# “Sobha Developers Results Conference Call”

## November 14, 2011

**MODERATORS: MR. DHRUV SABHARWAL**

**MR. J. C. SHARMA, MANAGING DIRECTOR**

**MR. BAASKARAN, CFO**

**MR. KISHORE KAYARAT, COMPANY SECRETARY AND COMPLIANCE OFFICER.**

**Moderator:** Ladies and gentlemen, good evening and welcome to the Sobha Developers Q2 FY12 Results Conference Call, hosted by Tata Securities Limited. As a reminder, for the duration of this conference all participants' line will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should 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.

At this time, I would like to hand the conference over to Mr. Dhruva Sabharwal from Tata Securities. Thank you, and over to you, sir.

**Dhruva Sabharwal:** Thank you Terence, and good evening everyone on behalf of Tata Securities, let me welcome all of you to the earnings call of Sobha Developers Limited 2QFY12. Today we have with us Mr. J. C. Sharma, Managing Director, Mr. Baaskaran, CFO and Mr. Kishore Kayarat, Company Secretary and Compliance Officer. Without any further delay let me handover the floor to Mr. J. C. Sharma for his opening remarks. Over to you sir.

**J. C. Sharma:** Good evening everyone. We are happy to invite you for this con call hosted by Tata Securities post declaring our limited review of second quarter results for the financial year '11, '12. As we have communicated earlier during this current quarter we have sold 936,319 square feet of new space compared to 665,660 square feet during the first quarter and 744,678 square feet during the corresponding period of the last year. This growth is 41% quarter-on-quarter and 26% year-on-year on volume front.

Also during this quarter we have seen an improved price realization of Rs. 5,196 square feet compared to Rs. 4,547 square feet during Q1-12, and Rs.3,684 square feet during the corresponding period of the last year. The improvement in price realization is up by 14% on quarter-on-quarter sequentially and 41% year-on-year basis. This has resulted in achieving new sales value of Rs.486.5 crores during the second quarter compared to Rs. 302.7 crores in the first quarter and Rs. 274.4 crores during the corresponding period of the last year. We feel that this kind of volume definitely will help us in the coming quarters as we start booking our income and margins from these new sales.

During the second quarter we have launched four new projects of about 5.13 million square feet, we have also entered into a new location to Gurgaon in NCR. We have met with good response there as well. We have launched cumulatively 8.61 million square feet during the first half of the current financial year, which is highest ever in the history of our company. And we have also launched about 12 million square feet in the last four quarters which is again a record. Company currently had 16 million plus square feet of project ongoing 45 numbers to be precise.

During the second quarter as far as P&L account is concerned we have recorded a top line of Rs. 333 crores out of which 214 crores has come from real estate operation and Rs. 115 crores from contracting and manufacturing activities. Rs. 3 crores we have also realized through as other income. The real estate operations have contributed about 64% of our revenue and the balance had come from contract and manufacturing business.

This real estate top line of 214 crores, if you compare it with the preceding quarters it was 195 crores and if you compare it with the last year - without considering the land monetization of 114 crores, it was 223 crores. Therefore, our top line had grown 10% quarter-on-quarter and had shown a marginal decline of 4% compared to the corresponding quarter of the last year, if we exclude the monetization of the land. There has been an overall decline in the real estate income in the current quarter compare to the corresponding quarter of the last year because of this monetization aspect only.

As far as profit before tax is concerned, this quarter we have booked it to the extent of Rs. 59 crores compared to Rs. 45 crores in the preceding quarter and Rs. 45.6 crores during the corresponding quarter of the last year. Excluding monetization of land benefit, profit after tax stood at Rs.40.9 crores, profit before tax has grown by 31% quarter-on-quarter and 30% year-on-year basis. We are a full tax paying company since last two quarters.

Despite increase in the input cost, interest rates, non-availability of quality man power and labor, lesser availability of credit limits from the banking sector to our industry, we have been able to perform credibly in the last quarter, and our EBITDA margins are also up and they were 24% in the current quarter. We have achieved new sales of 1.6 million square feet, equivalent to Rs.789 crores during the first half. We are also able to recognize during this period real estate income of 453 crores. Please note that we have not yet booked construction income on our sold space to the extent of 1.75 million square feet which we have sold in last two, three quarter. Here the construction activities have started but we have not yet been to reach our threshold limit of 25%.

The company during the second quarter generated 127 crores of cash from operating activities. The company also invested Rs. 57 crores in subsidiaries and Rs. 46 crores in fixed assets due to increased activity at the construction levels. We also paid dividend of about 34 crores plus including dividend tax during this quarter under reference. Our net debt as on 30th September 2011 stands at Rs. 1,362 crores and now debt equity ratio stands at 0.7121. The average cost of borrowings is about 13.98 closer to 14%. We remain confident that overall debt will start showing decline in the next few quarters due to better cash flows expected from the sales what we have received in the last two quarters.

Subsequent to buying back of equity from Pan Atlantic, Sobha had become the holding company of SDPPL and we should be showing this at our subsidiary company from the next quarter onwards. As I have mentioned as far as our real estate is concerned we have 45 ongoing projects consisting of 16.16 million square feet, out of this 13.77 million square feet off space will be booked in our account at saleable area, we have already sold 4.22 million square feet and 9.55 million square feet remains to be sold from this ongoing projects.

In addition to this we have an inventory of about 120,000 square feet on completed projects. We expect to realize from our existing customers about 1,100 crores in the course of this project cycle, and we also expect about 6,432 crores from the unsold inventory over a period of next three years based on our current selling prices. We also expect to incur about 3,733 crores as construction cost based our current estimates to complete all our ongoing projects, which means that we will be left with about 3,797 crores as operational cash flow in the course of the next three years, when this inventory is fully exhausted. During this quarter we have completed only one real estate project measuring about 0.05 million square feet.

