash flows?

J. C. Sharma: Yes overall cash flows we are not giving as such guidance.

Samar Sarda: But on numbers?

J. C. Sharma: You are right. The expected cash flows the first six months cash flows are higher than the preceding years six months cash flows and going forward also we believe that yes it will be higher than what we had achieved in the last year 2013-2014.

Samar Sarda: My second question is on the construction technology and you said you will spend roughly 75-odd Crores in bringing this technology from your vendors. Now over FY2012, 2013 and 2014 you have been spending quite a



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lot on research of the technology and Sobha being a contractual company also. So why do we need to bring it from abroad when we are ourselves doing a lot of work on this?

J. C. Sharma: What we are currently doing is the pavers, blocks and other things. What we are getting from them is the design of how along with the plant, which is well proven and where we do not have in India that kind of a competency we have been handling precast like if you look at the project Sobha Garrison in Tumkur Road about 2 million square feet somewhere it was hybrid something precast, something normal blocks and precast. Something like this we have achieved. Indraprastha also the precast to an extent it has been used but this will be for the first time where everything is precast. The electrical, plumbing and other drawings also it is inbuilt. It reduces the construction time significantly, it reduces the usage of labour considerably and it also reduces the construction cost considerably and for that if you do not invest in good technology somewhere giving the Sobha name would not have been possible.

Samar Sarda: Just a couple of questions more how is the response to sales that your Kochi and Calicut projects versus your expectations like since the time they have launched and those being new markets for you?

J. C. Sharma: If you compare them vis-à-vis the preceding year Cochin thing or Calicut things, it looks little bit better but we expect much more and to that extent it is not up to our expectation.

Samar Sarda: Will this impact the pricing of your forthcoming joint venture project in Cochin?

J. C. Sharma: Not at all because there the current prices that the competition is selling at the three phasing apartments we will be priced around that and hopefully we should be able to sell.

Samar Sarda: Sir on the Chennai launches you are mentioning earlier will it be the Velachery launch or the Sholinganallur launch?

J. C. Sharma: First it will be the Velachery launch and then Sholinganallur will come.

Samar Sarda: If I could ask like why the Sholinganallur launch taking such a long time with regards to launching because it is quite sometime you tied up for the project now?

J. C. Sharma: You are absolutely right. It got linked with some small land issue in the front which has been resolved and hopefully now everything is clear. Things should move much faster.

Samar Sarda: Just one final question on your medium-to-long-term like annual sales target which you had mentioned a few years back or a few quarters back of around about 7.5 million square feet. You think like launching the Balagere project and some of the others in the coming quarters coming year you will be able to achieve the target by FY2017 or FY2018?

J. C. Sharma: We should be able to achieve by this is now 2014-2015, yes 2018-2019 we hope to achieve.

Samar Sarda: This was a 99 acre land right?



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- J. C. Sharma:** 88 acre land.
- Samar Sarda:** Thanks a lot for taking my question and all the best.
- Moderator:** Thank you. We have next question from the line of Abhishek Bhandari from Macquarie Securities. Please go ahead.
- Abhishek Bhandari:** Good evening Sir. I had one question which is regarding your debt. If you look over the last three, four quarters specifically partly because of land payments and partly because of some kind of slowdown into sales the debt has been going up and if I look from a medium-term perspective with this commercial capex coming up we might be doing we might be borrowing more money. So what your outlook is in terms of absolute debt which will be comfortable from let us say one or two year's perspective?
- J. C. Sharma:** We are believing that 0.6 is our targeted debt:equity level and since we have based that due to the land purchases and not having the expected numbers that we have been thinking for while immediately we may not be achieve that but we have initiated certain steps wherein next couple of quarter we hope that we will be bring down the debt level back to 0.6.
- Abhishek Bhandari:** What would these tests be?
- J. C. Sharma:** These tests will be like again some of the incremental sales once you achieve the basic volume of 4 million square feet your cash flow will improve. Without delaying any product somewhere the construction planning currently we have been recruiting people and going ahead of our construction schedule in most of the projects wherever we have launched this. Somewhere like we can slow down the pace if need be.
- Abhishek Bhandari:** Thank you sir and all the best.
- Moderator:** Thank you. We have next question from the line of Puneet Jain from Goldman Sachs. Please go ahead.
- Puneet Jain:** Thanks for taking my question again. If I look at your Balagere project given the fact that you indicated that the pricing in competing areas is 6,000 and you may launch at a slightly lower price. So 5,000 to Rs5,500 per square feet should be the range which possibly you may be thinking.
- J. C. Sharma:** Very difficult right now to give an exact pricing but since the best clarity we have got that my construction cost is expected to be lower than what otherwise we are incurring where the competition is using the same method what we have been using sort of thing that benefit without compromising the margin and it is a large project. We will start at a lower price point and then depending upon the response we will see how things pan out.
- Puneet Jain:** If I take Rs5,000 per square feet also and given the fact that the land is sold by you the cash margin should still be in excess of 40%?
- J. C. Sharma:** Should be.



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- Puneet Jain:** Not necessarily the margins just because it is Aspirational Home project. The margin for this project will be lower than the company. It could extremely higher than the company.
- J. C. Sharma:** Yes, you are right.
- Puneet Jain:** Thanks a lot.
- Moderator:** Thank you. We have next question from the line of Prakash Agarwal from CIMB. Please go ahead.
- Prakash Agarwal:** Sir you mentioned that there is one more launch near to this Balagere project which can happen which would be about three bedroom kind of project. So that is not mentioned in our next four quarters launch?
- J. C. Sharma:** You are right. When you mention these things we see the design. Once we see the design and the approval first we put it into motion then we declare it. Here the design is yet to be frozen but work is going on.
- Prakash Agarwal:** How big is that if you can repeat?
- J. C. Sharma:** It will be 20 acres plus development.
- Prakash Agarwal:** Lastly on the margins on real estate and contract business for this quarter the operating margins?
- K. Balamurugan:** That is what Sharma did explain that margin has been low because of the increase in the fixed cost and the variable cost which all have been passed on the customers and we feel that next one or two quarters it will be like that by then volume will pick up and if able to pass on...
- Prakash Agarwal:** I understand that I was asking about you give feelers on what was the margin on the contract business and the real estate business?
- K. Balamurugan:** Overall if you look at it on 75:25 ratio of the real estate would be contractual. It is 35:15 which margin 30%. So I do not think any movement has happened with the contractor side. If you look from the same revenue mix was change this quarter it is 70:30 70 being real estate and 30% being contractual.
- Prakash Agarwal:** So could we say real estate margins are still at about 30:35?
- J. C. Sharma:** Yes that will be about 30%.
- Prakash Agarwal:** Thank you Sir.
- Moderator:** Thank you. As there are no further questions from the participants I would now like to hand over the conference back to the management for the closing remarks. Over to you Sir!
- J. C. Sharma:** Thank you for your participation. We look forward to have better quarters from now onwards. We believe that we are doing our level best to come up to the expectation whatever guidelines we are giving, we are working



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towards that. Hopefully this Aspirational series of projects will introduce a new line of project which we can continue with and that should help us in growing faster as we move along. Thank you very much once again.

Moderator:

Thank you very much Sir. Ladies and gentlemen, on behalf of Ambit Capital Private Limited that concludes this conference call. Thank you for joining us. You may now disconnect your lines.