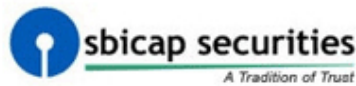
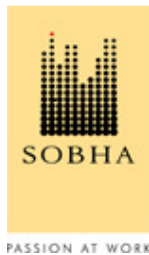


“Sobha Limited Q2 FY2019 Earnings
Conference Call”
November 12, 2018



ANALYST:

**MR. SANDEEP MATHEW – SBI CAP SECURITIES
LIMITED**

MANAGEMENT:

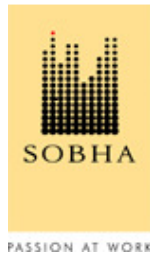
**MR. J. C. SHARMA - VICE CHAIRMAN AND
MANAGING DIRECTOR – SOBHA LIMITED**

**MR. SUBHASH BHAT – CHIEF FINANCIAL
OFFICER - SOBHA LIMITED**

**MR. VIGNESHWAR BHAT – COMPANY
SECRETARY AND COMPLIANCE OFFICER -
SOBHA LIMITED**

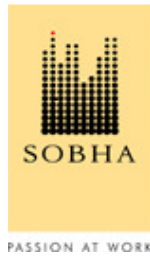
**MR. RAMESH BABU – VICE PRESIDENT
(FINANCE) – SOBHA LIMITED**

**MR. TEJAS – INVESTOR RELATIONS AND
FINANCE – SOBHA LIMITED**



Sobha Limited
November 12, 2018

- Moderator:** Ladies and gentlemen, good day, and welcome to the Sobha Limited Q2 FY2019 Earnings Conference Call hosted by SBICAP Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sandeep Mathew from SBICAP Securities. Thank you, and over to you, Sir!
- Sandeep Mathew:** A very good afternoon to all of you. We are very happy to have with us today the management of Sobha Limited, represented by Mr. J.C. Sharma, Vice Chairman and Managing Director; Mr. Subhash Bhat, Chief Financial Officer; Mr. Ramesh Babu, VP Finance; Mr. Vigneshwar Bhat, Company Secretary and Compliance Officer; and Mr. Tejas, Investor Relations and Finance. I now hand over the call to Sharma Ji for opening remarks. Over to you, Sir!
- Jagdish C. Sharma:** Thank you, Sandeep, and good evening to all of you. A very Happy Diwali and a prosperous New Year to everyone.
- We are pleased to connect with you today post declaration of our unaudited financial results for the second quarter and financial year 2018-2019 ended September 30, 2018, through this con call hosted by SBICAP Securities. We had already shared the details of our operational update of the company in the first week of October 2018. We have also uploaded our investor’s presentation, which had been duly adopted by the Board, and it can be downloaded from the website of the company.
- As far as our sector is concerned, it has witnessed the implementation of landmark reforms, such as GST, RERA, Ind-AS115, IBC, etc., that has pushed this industry towards a healthier ecosystem. We sincerely and strongly believe that all such efforts combined will not only bring some kind of a financial discipline in our sector, but will also position India as a global hub for investment. Real estate sector being a major contributor for GDP growth is expected to witness significant investment post stabilization of these reforms.
- The momentum noticed in the residential and contractual space for Sobha Limited over last few quarters has continued to provide positive thrust for this quarter as well. The end-user demand in the geographies where we are operating seems to be picking up and for the organized players, we are also seeing that they are gaining the market share from the unorganized sector.
- We are also conscious of the fact that while the overall volumes still remain not to our satisfaction, but the calendar year 2018 is expected to be better than calendar year 2017, which was better than 2016. So, there is somewhere a qualitative progressive growth we are witnessing. We have also



Sobha Limited
November 12, 2018

seen that in our key markets, the office space absorption continues to remain robust. And we have also seen that the new launches, primarily in the affordable segment, it is getting more traction.

In the second half of the financial year 2018-2019, we already launched one project in Cochin, Sobha Isle, and we also plan to launch one affordable housing project in the North Bengaluru, where we have already applied for the RERA registration. All other approvals have been received and in the GIFT City, Gujarat, where another project of about 1.8 million square feet will be launched. Other normal Sobha projects also are expected to be launched in the next few quarters in Bengaluru, Thrissur, Pune. We believe that Sobha should be able to launch this 8.6 million square feet of such projects in the residential space in the next few quarters.