As far as contracts and manufacturing activities are concerned we have orders on hand to be executed for about 12.6 million square feet valued at about Rs. 975 crores. In this quarter we bid new orders worth about 12 crores from companies like Wipro, SKF and others, which is outside the Infosys. We have 9 million square feet of contractual projects to be delivered in next 2 to 2.5 years. We feel that, this activity will continue to grow and should give us a stabilized income, which in this financial year we expect to have about 500 crore.

During this quarter, we've handed over five contractual project. As things till today Sobha had completed 43.34 million square feet of built-up area, consisting of about 18.76 million square feet in real estate, and 24.58 million square feet in our contracts. We are also executing 16.16 million square feet in the real estate and about 9 million square feet in contract. We have met all our obligations in servicing the interest and principles during this year. We are also confident of meeting our balance repayment obligations which approximately stands at about 280 crore in the remaining six months.

We once again thank you for your patient hearing and participation. We also leave the floor for further question and answer session.

**Moderator:** Thank you. We will now begin with the question and answer session. Participants who do wish to ask a question may please press "*" and "1" on their touchtone telephone. If you wish to remove yourself from your question queue, please press "*" and "2". Participants are requested to use only handsets while asking a question. Anyone who has the question may please press "*" and "1". Thank you. We have the first question from the line of Unmesh Sharma from Macquarie. Please go ahead.

**Unmesh Sharma:** Sir, thank you very much for taking my questions. I have four. One, towards the end of your presentation you talked about the reduction in debt for the rest of the year, can you also provide us with some target that you have for the next year which is FY13, in terms of either how much debt that you want to pay back or till what level you want to go to.

The second is that, you also pointed out that some of your projects have not reached 25% threshold, now for the rest of the year which projects do you think will be able to cross this threshold for FY12? The third is more general question. This is regarding the Bangalore market. I think we've seen a lot more negativity in the press reports as compared to either your or your competitor sales numbers are on leaving trends. So, given the environment of slowdown in the U.S., have you seen any signs of a slowdown in either contracting activity or leasing activity in Bangalore would suggest that we may be heading into a slowdown? Thank you.

**J.C. Sharma:** Three questions only, one more I think you've forgotten.

**Unmesh Sharma:** No, sorry this price trend in Bangalore and then this slowdown in Bangalore so that is basically.

**J.C. Sharma:** Okay, okay. See, as far as the debt reduction is concerned, we have given a stated target that we must achieve 0.5 debt equity in the coming quarter. And we feel that from this quarter onwards the debt must start showing reduction in the overall basis as well as on the ratio basis. This is primarily based on the improved cash flow that we expect from the existing customers who have done booking in the past three, four months and to the increased construction activity as well. The company hopes to achieve the 25% threshold primarily from the Sobha Forest View in the coming quarter.

We were just launched Bangalore and there maybe one or two more projects like Sobha Ivory in Pune and Sobha City Commercial in Thrissur where this threshold limit will also be reached. As far as the guidelines for 2012, 2013 is concerned, we feel that this year we are well on our target of achieving 3 million square feet plus of new sales achieving 15,000 crore plus of in value terms, reducing the debt also like we did it in the last year and improve the realization as well as improve the margins, in the tough environment. We hope that we are well on course in achieving that.

As far as the slowdown or the negative report or whatever we have been hearing overall, we do find that the market remains challenging and it was like that, even in the first half as well. But till October 2011, we feel that whatever we have achieved gives us that conviction and confident that there is a resilience and if you can kindly look at our presentation the people who have been doing booking with us since last one year we tracked, how do they fund this purchases, but quite pleasing to know that about 49% of the customers they have been able to get funded to their own resources. Even though we did a product prices though vis-à-vis when compare to Delhi or Mumbai remains quite reasonable, but still we are selling a 1 crore plus on an average ticket size product.

We find that if 49% of them can afford, the market had the required debt which is not been observed by most of the observers. As far as the slowdown in the IT sector is concerned, we are not seeing the same to the contrary we feel that from next year onwards after a long gap, one of the prime software company, that is Infosys, will start its campus in Bangalore, which will be housing thousands of people and it is likely to be their largest ever campus. Similarly the other Bangalore based company also hopes to launch its project or its campus in the next few quarters. And accordingly the Bangalore's viability likely to improve, because this new additions will happen in our view from Bangalore then what has happening from Hyderabad or Mysore or Mangalore or Pune so far.

**Unmesh Sharma:** Yes sir. Thank you very much for answering my questions.

**J.C. Sharma:** Thank you.

**Moderator:** Thank you. We have the next question from the line of Shashikiran Rao from Standard Chartered. Please go ahead.

**J.C. Sharma:** Hello, Shashiji.

**Shashikiran Rao:** Sir. You started selling Gurgaon from this quarter itself, so is that the main reason for your improved realization on an average basis?

**J.C. Sharma:** Of course yes. But if you look at, without Gurgaon also there has been an improvement in all the locations wherever we have been selling our products. Of course Gurgaon had given us a realization of about 8,000 rupees per square feet. We have done from Gurgaon this quarter 107,000 square feet of new sales. And, we do not feel that it is only the Gurgaon which had improved our realization.

**Shashikiran Rao:** Yes. And my second question is that, in the same quarter last year you had 114 crores of land monetization, what is the bottom line impact of this particular monetization?

**J.C. Sharma:** We had booked a profit before tax of if I remember it's currently of about 35 crore in the last financial year.

**Shashikiran Rao:** From the land monetization?

**J.C. Sharma:** Yes, yes.

**Shashikiran Rao:** Okay. So, if I have to take this on a post tax basis it would be around – somewhere around 26 crores?

**J.C. Sharma:** Pardon me?

**Shashikiran Rao:** If I have to take this on a post tax basis, it would be somewhere around 25 crores to 26 crores.

**J.C. Sharma:** You can take so. Now, we are a full tax paying company, at that time it was 26, so it become very difficult but yes you can say.

