



"Sobha Developers Q1FY15 Earnings Conference Call"

ANALYST

MR. A.S.V. KRISHNAN – AMBIT CAPITAL

MANAGEMENT

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

**MR. GANESH VENKATRAMAN
CHIEF FINANCIAL OFFICER
SOBHA DEVELOPERS LIMITED**

**MR. BALAMURUGAN, IR
SOBHA DEVELOPERS LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Sobha Developers Q1 FY'15 Earnings Conference Call hosted by Ambit Capital. As a reminder all participant lines will be in the listen- only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. A.S.V. Krishnan from Ambit Capital. Thank you and over to you Sir!

A.S.V. Krishnan: Hi and welcome to this first quarter fiscal 2015 earnings conference call for Sobha Developers. It is also my pleasure to welcome the senior management team from Sobha Developers led by Mr. J.C. Sharma, Vice Chairman and Managing Director, Mr. V. Ganesh, the Chief Financial Officer and Mr. Balamurugan, Investor Relations. I am given to understand that the investor presentation and other financial statements have been uploaded on the company's website, so in case some of us have not received the e-mails sent by the IR, I would increase you to access the website and download the presentation and the financial results. I will now request Mr. Sharma to take us through his opening remarks. Mr. Sharma, if you could help us number one, outline the key highlights from the April to June quarter, number two, how the macro environment is in your key put for micro markets and number three, how is Sobha positioned in those key put micro markets, so if you could take us through three it will be great.

J.C. Sharma: Thank you Krishnan and good evening ladies and gentlemen. It is our immense pleasure to communicate with you once again via this conference call hosted by Ambit Capital post declaration of our Q1 financial results. As communicated by Krishnan, we would like to first share the key highlights of our current quarter which has gone by for the quarter ended June 30, 2014. The key highlights are as under:

Our consolidated revenue was Rs. 5.83 billion in this quarter as compared to Rs. 4.63 billion during the corresponding period of the last year, a growth of 26% year-on-year. The income from our real estate operations stood at Rs. 3.51 billion for the quarter ended June 30, 2014 vis-à-vis Rs. 3.49 billion a kind of a flattish quarter for this particular period for three months and most of the new sales which took place in this current quarter did not come for the recognition of the revenue. Mostly, the income got recognized against the presales which had happened by March 31, 2014. The contracts and manufacturing revenue for Q1 FY 2015 stood at Rs. 2.32 billion as compared to Rs. 1.14 billion and our real estate operations contributed 60% of the total revenue while the contracts and manufacturing contributed the rest which was 40%. The EBITDA for the first quarter stood at Rs. 1.58 billion against Rs. 1.4 billion during Q1 FY 2014. The EBITDA margin for the quarter was 27% despite a significant higher contribution coming from the contract and manufacturing division. The EBITDA margin for Q1 FY 2015 was 27.2% against a 30% what we earned in the last financial year same quarter. The profit before tax for Q1 FY 2015 stood at Rs. 903 million against Rs. 843 million for the corresponding period of last year, a growth of 7%. The profit after tax after considering the minority interest was as Rs. 570 million as against Rs. 501 million for the corresponding period of the last year, a growth of 14%. We are also pleased to inform that our unbilled revenue as on June 30, 2014 is Rs. 24.94 billion on the sales achieved so far out of we expect that about Rs. 9 billion will get recognized during the next three quarters of Financial year 2014-2015. We also hope in addition to this income from new sales will as well contribute to our top line. The cash flow for the first quarter was Rs. 5.93 billion and we incurred Rs. 5.19 billion to meet our operational expenditure, leaving a surplus cash flow of Rs. 739 million. The company has utilized towards servicing of interest and taxes to the tune of Rs. 690 million and the advanced payment for land to the tune of Rs. 2.85 billion incurred a general capex of Rs. 88 million and for the commerce real estate to the tune of Rs. 35 million during this current quarter which resulted in our debt going up by about Rs. 2.93 billion which means that the base equity currently stands at 0.65. We repaid Rs. 1.85 billion and now our net debt stands at Rs. 15.31 billion. The current cost of debt is 12.74. We are

confident that as we move along by the year end our debt equity will come down to the stated level of 0.6. I would like to also share the market outlook now before you.

The year started quite weak and the first two months across all markets were not as good as what we have seen in the last quarter of the last financial year as well as the corresponding first quarter of the last financial year. From June onwards we have started seeing improvement in our all micro market except the NCR market. The quarter also was somewhere to be taken in to account from the perspective that no new launches had taken place. The Bangalore market we believe that has been consistently doing well and as we move forward it should do better in times to come. We have also picked up improvement in sales in the Kerala market as well and with the projected launch in Pune as well as in Chennai in the coming quarters we believe that these two markets also should perform better than what we have achieved in the last financial year. We are still not very sure when the Gurgaon market especially or the NCR market should be reviving and the demand should be back. We still do hope that we should be doing better than what we have achieved overall in the last financial year.