**Shashikiran Rao:** Okay, sir. Thanks a lot, sir. That answers my questions.

**Moderator:** Thank you. Our next question is from the line of Akshit Shah from SBI Capital Securities. Please go ahead.

**Akshit Shah:** Hi sir. I have two questions. One is sir, overall since you said that NCR market, because of NCR market the realization has improved. But have you seen any improvement in realization in Bangalore market that's one?

**J.C. Sharma:** That is what, just now I was telling to this previous questioner, that our realizations from Bangalore, Thrissur, Pune, Coimbatore and Mysore, wherever we've had the presence prior to the launch of NCR, everywhere average realizations has improved by about 8% to 10%.

**Akshit Shah:** Okay, okay. And sir second question is, since we've launched four projects in the second quarter, can we know the number of, I mean, million square feet which you have sold so far?

**J.C. Sharma:** Yes, we have said may be we have done about 936,000 square feet.

**Akshit Shah:** Right.

**J.C. Sharma:** In the last quarter and about 1.6 million square feet during the first half.

**Akshit Shah:** Sir, I was actually referring to the project wise, I mean the four projects international cities, Sobha Garnet, Canvas…

**J.C. Sharma:** Of this new four projects?

**Akshit Shah:** Yes sir.

**J.C. Sharma:** We have done during this last three months from the date of their launch more than 200,000 square feet of…

**Akshit Shah:** 200,000 square feet, okay. Thank you, sir.

**Moderator:** Thank you. Our next question is from the line of Adhidev Chattopadhyay from Edelweiss. Please go ahead.

**Adhidev Chattopadhyay:** Yes sir. Thanks for taking my question, I have got a few questions. Firstly is on the business front, I noticed slide 12 of your presentation you've given a list of forthcoming launches and if I look at the once in Bangalore, many of the projects I see the Sobha stake is much lower than the actual total saleable area. So are these all JDA or these are like Sobha's proportionate takes usually which are in the projects, one clarification. Secondly, on the Forest View project you've mentioned that the project has a total revenue of around 800 crores, so could you give us some of idea on how much area has been launched and what have been the sales in that project so far? Thank you.

**J.C. Sharma:** Of course, right. As per the proposed launches are **concerned likes this; Hope**farm property Sobha Tranquility they are 100% of the lands are owned by us. But, the other ones they are in the joint development. So we have taken that in joint developed ownerships out. But still we will be having in all the projects about 55% to 70% stake.

**Adhidev Chattopadhyay:** 75% to 55% stake?

**J.C. Sharma:** 55%.

**Adhidev Chattopadhyay:** Okay and so the question on Forest View. The overall – the area launched and how much sales we would have done so far?

**J.C. Sharma:** Right, as far as Forest View is concerned, there is a lot – sales have been of about 600,000 square feet and we have launched 0.9 million square feet out of 1.7 million square feet.

**Adhidev Chattopadhyay:** Okay and is the project expected to hit the revenue looking threshold in the next couple of quarters or…??

**J.C. Sharma:** Hopefully yes, hopefully yes; this financial year definitely it is going to hit.

**Adhidev Chattopadhyay:** Okay, and just to get a sense in Gurgaon, what has been the, like momentum in sales, volumes post Q2, how are the volume shaping up now, could you give us some idea on that?

**J.C. Sharma:** Last month also had been a good month and this month also so far has been a good month and we are quite pleased with the response of how Gurgaon launched – honestly, to answer.

**Adhidev Chattopadhyay:** Okay. Fine, last question for the Sobha City Project in Bangalore, now for the – accounting purpose, we will we be breaking up each launches into different phases for the POCM or are we going to looking to cross…??

**J.C. Sharma:** It's a very good question. What we are doing is, whatever projects we are launching, we are only incurring construction cost on those projects, so that percentage completion will be related to that only. Say for example, you have asked a question about Forest View, as we have launched the 900,000 square feet, so if we have incurred 25% construction cost on this 900,000 square feet, only then the revenue will be recognized. On the balance 700,000 square feet, there maybe some kind of an infrastructure benefit passed on. But, overall cost will not be incurred as well.

**Adhidev Chattopadhyay:** Okay, Thank you very much.

**Ashish:** Sir, just one sec. Sir, Ashish, I had a couple of small questions. First half has been a very good period, we volumed up at 1.6 million square feet and we had a full year sale guidance for about 3 million to 3.5 million square feet. Now, given that H2 tends to be very strong as compared to H1, would we be looking to up that guidance going forward and if you could also give a sense of how the sales would have been in the first one and a half months of the current quarter? Thanks.

**J.C. Sharma:** Right, you see, in the last quarter, we have been highlighting to all the guides, that's the first quarter, first two months we are not good. But, based on the performance of June and July, we were quite positive and optimistic that we should be doing 1,500 crore and 3 million plus square feet of new sales.

**Ashish:** Absolutely.

**J.C. Sharma:** Now in the first half, we are ahead of that 3 million as well as off the 750 crore threshold as such. First one and a half month if you consider for this November up to that performance also, we are ahead of our target. But, till the environment - all of you are aware, remains challenging and there has been no as such that kind of a consistency, where the reports what you hear that the interest cost rise, if could take place, may or may not impact us or the industry. So we have not been in a position to upgrade or improve our guideline, but we remain confident of the following things that 1500 crore target will be achieved, the 3 million plus target will be achieved and despite inflationary pressures, the core operating margins also should be higher this financial year than the preceding financial year.

**Ashish:** Okay, perfect. Thank you so much sir.

**J.C. Sharma:** Thank you.

**Moderator:** Thank you. We have the next question from the line of Gunjan Prithyani from JP Morgan. Please go ahead.

**Gunjan Prithyani:** Sir, I have couple of questions. Firstly, on your balance sheet, there has been – fixed asset investments have increased sequentially by about 100 crores, any specific reason for this?