Our guidance of achieving new sales of 4 million still remains intact though we have done relatively not as good as what we should have done. We are also aware that the first half normally in the real estate is generally weak and even in good environment the second half should do better and with the improved sentiments it should be doing relatively better. The market sentiment seems to be improving. The customers' inquiries are increasing and this has given us the confidence that the new launches will help us in doing better as we move along. This year our top-line and bottom line also should be better that what we have achieved in the last financial year. Our cash flow also should be better.

Few words about the contracts and manufacturing division: This has performed credibly well in the first quarter and in the remaining three quarters also it should do relatively better and we should be showing double digit growth on an larger base. We believe that we will keep getting new orders as we move along. Our investments on the land bank now more or less have stabilized, so we are not worried as far as our new debts are going up. The debts going will remain at the higher level up to September 30, 201 and thereafter it should start showing the declining trend. As far as the cost inflation is concerned, we have seen some kind of an increase in the labour cost in the current Financial year as well and we have also seen the increase in the cement prices which may have some adverse impact as far as the cost of construction is concerned but we are not unduly worried and we believe that our operating margins of 35% or so in the real estate division and 15% or so in the contracts and manufacturing division we should be able to protect. Now I leave the floor open for all of you to ask us questions. Thank you once again for your patient hearing.

Moderator:

Thank you. Ladies and gentlemen, we will now begin the question and answer session. Anyone who wishes to ask a question may enter * and 1 on their touchtone telephone. If you wish to remove yourself from the question queue you may enter * and 2. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. We have the first question from the line of Akshay Rao from Edelweiss, please go ahead.

Ashish Aggarwal:

Good evening Sir. This is Ashish Aggarwal from Edelweiss, thanks for taking my question. Sir, I had a couple of questions. First was with respect to margins. We have seen the margins have declined consistently over the last two to three years and we are currently having 26-27% as against what we used to have of about 32-33% two years ago. Do we see these margins to revive over the next couple of years, that is the first question and the second was with respect to cash collections in the quarter which has been substantially lower this quarter even vis-à-vis last year same quarter, if you could throw some light on these two, thank you.

- J.C. Sharma:** This quarter if the income composition if you look at the contracting business has contributed about 40% of the top line and the balance had come from the real estate division, so automatically because of that you will see that 1% or so the margin decline at the EBITDA level. As far as 30% margins are concerned we must also note that my contracting income as well as the real estate income both are going up but the impact of the increase in the contracting income is relatively higher, so the core margins on our real estate operations remain okay. There may be small project to project here and there, some small changes are there but we are closely watching it and going forward we believe that there will not be any reduction in the margins, except you find some kind of cost increase. Coming back to the cash flow part, we had collected almost 100 Crores rupees more than what we have billed in our contracting revenue in the last quarter, so somewhere certain advantage what we collected got adjusted where the expenses were incurred in the current year as well against certain new orders at one stage or otherwise sort of thing, so these are temporary mismatch, also we did not get the desired numbers on the new sales, so to that extent whatever money which would have become due on those projects which were sold was not collected primarily the last quarter was because the June month you only collect the booking money and the first two months were electively on low sales the collections also little bit got impacted because of that. As we move forward we are confident that our overall cash flows in this Financial year as well will be higher than what we have achieved in the last Financial year.
- Ashish Aggarwal:** The other one is on, you have mentioned in a particular slide that about 2.2 million square feet is the area which is not offered for sale of the total ongoing projects, so is there any construction that is going on, on those?
- J.C. Sharma:** Not at all. Whatever area which is not offered for sale, no construction activity gets carried out.
- Ashish Aggarwal:** One last question sir, in Gurgaon, obviously we know that volumes are quite weak, so wanted to understand the volume on the total area that we have under ongoing construction which we have offered and the amount that is realizable in terms of sale today if we were to sell it in terms of the work that is already completed, so suppose if we have a million square feet and is 50% complete or is 70% complete if you could give some sense on that.
- Ganesh V.:** Ashish you look at it from a villa project, unlike apartment there is no need for us to incur cost for which I have not sold except the infrastructure cost, to that extent I incur cost on building a villa only when a sale happens.
- Ashish Aggarwal:** So basically we do not have any such amounts in Gurgaon where we would have spent money and we have not sold?
- J.C. Sharma:** Roughly we will be doing on that 150 acres plus, 4 million square feet will be the saleable area. Our interest is about 66-67%. We have already sold 1 million square feet out of that and whatever we have sold we are constructing those villas only, except somewhere some disproportionate expenditure on the infrastructure those has been done on a phase wise basis might have been incurred.
- Moderator:** The next question is from the line of Swagato Ghosh from Jefferies, please go ahead.
- Anand:** Good evening everyone, this is Anand here. Sir on the land acquisition just wanted to understand, one, what are the plans for the rest of the year, and second, out of the 314 Crores payable how much of it do you expect to pay this year?
- J.C. Sharma:** It is a good question Anand. As far as this 314 Crores balance payment is concerned about 50% we have already paid to Puravankara, another 50% will become due which will be to the tune of about 167 Crores. This is not likely to be paid in this current Financial year.

As far as the others that were small we have paid about 16 odd Crores for my Pune land, the residual money has been paid in this quarter. There is no further payment to be made against this, then some residual payment against the existing commitment. These two are the largest payment out of the 314 Crores that we will keep incurring which will not be significant at all.

Anand: Did you also acquire some land in Bangalore in this quarter?

J.C. Sharma: Not much, some joint development agreement we might have done.

Anand: In terms of the rest of the nine months, are you looking to do more land acquisition or are you happy with this year largely?

J.C. Sharma: Prima facie we have done away with the new land acquisition. We can look at some opportunities here and there but that will be relatively small, the kind of outflow which had taken place so far will not be repeated.

Anand: Sir in terms of our experience in the last two or three quarters in terms of presales do we attribute all of that to only a weak market or also to our product mix that is available and if so how are we trying to set that right especially in Bangalore?

J.C. Sharma: It is again a good question, prima facie it is the weak market, one has to look at, otherwise like my average realization was better and initially at the time of the launch of Indraprastha one of the higher sides product or even Gurgaon also if you take out the last year's performance kind of thing we did 500 Crores of new sales at a higher price, so generally if you look at it is not the product but the weaker market sentiment which has impacted the lower sales. To answer your second question also which is also important, now with the new launches starting with Silicon Oasis Valley View and Arena that gap also has been bridged reasonably well and we do not foresee that kind of a problem. If at all, something is attributed due to the product mix.

Anand: Third on the revenue recognition on the real estate side, when do we start seeing that big jump, in Q2, Q3, because given how much is to come for recognition, when do the projects start crossing the threshold?

J.C. Sharma: About 900 Crores should be coming as far as the existing sales are concerned, so out of 2500 Crores of unbilled revenue roughly 900 Crores will come automatically in this Financial year even if we do not do any new sales, that takes care of more or less what we achieved in the last financial year from the existing sales, then whatever new sales which happens and which gets recognized either in the projects which qualify for the revenue recognition or which do not qualify for the revenue recognition that difference you cannot make right now but to that extent you will see clear improvement in the topline as far as real estate revenue is concerned. I think this answers your question.

Anand: Any comment on how much you intend to spend on CSR and aircraft related this year; will it be similar levels as last year or lower or higher?

J.C. Sharma: Normally CSR stroke 80G part we do to the extent we are allowed to do prima facie, so that should continue. As far as aircraft expenditure is also concerned it is only on an actual cost basis there is no margin being passed on, so it may be same, it may be lower or it may be somewhat little bit higher as well but then hopefully from the next year onwards we believe that this cost will start showing a downward trend.

Moderator: Thank you. The next question is from the line of Puneet Jain from Goldman Sachs, please go ahead.

- Puneet Jain:** Good evening Sir. My first question is actually with respect to the land cost, so the total land outgo in this quarter is 2.85 billion while with respect to Kochi it is 1.6 billion rupees, if my numbers are correct, so did you acquire, where else did you acquire land in this quarter?
- J.C. Sharma:** Thereafter we also acquired land in Pune as well where the projects would be launched in the next month on Kothrud Cord Road and on top of this some balance payments here and there and some joint development related payments we have made, significant parts of payments is towards that 167 Crores Puravankara, then the residual is primarily next significant is on the Pune land acquisition and the remaining residual on some joint development stroke, some balance payments here and there. Pune is 66 Crores.
- Puneet Jain:** When do you plan to launch the Marine Drive property and Chennai property because these are the larger sized launches which you have planned?
- J.C. Sharma:** As far as Chennai projects are concerned after the building collapse which had taken place about one, one-and-a-half months back, most of the CMDA guys they are looking at the existing projects and trying to find out whether there have been certain violations or not, because of that the approval process we are behind about 3 months or so. We thought in this quarter we should have launched two projects, one project may still be launched, otherwise in the coming quarter as well as this financial year all the three projects should be launched. As far as Marine Drive project is concerned, all the applications with all the authorities are there, meeting has taken place, in principle certain approvals have also happened. We hope that the plan approval should be in place before this calendar year is out.
- Puneet Jain:** What is the expected selling price and construction cost for this project?
- J.C. Sharma:** As far as the selling price is concerned it will be a bit premature but in Cochin in our existing project Vyttila we are currently realizing above 7500 rupees per square feet as the minimum realization, so going forward we believe that here the realization should be not less than 10,000 rupees as we move forward and our stated margins what we look for will definitely be more than protected in this project.
- Puneet Jain:** One final question on your presales, you have 4.8 billion rupees in the first quarter, now for you to achieve the guidance you will have to do around 7 billion per quarter on average in the next three quarters which will be higher than the highest that you have done in the past, so just wanted to get some idea that what gives you confidence that this will be achieved on a consistent basis going forward?
- J.C. Sharma:** It is a good point, primarily we believe that this year the Kerala market should do quite well, we also believe that the Chennai market also once this project gets launched should start showing improvement and even the Bangalore market though which was not doing as well, actually in the first two months of this Financial year should make up, then the number of launches this time we are far more prepared than we were in any given during the last couple of years or so should help us to give us this kind of volume and value.
- Puneet Jain:** This improvement is possibly expected in the second half or some improvement will also be expected from this quarter onwards?
- J.C. Sharma:** Definitely, this quarter onwards improvement will be there but better improvement you can see from the next quarter onwards when the couple of launches happens in all the cities like in Pune one project is going to be launched, in Thrissur one more project is getting launched, right in Chennai three projects are getting launched, in Kochi one more project is getting launched as well as in Bangalore four to five projects are getting launched, so the cumulative impact of that will be that except NCR we believe that we