**J.C. Sharma:** Of course, today we have an ongoing project of 16 million square feet in the real estate and 9 million square feet in the contract. So, we have to organize this construction equipment mainly the crane, scaffoldings, and other items, which had resulted into increase in the fixed assets. Besides that, we also plan to move into one Office space in Bangalore, hopefully by the next month. So sequentially some expenditure is also being incurred to move out to our new office as well. Major expenditure is incurred on buying construction equipment followed by this new office space.

**Gunjan Prithyani:** Okay and sir, investments -- this explains the increase in fixed assets. But, investments are also increased by about 60 crores.

**J.C. Sharma:** That is primarily on account of the company buying out one of its FDI partner, where in the last quarter, 47.6% of its stakes, we have bought over by paying 57 crores.

**Gunjan Prithyani:** Sir, this is Pan-Atlantic, right?

**J.C. Sharma:** Right, that goes into the investment.

**Gunjan Prithyani:** Sir, but when – this was also -- there was this part of the stake was bought earlier also, right. So…

**J.C. Sharma:** So, when this transaction took place, at that point of time also we have intimated to the stock exchanges and also to you.

**Gunjan Prithyani:** Okay, I'll probably take it offline. Sir, and second on – if you could just tell us what was the construction outflow in this quarter?

**J.C. Sharma:** Construction outflow in this quarter; Gunjan, I think we will give you after taking one more call?

**Gunjan Prithyani:** Sure but, I just have one more question and then 1.75 million square feet, which we indicated is yet to hit the recognition threshold, so what would be this number in terms of value, these are presales, already achieved, right?

**J.C. Sharma:** Right. If I remember it correctly, it is about 4,000 rupees plus.

**Gunjan Prithyani:** 4,000 rupees, okay.

**J.C. Sharma:** That is the unbilled revenue, once it 100% a completion is done and when you reach the 25% all such things, that the pro rata one has to look at.

**Gunjan Prithyani:** And sir, on your debt guidance, last two quarters had been impacted. One, because you had Pan-Atlantic buy out and second was, this quarter was construction equipments. But, from here on how do we see debt panning out, are there any major, you know Capex or anything that you think there is an outflow coming up in the next two quarters?

**J.C. Sharma:** I know, right. That is why we are communicating that in the last two quarters due to the new launches in NCR and it's a construction equipment requirement as well as it is buying out partially 47% plus now. 68%; the balance 32% also we have acquired in this quarter. But, that is the only non-recurring thing, yet the small requirements here and there in – on an ongoing basis will be there. But, we had passed our investment phase, that's the point I'm trying to highlight, whereas that the -- be cash flows and revenues, we'll start acquiring from now onwards against the existing sales as well as the new sales, which gives us the required confidence that from this quarter onwards, the net debt position, will start reducing.

**Gunjan Prithyani:** Okay, sure. Sir, lastly on your delivery, you still have delivery target of about 5 million to 6 million square feet for the year. But, for the first half, I think we've done about one and a half?

**J.C. Sharma:** You are right. But, this happens in our industry and we are tracking that and we will be doing more than five million square feet of delivery in this financial year also and as far as this construction part is concerned

**Moderator:** Thank you. We have the next question from the line of Puneet Jain from Goldman Sachs. Please go ahead.

**Puneet Jain:** Hello, good evening, sir.

**J.C. Sharma:** Good evening, Puneetji.

**Puneet Jain:** There has been large increase in launches as well as planned projects by you over the course of last two to three quarters. What is your thought process behind scaling up selling process for these projects?

**J.C. Sharma:** Can you come again?

**Puneet Jain:** What is your thought process behind scaling up the sale process for the launch projects plus planned projects, like currently you were selling possibly somewhere around close to 0.7 to 0.8 million square feet per quarter?

**J.C. Sharma:** You are right.

**Puneet Jain:** So, and you have launched not more over the course of last two quarters. What is your thought process behind scaling up the quantum of sales on a quarterly and on an annual basis?

**J.C. Sharma:** See, we do believe that, while the current environment remains challenging, we will be making available the good products in good locations, will always help us as and when the things starts improving. In any case, we had already incurred the land cost and we had hardly launched new projects in 2008-09 and 2009-10. The new launches started happening from the last year; 2010-11 onwards. And in addition to that we had to add new cities also and new products also like Villas or Row Houses or plotted development.

And we feel that, but for this aggressive posturing which we had taken, our volume would not have been that high and our ability to gain market share would not have been possible. The lands have been acquired after a good price and we have been able to price them very competitively and we feel that going forward this will only help us in both increasing our market share, taking advantage of improvement in the market sentiments, and at the same time showing an accelerated growth no sooner this interest that environment stabilizes.

**Puneet Jain:** Okay. And then what is your launch guidance on in terms of Chennai and Coimbatore?

**J.C. Sharma:** See we have already highlighted this, 8 million square feet or so of new project launched in the pipeline. In Chennai launch, we are making our best efforts, but due to this non-approval from the competent authority, we have not been able to go ahead. We are confident that in this quarter, in the remaining 45 days two projects in Chennai and one project in Coimbatore we should be able to rollout.

**Puneet Jain:** Okay, Thanks a lot.

**J.C. Sharma:** Thank you, Puneetji.

**Moderator:** Thank you. Our next question is from the line of Anand Agarwal from Jefferies. Please go ahead.

**Anand Agarwal:** Yes , I have a few questions, sir. Firstly, I mean, if I look at your real estate revenues right? Excluding the land sale that you had done last year, it has declined both on a q-o-q and on a first half basis, I mean, its lower as compared to last year. Now given that you sold a lot more this year and therefore the land portion of those sales you would had recognized already in your P&L, I mean, how do we read this number, I mean, your construction activity is not slowing down but your revenues on real estate business are slowing down on a y-o-y basis?