should be doing better in all our micro markets in this Financial year than what we achieved last year.

Moderator: The next question is from the line of Puneet Gulati from HSBC, please go ahead.

Puneet Gulati: Thank you, just very quickly, how much have you spent so far on APMC?

J.C. Sharma: We have hardly spent anything in this current quarter and we have spent so far totally 2 Crores. It is a small number.

Puneet Gulati: Okay so construction wise nothing much has been done so far, is it?

J.C. Sharma: Nothing.

Puneet Gulati: You included that 314 Crores is payable for land of which 162 Crores is already paid?

J.C. Sharma: No. We said that 66 Crores we have already paid for Pune and the remaining 40 Crores and odd money has been paid as far as the Pune land is concerned, another 162 Crores principal and some stamp duty and other charges will be paid only in the next Financial year.

Puneet Gulati: Okay, this is only for the Pune land?

Ganesh V.: 40 Crores is only for the Pune land.

Puneet Gulati: Can you give me a sense of what is the capex planned, construction spend for this year, balance nine months?

Ganesh V.: Capex plan on average we spend about 80 to 100 Crores for Capex per year; that is on the real estate capex. Now as far as the commercial capex goes which is St. Marks Road, the overall cost of St. Marks Road is about 100 Crores but this year we started spending on that, APMC I think would come in. St. Marks Road we would see as it pans out. So far including the land what is lying in balance sheet 44 Crores for St. Marks Road in the balance sheet, so we will see as we go along as to how much we spend on that.

Puneet Gulati: So that is not final as of now?

Ganesh V.: Yes.

Puneet Gulati: You also included to the fact that there were couple of projects which were supposed to be launched in Q1 and got delayed. Which are those projects and what is the visibility of their launch in Q2?

J.C. Sharma: What I was telling was with reference to the Chennai project launches where because of one building have collapsed in the last quarter, process has come to a full standstill, so because of this above there is a one quarter delay in the project launches as far as Chennai is concerned.

Puneet Gulati: Okay, Bangalore any plans to launch this quarter?

J.C. Sharma: We have already launched one project, Arena, in Bangalore and going forward there are four to five projects which will also get launched.

Puneet Gulati: In this quarter itself?

J.C. Sharma: Not in this quarter. During this financial year.

- Puneet Gulati:** Any expectation for this quarter launch, we are already midway through almost?
- J.C. Sharma:** For this quarter as we said one project in Arena we have launched, one project in Thrissur we have launched and next month we are launching in Pune, Kothrud.
- Puneet Gulati:** Lastly the net realization for NCR seems to have gone down, is it reflection of any price cuts that you could have taken there?
- Ganesh V.:** Only because of the product mix, we have row houses and villas and Duplex villas kind of concept, it is because of the product mix which we have sold, nothing else.
- Puneet Gulati:** That difference, is it, 11360 to 10450, almost 1000 rupees a square feet difference?
- J.C. Sharma:** It may be on a lower base, somewhere here and there something might be there, but there is no reduction in the price anywhere including NCR.
- Moderator:** The next question is from the line of Gunjan Prithyani from JP Morgan, please go ahead.
- Gunjan Prithyani:** Hi, thanks for taking my question, just on the real estate revenue recognition it just seems to be very low at 350 Crores, I mean, even if the presales for this quarter were low I understand they don't contribute to the P&L at this point of time but we have had very good three years in terms of presales, even assuming the last two years per quarter presales it is close to about 500 Crores per real estate, was this that our revenue recognition has come off to 350 Crores, so is there something, is there any execution issue or is there a large chunky project which is not contributing, when do you see this revenue recognition actually stabilizing to our pre sale run rate?
- Ganesh V.:** There are three components in revenue recognition. One is incremental construction happening on what has been sold as is happening, second is the contribution from new sales and third part is where lumpiness would come in when you recognize revenue when a project reaches 25% threshold. If you compare just on the plain incremental completion you will see that data is that actually compared to last year Q1, this year Q1, the revenues has gone up by 50 Crores which means theoretically assuming that contribution from new sales and faster revenue recognition are same the revenue actually would have gone 50 Crores. What happened was in this quarter there was a decline as Sharma Ji said on new sales, so we had a 21 Crores decline from new sales and as far as the project reaching threshold we had 14 Crores revenue this year whereas vis-à-vis 35 Crores last year, so whatever increase happened in the phase of construction got eaten away by lesser contribution from new sales and revenue recognition threshold, that is the reason, otherwise you would have seen actually revenue going up.
- J.C. Sharma:** To complement your point, Gunjan, you have a point as such also; I think some of the analysts have been communicated by Bala when he talks to them. When we collect 100 rupees from the customer if I remember it correctly two, three years back this VAT, this service tax and the registration charges etc., they used to be routed through as income and as cost. Now, while from customers cash flow point of view they come to us and while we don't consider stamp duty registration charges in the sale value and maintenance deposit we do consider the VAT and service tax component but while passing the income entry that gets eliminated, so the income is the net income. It is not the gross income part.
- Gunjan Prithyani:** Sir, I understand that it is inclusive of taxes and revenue recognition will net of taxes, that is the point that I understand but my only issue is that even adjusted for that if I look at the pre-sale run rate it has been, you have been doing more than 2000 Crores for two years now, even if I adjust for that your per quarter revenue recognition, your per quarter pre sale run rate is close to about 450 Crores even net of taxes, so I just don't understand why is the gap so much between the presales and revenue recognition when we have continued this run rate for almost two years now because 350 Crores number seems a

little low to me, so I just wanted to get some sense, is there some project where there has been an execution delay?

J.C. Sharma: So, if you look at the project Indraprastha was launched in the year 2012-2013, revenue is yet to be recognized. Vis-à-vis The Palladium also what we have launched in the last year beginning or maybe prior to that kind of thing the income is yet to be recognized, two larger projects where the inc is yet to be recognized.

Gunjan Prithyani: One was Palladium and which was the other one Sir?

J.C. Sharma: Indraprastha

Gunjan Prithyani: Both were the high value launches which contributed to pre sales last year?

J.C. Sharma: You are right. In Delhi also some of the phase second phase where the expenses have been incurred some revenues are yet to be recognized where sales have happened.

Gunjan Prithyani: When do you see these three especially Indraprastha and Palladium when do you see these two projects contributing to the P&L?

J.C. Sharma: All these projects will come for revenue recognition in the current financial year that is why we say that about 300 Crores has already come from the existing sales and another about 900 Crores should come from the presales as well if you don't get any sales till 900 Crores worth of new sales.

Gunjan Prithyani: Sir in the release you have mentioned that you were served some income tax notice in this quarter, could you throw some light on what this issue is and what is amount under dispute?

J.C. Sharma: There is no issue, the authorities had come in the month of October to look in to our books of accounts and then they have asked us to revise the return for the last six years. We have received the notice under section 153 A and we have filed a return where we believe that there is no cash outflow, some pending difference may be there because of which individual year wise some tax computation will change but it will not have any impact on the provisioning or in the cash outflow for the previous year as well as for the current year.

Gunjan Prithyani: Sir, lastly on the presales, I know this has been asked a couple of times but I just wanted to understand from you is it that we have a product portfolio which is at a fairly premium end which is above 2 Crores that is the reason for the moderation we saw in Q1 even in our Bangalore projects, is that an issue and is it that we are now making a deliberate attempt that we will have product portfolio which is in the range of let us say one, one-and-a-half Crores or below one Crores, is this strategy for the remainder of the launches?

J.C. Sharma: If you look at what was the product portfolio we have surplus we have been giving this information for the last six, seven quarters. As such in the last year also we do not have that kind of a high value launch but when the sales gets impacted what we have observed, this is what I said, even the affordable homes get affected and even the premium homes get affected. Generally speaking macro environment except in case of Bangalore all other markets got impacted irrespective of the price point but we did recognize that in our portfolio we needed to have more products which can qualify as affordable from the Bangalore market perspective and that way when the project launch took place of Silicon Oasis, Bellevue as well as Arena an attempt was made to see that we have a fair amount of product ranges starting from about 1 Crores to whatever we have shown in our presentation. Going forward if the demand improves you will see improvement in sales in all categories. For example in Kochi the product size starts from 7500 rupees but we

believe that it should do well and likewise wherever we will have a low price product when the sentiments improve that should do better and it will also be supplemented and complemented by the lower price product.

Moderator: Thank you. The next question is from the line of Adhidev Chattopadhyay from HDFC Securities, please go ahead.