**J.C. Sharma:** It's very true. If you really look at Q1 versus Q2, the revenue has increased, it was 195 crore, it has gone up to 214 crore, 3% percent increase. There has been a 4% decline on year-on-year basis, right? As far as, even the land revenue is also concerned out of this 214 crores, about 75 crore is the land component, the rest is coming from the construction part only. This is primarily because the most of the new launches including Sobha Forest View has not yet qualified for surely in the midst of 25%, whereas if we need to keep incurring the cost from the plant approval till now from entering this surely metric.

So while it is taking time to get this sales into P&L account we have also highlighted this time, that company has an unbilled inventory of 1.75 million square feet, where sales have taken place and about 700 crs worth of income needs to be recognized. Hopefully that impact we will see little bit from the next quarter onwards, but significantly more from the next year onwards.

**Anand Agarwal:** But, I mean, wouldn't that be true last year also, you would have had a lot of projects which wouldn't have crossed the revenue recognition threshold last year as well?

**J.C. Sharma:** No, no, last year it was not the case because there were no launches in '09, '10 or in '08,' 09 for processing.

**Anand Agarwal:** Okay, great point. Next one is, I mean, you mentioned construction expense of about 350, 370 crore this quarter, if I look at the last five to six quarter this number was somewhere close to 150 crores, 160 crores on every quarterly basis, I mean, broadly, that's what it was showing up as construction expenses. Now, do you expect this 350 crores, 370 crores to continue going forward or was there some amount of additional expense in this quarter and what the – I mean, basically what do you expect on an annualized basis as your construction expense going forward?

**J.C. Sharma:** We feel that on an annualized basis the construction cost, we hope to match with our new sales, right. And currently it is around 2300, 2400 per square feet. So if we are doing sales of 3.5 million square feet or 3 million square feet, we should be incurring that kind of a cost.

**Anand Agarwal:** So, about, about what 600, 700 crores or more?

**J.C. Sharma:** 700 crores right on an steady state basis that is your question, we should be incurring the construction cost.

**Anand Agarwal:** Yes . So, given that you have done like 350 crores in a quarter. So, was it like an abnormal quarter in terms of spending?

**J.C. Sharma:** Right. You can say so, you can say so, Anand.

**Anand Agarwal:** Okay Next, it also seem that you bought some land in Pune and Bangalore, so can you give details of that in terms of how much you spent on buying that land and the rationale behind that?

**J.C. Sharma:** We have not bought land, these are joint development if you are talking about this Thergaon, right.

**Anand Agarwal:** I mean, if I look at your land bank details that you put on the end of the presentation last quarter versus this quarter the total acres that you own in Bangalore and Pune have gone up over last quarter?

**J.C. Sharma:** Okay. Right. It is primarily on account of the joint development nothing else.

**Anand Agarwal:** Okay. So you would not spend anything on that?

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

**Unidentified Analyst:** Okay. Then, can you give me the customer advances number as of this quarter end?

**J.C. Sharma:** It is about 200 crore.

**Anand Agarwal:** 200 crore. Okay. And just a couple of more question, I mean, just a follow-up to what Puneet was trying to ask, I mean, is that, you have about almost like 9 million square feet odd of, 9.55 million square feet of one sold area on what you have launched right? I mean, and you are launching a lot of projects in the next second half. Now, I mean, I appreciate that you expect the, I mean, you expect that having more projects should lead to better market share and also put you in a strong position.

But in just a counter thought that if the environment doesn't turnout to be at what you are forecasting, is there a risk that we are left with I mean, we have projects, we have a multiple projects with very little sold area in those and therefore the, I mean, basically we again go into a mismatch of cash inflows versus cash outflows because from what you are showing now you need to spend 3700 crores on the ongoing projects and what you sold will only get you 1000 crores. So you need to sell a lot more to actually cover up the construction cost of those?

**J.C. Sharma:** Your point is very well taken. As far as the new launches are concerned, please understand there is a major land cost had already been incurred and we don't have to pay like in Delhi and other places the EDC, IDC upfront for the whole project towards the license and other related cost. See the startup cost are very little whereas you can always launch the projects in a phased manner, you can sell the projects in a phased manner and you can complete the project in the phased manner.

So, on balance, we have seen that this new projects launches brings incremental volume, as well as they improve our cash flows than they become strain on our cash flows, that is your question. Secondly, we believe which may look right, because of its environment part, that as if there is an excess inventory, our research and our study says, wherever we are operating or in the locations where we are operating kind of a thing, that situation does not existing.

So there have not been many launches especially by the small and medium players also, and that requirement has to come in, the GDP growth or the per capita growth of 10% continues. If you look at from our presentation, 49% of this existing customers they choose to fund a 100% of this apartment value to their own resources, this is a welcome sign from what it was earlier 58, 42% despite the realizing per square feet higher realization.

So, in our opinion the underground real estate is becoming better. But from a visibility point of view the challenges of this higher inflation, higher interest cost, it is also there, probably like the government says the inflation is about to start showing the a clear sign of decline. We do believe that with that the fortune of real estate at metro level also should start improving and we also do believe that Sobha at this point of time should be there to capitalize that opportunity.

**Anand Agarwal:** Okay, fair points. Just a couple of more questions I mean, adjusting for depreciation your fixed assets have increased by 106 crores in this quarter. So out of that 46 crore you said was on account of this construction equipment and all. So is the remaining 60 crores on the Office that you spend, is that the way to look at it?

**J.C. Sharma:** No, no, 40 crore is the total fixed assets, which consist of construction equipment and expenses towards my new office. If we have to give up the breakup right, towards the office it has gone up about 10 to 12% only, not much. As far as 60 crores was concerned, it was on account of our buying back of stake in PAN Atlantic.