Adhidev C.: Thanks for taking my questions. My first question is pertaining to the tax rate, again it is high this quarter around 36 odd percent, it was high for the entire last year, so do we see this continuing or do we see it tapering down the remainder of the year?

J.C. Sharma: It is again a timing difference. The profits being shown in the subsidiary companies that gets cancelled whereas because 100% subsidiary is my Forest View, 100% subsidiary is my Thrissur project, Palladian still we have not yet recognized the revenue whereas the tax component gets added when we are consolidating the books, these are timing differences because of that you are seeing this temporarily higher tax rate than what it should be.

Adhidev C.: Then when do we see this coming down?

J.C. Sharma: It is a point. As I said the timing difference automatically gets evened out during the lifespan of this project.

Adhidev C.: Second question, from the annual report we have got around 260 odd Crores of refundable deposits with landowners, so do we see any of that coming back to us in the next couple of years if you would give us some clarity on that?

J.C. Sharma: Some of the refundable deposits will start coming as the project has been launched along with the project completion. This includes the refundable advances what we have paid, say for example for our Gurgaon project as well and all these things will either get adjusted along with the revenue or at the time of the project completion.

Adhidev C.: Last question pertaining to the land purchase during the quarter, out of the total spend on land how much would have been the deposits given to landowners if I exclude Kochi and Pune payments and what would be the balance payments to the landowners for the rest of the year?

J.C. Sharma: Last question pertaining to the land purchase during the quarter, out of the total spend on land how much would have been the deposits given to landowners if I exclude Kochi and Pune payments and what would be the balance payments to the landowners for the rest of the year?

J.C. Sharma: About 40-45 Crores would have been against the refundable category and the rest has been paid towards purchase of the land.

Adhidev C.: Sir, for the remainder of the year how much would that figure be roughly?

J.C. Sharma: As I said there are no commitments as far as the procurement of the land is concerned and joint development related things or where we have agreed to buy the land some small payments here and there may be there.

Adhidev C.: Sir I was asking the question because you said you have lot of launches coming up in the rest of the year, so it was in that context. So you are saying that even in terms of deposits there will hardly be any incremental ones.

J.C. Sharma: There will be some increase here and there but the kind of increase what you have seen in this quarter will not be there.

- Moderator:** Thank you. The next question is from the line of Samar Sarda from Kotak Securities, please go ahead.
- Samar Sarda:** Good evening everybody. I had a few questions. One, in your press release as well as your initial comments you mentioned you intend to bring down your debt equity to 0.6 by the end of the year, now how do we intend to do that?
- J.C. Sharma:** The first quarter cash flow has been lower than what we hoped that the whole cash flow will be there for the whole year. Our sales were also lower than what we hoped that we will be achieving in the whole Financial year. Our outflow for the current quarter has been higher because of the investments what we have made which we do not wish to do of that intensity kind of such thing, so if you add one, two, three sort of thing the scenario what emerges like normally you see in the last year, last quarter also with the improvement in the cash flow whereas the outflow more or less operational will remain consistent with the operations we hope to see that our debt equity comes down to the stated level.
- Samar Sarda:** Does that also mean your investment for capex for APMC would be close to nothing during the year?
- J.C. Sharma:** There will be hardly anything which will warrant any kind of an impact on the debt equity ratio, on the cash flow position as far as APMC project is concerned. As far as normal capex or the St. Marks Road project is concerned it is already factored because we have already plans for that how we are going to spend the money on this project.
- Samar Sarda:** Sir I am assuming there will be growth in the revenue recognition as well as the net income, your gross debt actually went up by some amount in this quarter obviously because of the land, so does that mean by the end of the year your gross debt will actually come down to round about 1500-1550 Crores?
- J.C. Sharma:** It has to be around 0.6 and if you are going to do better you are right, the net debt, not the gross debt kind of thing should be around what numbers you are communicating.
- Samar Sarda:** Sir my second question was with regards to the completions, which projects were completed during the quarter, the two real estate projects?
- J.C. Sharma:** Sobha Dew flower in Bangalore and Sobha Landscape at Bangalore.
- Samar Sarda:** Do we have inventories left at these projects?
- J.C. Sharma:** Landscape yes, there are some plots which are left out.
- Samar Sarda:** If I see the land addition excluding the Kochi and Pune land addition, it has been roughly 1.9 million square feet which has been added in Bangalore and 1.3 million square feet is our share, so one you have mentioned in the presentation Padmanabha Nagar which I assume is a new land parcel, is there another big land parcel which you have added in this quarter in Bangalore?
- J.C. Sharma:** There are a couple of land parcels which have been added in Bangalore and those are reflected in the land bank.
- Samar Sarda:** Sir last question on the cash flows, if you could once again outline what will be your collections targets for FY 2015 purely from the residential real estate business and what would be the construction outgo only for the real estate business?
- J.C. Sharma:** Normally I can give it to you after Ganesh looks in to that but primarily we will be spending more on the construction this Financial year and the real estate revenue also

will be higher than what we have achieved in the last Financial year, that much I can say with confidence.