**Anand Agarwal:** That would under investments right?

**J.C. Sharma:** But fixed assets has gone up by about 40 crores.

**Anand Agarwal:** Okay. Yes , that's it, thanks. Yes , thanks.

**Moderator:** Thank you. Our next question is from the line of Tejas Sheth from Emkay Global. Please go ahead.

**Tejas Sheth:** Yes . Hell sir. Sir, what was the value of this new…

**J.C. Sharma:** Your voice is not audible please.

**Tejas Sheth:** Hello, is this fine now?

**J.C. Sharma:** Haan, its fine.

**Tejas Sheth:** So, just wanted to know what is the value of the new launches which you are planning?

**J.C. Sharma:** Sorry?

**Tejas Sheth:** The value of the new launches which you are planning in Rupee terms?

**J C Sharma:** But that's the realization from the new launches, what you are saying?

**Tejas Sheth:** Yes , Yes , sir.

**J C Sharma:** Right, okay. This should be the same or little bit higher than the 5096 we have achieved in the last quarter.

**Tejas Sheth:** And so when would be this new launches, is it for the second half or is it going through three to four quarters?

**J C Sharma:** It is like this and I was telling to the first questioner, that Coimbatore and Chennai now should have funds in this quarter itself, see Hope farm launch can happen in the next quarter and in other launches, once approval happens we should be ready to launch the project.

**Tejas Sheth:** Okay, sir. Sir just wanted to understand the strategy because you're already having an inventory…

**J C Sharma:** We are not able to hear, hello?

**Tejas Sheth:** Yes , hello?

**J C Sharma:** Yes .

**Tejas Sheth:** Yes , so I just wanted to understand the strategy, we're already having an inventory of almost four years of our sales in terms of…

**J C Sharma:** No, no, 9.55 million square feet.

**Tejas Sheth:** No, no, I am talking value term sir, the unsold inventory right now is almost at 6,000 crores and we have annual run rate of ours is targeted around 1,500 crores, so we are already having four years of running inventory, it doesn't make sense to first figure out the period unsold inventory before launching such new projects?

**J C Sharma:** When you look again the launches, as I said in Chennai we are not completing with any of our product, it will be our first launch. In Coimbatore also currently we are selling a row house project, now we are going to sell a villa and an apartment product. If you look at in case of Trichur also, we have done exceedingly well in the last quarter, did more than 100,000 square feet of new sales. So we have to plan for one more new launch in Trichur also. In Bangalore also if you look at the locations and the product mix are totally different. Our stock from Dew Flower is getting exhausted and which will be replaced in Bannerghatta Road, Dairy circle projects by another a high value product.

**Tejas Sheth:** Okay.

**J C Sharma:** So every product has its own utility. In Whitefield around 5 kilometer radius after Amethyst, Adamus launch, we did not have any project. So we are filling up that gap. We have been able to decide about these launches.

**Tejas Sheth:** Okay, so one question on this Gurgaon, when can we expect the housing – the residence part of the project?

**J C Sharma:** We are first focusing on the villa, it is giving us a good traction.

**Tejas Sheth:** Okay.

**J C Sharma:** So, not clear.

**Tejas Sheth:** Okay, thanks. Thank you.

**Moderator:** Thank you. Our next question is from the line of Nitin Idnani from Enam Securities. Please go ahead.

**Nitin Idnani:** My question is a little more futuristic, if we, if things do go to plan and we do end up with about 3,700 crores of cash flow, I just wanted to know what were our plans for this and how soon do they plan out, because even if you factor in all the costs attached to interest, overhead et cetera, as well as the cost of construction that we need to incur in everything, all of that, I still think that you will be left with substantial amount of free cash flow over the next few years. How do we put this to use? I would assume that land acquisition would probably not be on the you know, on the top most of the list of may be you can deploy this, so how do we look at the plan for this money, is it commercial assets and how soon would you start building of first of your commercial portfolio?

**J C Sharma:** We already put before you the existing project desires and current selling prices, current constructions costs and what is likely to happen. As far as the future is concerned we have trained ourselves in diverting and we do not wish to do any other activity except real estate, what we feel we understand reasonably well. Currently we have only a Villa project in Delhi and take one an apartment in Delhi.

Going forward, we feel that we would love and like to have from joint development if the cash flow permits, to avail of certain opportunities, where we can own know project immediately, where the investment and it's not remained such for a longer period and you can start capitalizing, but looking at net debt purpose, where currently the net debt is 1,362 crs and we have to bring it down to 0.5 and to about 1,000 crore. We feel that, still have two quarters left, before we seriously start looking at what we should be doing as and when this kind of a cash flows start getting reflected in our P&L account and balance sheet.

**Moderator:** Thank you. Our next question is from the line of Hansraj Singh from IDBI Capital. Please go ahead.

**Hansraj Singh:** Hello, sir, my first question was on the margins. Can you give me the exact break up of margins for this quarter in terms of real estate and the construction business?

**J C Sharma:** Yes , in the construction side we've had an operating of about 18%.

**Hansraj Singh:** Okay.

**J C Sharma:** And in the real estate we've had an operating margin of about 40%

**Hansraj Singh:** Sir, actually this numbers won't add up to the actual reported EBITDA, can I have the exact numbers on this?

**J C Sharma:** Yes , the exact numbers, Baaskaran should be able to explain, he has got the work sheet available.

**Hansraj Singh:** Okay. And sir, my next – second question is on the 1.75 million square feet that you said you have sold which you have yet to recognize the construction income, so sir, just wanted to know out of this 1.75 million square feet, how much of the addition has come in the first half of FY12?

**J C Sharma:** Pardon me?

**Hansraj Singh:** I am saying, at the end of the second quarter we had around 1.75 million square feet from which we are yet you know recognize the construction income because they have not read threshold of 25%, I just wanted to know out of this 1.75 million square feet how much has come from the first half of FY12?

**J C Sharma:** First half?

**Hansraj Singh:** Yes .

**J C Sharma:** First half out of this 1.75 million square feet, about 650,000 square feet sales, there was no construction revenue we have been able to recognize from the project launch in this year.

**Hansraj Singh:** Right, right.

**J C Sharma:** It does not include the project launch in the preceding financial year like Sobha project view then there also construction income has not been recognized.

**Hansraj Singh:** Right, sir.

**J C Sharma:** Thank you.

**Hansraj Singh:** Okay. Thanks, sir.

**Moderator:** Thank you. We have a follow-up question from the line of Adhidev Chattopadhyay from Edelweiss. Please go ahead.

**Adhidev Chattopadhyay:** Yes , sir. Sir my question is again pertaining to the slide 12 & 13 for forthcoming launches, sir how much pre launch expenses are we expected to incur on these projects?

**J C Sharma:** I was telling before, we haven't expected in Delhi where you have to pay upfront huge external development and internal development costs in all such places, the plan approval costs it limited to about 50 to 60 rupees per square feet. So it is not significant.

**Adhidev Chattopadhyay:** Okay. Sir and the second question is what is the total expenditure will be incurring in FY12 for the Gurgaon project totally the construction Capex?

**J C Sharma:** We have just started, it's a new location and we don't expect that in this financial year we will be achieving the threshold limit of 25%.

**Adhidev Chattopadhyay:** Okay.

**J C Sharma:** Clearly work has started there.

**Adhidev Chattopadhyay:** Okay. So work has started across the 4 million square feet right or it could again in parts?

**J C Sharma:** No, no, we will be doing it on a phased wise manner.

**Adhidev Chattopadhyay:** Okay, okay, sure. Okay, thank you.

**Moderator:** Thank you. Participants who do wish to ask a question may please press "*" and "1" on the touchtone telephone. Participants are requested to use only handsets while asking a question. We have a question from the line of Anand Ragavendran from Allegro, please go ahead.

**Anand Ragavendran:** Hello, sir good evening.

**J C Sharma:** Good evening.

**Anand Ragavendran:** During this quarter in the new launches in Bangalore, one of the launches has been in plotted development and the other one has been in Super Luxury apartments, so will you be doing your plotted developments in future? And the second one is how do you differentiate between which projects to go for plotted developments and which ones for apartment projects?

**J C Sharma:** Very difficult to explain as such over phone, but we would like to be from plotted development to villa development in future - A, and B, just to make things simple right, wherever we find that the construction costs versus the apartment realization may impact our certain margin which we have been achieving about 35%. We look for a superior product where we can realize higher value from, say, villas development or row houses or plotted development. And accordingly we try to configure the product and a launch, hope you understood?

**Anand Ragavendran:** Yes, sir. That is okay and do you have the realization value for the projects in Bangalore?

**J C Sharma:** Yes , Yes . In last quarter it was about 4,800 rupees per square feet.

**Anand Ragavendran:** No, no, for these two launches, Sobha Canvas and Sobha Pristine?

**J C Sharma:** Okay. For Sobha Canvas the realization has been about 2,750 rupee…

**Anand Ragavendran:** Sorry sir, I didn't get the number.

**J C Sharma:** 2,750 per square feet and for Sobha Pristine it is about 6,000 rupees per square feet.

**Anand Ragavendran:** 6,000 per square and sir how is the response being for these two projects?

**J C Sharma:** We have got response of all the projects which we have launched, very well including these two projects.

**Anand Ragavendran:** Okay. And one more thing sir, I see that there is 147 crores payment on land to be done?

**J C Sharma:** Right. This has been coming since last two three years, as such it is for the landlords who have to perform certain commitment before they become eligible for this payments, so we are not worried at all.

**Anand Ragavendran:** Okay sir, there is no fixed schedule on the payment for this.

**J C Sharma:** Correct, correct.

**Anand Ragavendran:** So this is for the properties that you have purchased or the joint development, how does this come?

**J C Sharma:** Most of them we have purchased, some of them may be in the joint development also.

**Anand Ragavendran:** Okay sir. That's it from my side. Thank you very much.

**Moderator:** Thank you. We have a follow-first the line of Puneet Jain from Goldman Sachs. Please go ahead.

**Puneet Jain:** Hello?

**J.C. Sharma:** Ah, Puneet Ji.

**Puneet Jain:** What is the average interest cost per -- average interest cost per first half?

**J.C. Sharma:** Currently, its stands at 13.9, it's closer to 14%. The average interest cost should have been about 13.75.

**Puneet Jain:** So, is there any specific reason why the interest paid is much larger in the first half compared to this cost?

**J.C. Sharma:** In case of some new project loans, there might have been some processing fee – one time, which have been paid.

**Moderator:** Thank you. We have a question from the line of Arun Aggarwal from Religare Capital.

**Arun Aggarwal:** Hi, good evening everybody. Mr. Sharma, the key questions I wanted to ask was about your debt reduction plan. I understand that you still maintain that 1,000 crore debt reduction by March '12 remains. We are at 1,360 now, so we are talking about 360 crores rupees reduction in debt, over next two quarters. Now how do we see that coming through considering that – you are talking about 100-odd crore rupees free cash flow on a quarter on quarter basis max?

**J.C. Sharma:** See this quarter also you have seen, vis-à-vis the last quarter, which was, negative, this quarter became positive by 127 crores. We feel that the volumes will be maintained, the realization from the existing and new customers, vis-à-vis the requirements for the construction costs, all for a payment towards any recurring or non-recurring expenditures, will not be that high as they were required in the first half, which means like we did achieved the positive cash flow and debt reduction in the last year, this year, also that kind of thing to start happening.