Samar Sarda: Sir just one thing on the approvals, like if you have to put a number, like I know for different projects it can be little different but a blended average number with regards to the official approval cost which you pay in Bangalore so per square foot what would be the cost usually?

J.C. Sharma: Around Rs. 100 per square feet.

Moderator: The next question is from the line of Abhinav Sinha from CLSA, please go ahead.

Abhinav Sinha : Thanks for taking my question, my question is on the commercial contractual side of business, here the order book that the company has come down on a year-on-year basis in the current quarter and you are still doing for a rise in revenues particularly Q1 has been fairly strong here, are we expecting flattish revenue for the next nine months here?

J.C. Sharma: I think the overall revenue will be definitely higher than what we have achieved and there are certain projects in the pipeline, so till you get a firm order I may not be able to say but we believe that as the year progresses the order book also will be better and going forward the top line also will be better.

Abhinav Sinha : Secondly my question is on the pricing environment in Bangalore residential, how is the higher end-segment doing here say with respect to medium-end segment and secondly do you think overall your portfolio should have enough pricing traction to mitigate the cost impact in the year?

J.C. Sharma: We believe that normally the prices of A grade developers in the locations where all of us operate there is about 5 to 10% difference between the A-grade developers and within that everybody is selling relatively better at the time of the project launch and then on merit those projects sell. Our track record if you look at we are having an inventory of 0.2 million square feet out of that 0.16 is on the plotter development where completion has been faster and the regulatory losses that you do the infrastructure then only the projects gets released so once you do the infrastructure your cost is complete but you are not permitted to sell the 40% of the plots, because of that you have to show that unsold inventory. On the apartment side we do not carry much of the inventory in all categories. Going forward also the same kind of scenario should continue. Of course the suite price point will be again 1700 to 1800 square feet of an apartment which should be sold around 1 Crores plus minus 10%.

Abhinav Sinha: So margins will still be holding fairly well this year right?

J.C. Sharma: Margins we believe that yes it should not get impacted though we are still apprehensive that the cement manufacturers have not been able to succeed we hear from here and there some business also they are losing after increasing the prices sort of thing, so presuming that the prices do not go up further from where we are right now we should be able to hold on to the margins.

Abhinav Sinha : Sir one last question with the launches now incrementally coming from Pune and Chennai this year will Bangalore component fall going forward?

J.C. Sharma: If you look at Bangalore component still will be the highest this year but we will be having a higher than the normal launches in the other regions this time also which gives us the feeling that in other regions also we will do relatively better and that should help us in achieving what we have set out for ourselves in this financial year.

- Moderator:** The next question is from the line of Shashikiran Rao from Standard Chartered Securities, please go ahead.
- Shashikiran Rao:** Thanks for taking my question sir, just to recap which are the projects that are likely to come in for revenue recognition in the next quarter and for the rest of the year?
- Ganesh V.:** For the rest of the year I think you would see Indraprastha would come in, then you would see Delhi one phase coming out on revenue recognition, Palladium should come through, Forest View should come through and also Silicon Oasis may be a touch and go by the end of the year to see revenue recognition would come or not.
- Shashikiran Rao:** Sir question on St. Marks Road you have been spending hardly like 3 Crores per quarter, so when will a significant jump in capex in this property come in?
- J.C. Sharma:** This is a CBD property where there are lots of restrictions on the construction activity and we are going for the first time in Bangalore five basements, so the diaphragm retaining wall has taken almost one year and now the marked extrusion work is going on. It is a low lying area and water table is very high, that means the excavation process is also going relatively slow, so this year we believe that we will be coming up at the most to the ground level, the plinth level sort of thing, so do not envisage very high expenditure.
- Moderator:** The next question is from the line of Sachi Prakash from ICRA, please go ahead.
- Sachi Prakash:** Good evening sir, I basically wanted to know more about the commercial projects, for the St. Marks Road project you mentioned that you have incurred about 44 Crores, there is also another commercial project that is going on in Kerala, so could you tell us more about it, how much outflow has happened about for that project?
- Ganesh V.:** As far as St. Marks Road Sharma Ji confirmed to, as far as Thrissur commercial part, since we are selling a major part of it, it would come as part of real estate revenue for us. As far as expenditure goes substantial amount has been spent because the structure has been replaced. Only the finishing work is in progress.
- Sachi Prakash:** Will this property be ready in the next quarter?
- J.C. Sharma:** Yes. We have started handing over this mall to the would-be occupiers who have taken either on lease or who have purchased and the mall will be officially launched in this calendar year only. It is almost complete.
- Sachi Prakash:** There is also a residential project Sobha City, what are the timelines for that, has construction started on that or is that yet to be launched?
- J.C. Sharma:** There also not only the construction is launched, the last Sobha City Tower is about to get completed whereas another project is being launched, Lake Edge in this financial year in Thrissur in the same place.
- Moderator:** The next question is from the line of Sameer Baisiwala from Morgan Stanley, please go ahead.
- Sameer Baisiwala:** Good evening Sir, quick questions, what sets apart NCR market from the rest of the other cities that you are operating in, in terms of slowdown and what is it that will take to revive it?
- J.C. Sharma:** Whatever little bit we have understood the NCR market is set apart primarily on account of two reasons. One is that the initial buyers are mostly investors which is not the case especially in our case but that is what generally we have seen. The initial buyers initially get locked in between 12 months to 24 months. No sooner the locking period is over