**Arun Aggarwal:** Sir, if you look at the – we have to receive some 1,100 crore rupees from the project that we have already sold and taking out 200-odd crore rupees per quarter customer advance as an average run rate, we are talking about 400 crore rupees to be received in next two quarter as against the sales of a 1,100 crore. I understand that you will be selling for more, but it itself is talking about 35-odd percent of receipts from the property that you've already sold. So do you think that a significant portion of the receivable would be received by March '12 or something else?

**J.C. Sharma:** Not something else. If you are talking currently about the operational cash flow and we feel that from that operational cash flows only, we should be able to bring down the debt from now onwards.

**Arun Aggarwal:** So we are not talking about land sales as of now?

**J.C. Sharma:** Currently, no.

**Arun Aggarwal:** Okay, great. Another thing was on the Gurgaon property, this 107,000 square feet how many units will it be?

**J.C. Sharma:** They should be about 24 units. 24 units.

**Arun Aggarwal:** And what should be the average run-rate that you are seeing in terms of sales in Gurgaon property?

**J.C. Sharma:** See, last quarter has shown a three months performance. So if we do that kind of an extrapolation, we should be doing a yearly 100 units sales.

**Arun Aggarwal:** Okay, okay. One last thing on this 9.55 million square feet of unsold space that we were talking about, what portion of this could be from the Gurgaon property? 4.3 million square feet?

**J.C. Sharma:** 4.3 million square feet. What was your question?

**Arun Aggarwal:** My question is on the unsold property. In your cash flow, you said that 9.55 million square feet is the unsold property of 16 million square feet that we have.

**J.C. Sharma:** That 9.55 – it is 1 million odd square feet that we have launched and our share is coming to 2.6 million plus, out of 4.32 million square feet. It is about 64%.

**Arun Aggarwal:** Yes, So out of 9.55 million square feet, Gurgaon would be 2.6 million is what you're saying.

**J.C. Sharma:** Of course, yes.

**Arun Aggarwal:** And what could be the unsold inventory in terms of rupees crores or rupees million of this 2.6 million square feet at 9,000 rupees a square feet?

**J.C. Sharma:** Yes, we have to multiple it by 8,500.

**Arun Aggarwal:** 8,500, yes. Thanks a lot, sir. Thank you.

**Moderator:** Thank you. Participants who do wish to ask a question may please press "*" and "1" on your touchtone telephone. Participants are requested to use only handsets while asking your questions, thank you. We have a question from the line of Abhinav Sinha from CLSA. Please go ahead.

**Abhinav Sinha:** My question is – I have a small doubt actually – the unsold area that you are showing is 9.55 this quarter and last quarter, it was 3.84, how come this has increased than more than the area launched?

**J.C. Sharma:** Pardon me?

**Abhinav Sinha:** The unsold area that you are showing this quarter from the ongoing projects 9.55 million. Right?

**J.C. Sharma:** You are right.

**Abhinav Sinha:** And last quarter, this number was 3.8. So this is an increase of more than the area launched.

**J.C. Sharma:** If you look at – in the last quarter's presentation, there was another column, which was saying so that not offered for sale. It was creating confusion. So today, when we talked about like Delhi projects, the sites we have launched 1 million square feet for sale. We have got the approval for the whole 4.32 million square feet. So in the ongoing total Super Built-up area, we are showing that in 16.16 million square feet, total 4.32 million square feet. Then our share when we are showing 13.77 million square feet, we are taking out the partner share and out of the 4.22 million square feet we already sold and 9.55 million remains to be sold, which includes new launches as well as what was being shown till last quarter as projects launched, but not offered for sale.

**Abhinav Sinha:** Okay. The number that we have now is a fairly gross number.

**J.C. Sharma:** You are right.

**Abhinav Sinha:** And what percentage of this is actually launched – I mean, any brief, any rough number?

**J.C. Sharma:** Of course yes. If you really look at, there are three large projects, where this phase-wise thing we have done. One is Sobha International City, Gurgaon; we have 4.38 million square feet. Then there is Sobha City, Bangalore where about 3.2 million square feet, we will be developing; we have launched 1 million square feet. Sobha Forest View, where 1.7 million square feet is the total launch and 0.9 million square feet is we have offered for sale and most of the other projects – it's the full projects, which is being offered for sale.

**Abhinav Sinha:** Okay. So roughly 35, 40% is yet unlaunched of this number.

**J.C. Sharma:** You are right.

**Abhinav Sinha:** Okay sir. Thanks.

**J.C. Sharma:** Thank you Abhinavji and see you tomorrow.

**Abhinav Sinha:** Sure sir, okay.

**J.C. Sharma:** I will take leave. Baaskaran will attend other queries.

**Moderator:** Thank you. Participants who do wish to ask a question may please press "*" and "1" on your touchtone telephone. Participants are requested to use only handsets while asking your question, thank you. We have a question from the line of Anand Agarwal from Jefferies. Please go ahead.

**Anand Agarwal:** Couple of other questions. One is, I think there has been some other adjustment to deferred tax liability this quarter again. Can you explain that – I mean?

**S. Baaskaran:** Sorry?

**Anand Agarwal:** Some – just meant to be deferred tax liability again this quarter, so what is that pertaining to – I mean?

**S. Baaskaran:** One second. Okay, on the expenses what are all we have claimed this quarter, that means certain provisions what we have made, the income tax is not allowed on provisions. From the provisions part, we have created this deferred tax liability.

**Anand Agarwal:** Okay, Thanks.

**Moderator:** Thank you. As you see that there are no furthermore questions, I would now like to hand the call to Mr. Dhruva Sabharwal for closing comments. Thank you and over to you, sir.

**Dhruva Sabharwal:** I would like to thank the management and also all the participants of this call for taking out time to understand more about Sobha Developers. That's it from my side. Thank you and have a nice day.

**S. Baaskaran:** We also thank you from your side for all the participants for joining in this call. Thank you and thanks Tata Securities for hosting this call on our behalf.