they start reselling. Unfortunately, this time because the prices continue to keep rising in Gurgaon till the last year and at that price sales are not happening. As and when the lock-in period is over the secondary market sale is quite high at a lower price than what most of the developers are selling and because of that you are seeing generally most of the developers are not being able to book their sales because already they have booked the sales with these first set of buyers. When we look at these customers versus all other micro markets where we operate the guys are not the guys who buy a tower or who buys a floor like they buy in individual apartment there is a transfer fee involved, there is a 30% payment involved at the time of booking small booking money and thereafter within two months about 25 to 30% and they do not have that kind of market to sell. In our case we have observed in all other market that projects get completed and hardly 5% people uphold the transfer, otherwise most of them they own the apartment, they register the apartment and thereafter if at all they go for resale they go for resale or they occupy or they keep it vacant or they give it on the rental basis, so the second sale is very, very less.

Sameer Baisiwala: Sir what would get NCR back and probably the related one is what is the price difference between what the developer is selling which is primary and the secondary market rate just to see that what kind of price correction is required to revive it?

J.C. Sharma: I think you have better means to check this information but my sense is that there is a minimum difference of 15 to 20% between the secondary market sale and with the developer price point.

Sameer Baisiwala: Sir in the last conference call you had mentioned that on May 28 you were planning to have a meeting with the Kerala Government with regards to Island Project, is there an update on that?

J.C. Sharma: Yes there is an update on that. The Kerala Government has issued a notification on the request of Sobha Developers and one more company that all these development which are coming up to promote employment opportunities in this state and to revive the industry and commercial growth can be granted, this 4.5 FSI if I remember it correctly and the commercial component will be as little as 1 square feet to 5 square feet kind of a ratio, so that augurs well, now there is another clearance which is pertaining to the environment part which we have taken up with the authorities, once that is done then more or less that is what we have been asked to do, we are through with all the approval process principally from the government's policy point of view.

Sameer Baisiwala: When do you see this getting to the market?

J.C. Sharma: Hopefully next year we will have a much greater clarity about what we are going to do there.

Moderator: The last question is from the line of Tejas Sheth from Emkay Global, please go ahead.

Tejas Sheth: Good evening Sir, this quarter we have spent the highest towards construction when it comes to real estate development projects but we have not seen the same in terms of our collection, my question is the part of this construction cost going towards joint development partner share and hence our collection is not growing at the rate at which our construction cost is growing?

J.C. Sharma: We would not say that. The construction cost put together both on the real estate and the contracts we have to take in to account. In case of the contracts it is only the construction cost that we incur because the land component is not there and this quarter has been the best quarter from the revenue recognition point of view, to an extent some extra expenditure might have been incurred.

- Tejas Sheth:** Sir my question is pertaining to your 303 Crores which you have spent towards real estate part of the business while your collection is 462 Crores which is not the highest, when you are spending so much your collection should be at a much higher rate because you reached that milestone collection payment, so is not that share higher of the JD partner and hence your collection is not reviving at the rate at which you are spending?
- J.C. Sharma:** I think you have to see that there is a larger base. The JD partners in our total portfolio is less than 20%, so it cannot be more higher than that part out of the thing, as far as cash flow is concerned the payment becomes due within two months' time, prima facie it was as I keep saying the month of April and May were not as good because we have started with low sales your cash flow also got impacted in the current quarter whereas the construction cost you keep incurring to maintain the momentum and to ensure that there are no delays on the ongoing projects what you have taken up for completion.
- Moderator:** Ladies and gentlemen, that was the last question. I would now like to hand the floor back to Mr.A.S.V. Krishnan for closing comments, please go ahead Sir.
- A.S.V. Krishnan:** It has been a pleasure to host the senior management team from Sobha Developers on their Earnings Call once again. We look forward to your comments and performance of the company over the rest of this year. Thanks a lot for joining us on the call.
- J.C. Sharma:** Thank you Krishnan and thank you all of you for participating in this call.
- Moderator:** Thank you gentleman. Ladies and gentlemen, on behalf of Ambit Capital that concludes this conference call. Thank you for joining us and you may now disconnect your lines. Thank you.