In this backdrop, we will summarize our company's performance for the second quarter with our CFO, Mr. Subhash Bhat, will be communicating.

Subhash Bhat:

Thank you, Sharma Ji. Good evening to all of you. As you are aware, this is the second quarter of financial result as per Ind-AS115 and hence, year-on-year comparables are not available, as mentioned during our concall last quarter.

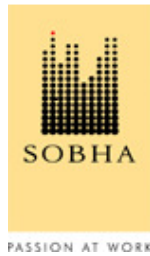
Revenues for the second quarter stood at Rs.6.76 billion, which was 11% up quarter-on-quarter. Real estate contributed Rs.3.86 billion. Contracts and manufacturing businesses contributed Rs.2.73 billion with other income coming in at Rs.0.17 billion.

EBITDA for the quarter stood at Rs.1.58 billion, which was 10% up quarter-on-quarter whereas the PBT stood at Rs.891 million, up 20% quarter-on-quarter. The profit after tax came in at Rs.602 million, which was 13% up quarter-on-quarter.

Coming to the cash flow. Cash inflow during the second quarter was Rs.7.57 billion, which was 9% up year-on-year basis. For your information, cash flows were not impacted by the Ind-AS115 adoption. Real estate collections during the quarter stood at Rs.5.39 billion, and the contracts and manufacturing collections came in at Rs.2.18 billion.

Net operational cash flow of Rs.238 million was generated after meeting interest and tax expenses. We are pleased to announce that this is our 13th consecutive quarter, where the company has generated net operating positive cash flow after meeting the financial outflows.

Debt equity ratio stood under the old accounting standard, at 0.83 and as per the new AS115, it stood at 1.16 as on September 30, 2018. We have further brought down our average cost of borrowing during the second quarter, which now stands at 9.30% and this is despite the overall increase in the interest rate in the market. This is the lowest average interest rate for the company till date.



Sobha Limited
November 12, 2018

We are all aware of the current liquidity situation in the market. As far as Sobha is concerned, we continue to enjoy liquidity from this market. We would like to inform that we deal with NBFCs like Aditya Birla Finance Limited, Punjab National Housing Finance Limited, who have strong promoter base. Our debt exposure to these NBFCs is only 14% of our total loan outstanding. These NBFCs, along with many others, are in discussions for extending fresh credit lines to Sobha if required. The banks continue to support us with new credit lines for our forthcoming as well as ongoing project requirements.

As of September 2018, we have enough undrawn limits from banks and financial institutions for meeting our future obligations as and when they arise.

Coming to the performance highlights for Q2 FY2019. As communicated during the first week of October 2018, second quarter, the company has achieved new sales volume of 1.03 million square feet, which was with a total value of Rs.7.4 billion, of which Sobha's share was Rs.6.16 billion. Sales volumes were up by 7% as compared to the preceding quarter, with Bengaluru region contributing 68% of the total sales volume for the quarter.

During the second quarter, company has launched one residential project in Bengaluru named Sobha Lake Garden with a total salable area of 0.89 million square feet and also released 0.21 million square feet for sale from its existing projects, Sobha City in Gurgaon. As mentioned in the operating update, Kerala locations were impacted during the quarter by the excessive rainfall and flood, and we expect this impact to continue at least for one more quarter.

Coming to the contracts and manufacturing business. As mentioned earlier, total revenue from contracts and manufacturing during Q2 came in at Rs.2.73 billion. This is 37% higher as compared to last year. The contract vertical contributed Rs.0.19 billion, and the manufacturing vertical revenue came in at Rs.0.83 billion. The order book for contract and manufacturing business today stands at Rs.22.67 billion as on September 30, 2018. The collections also for the second quarter from this vertical stood at Rs.2.18 billion.

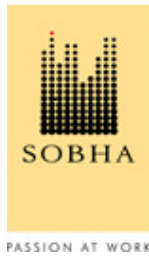
We would now ask the participants to raise any questions.

Moderator:

Sure, thank you very much. We will now begin the question and answer session. We have the first question from the line of Abhishek Anand from JM Financial. Please go ahead.

Abhishek Anand:

Good evening everyone. My first query, Sharma Ji, will be on the commercial segment, we came across some media reports on company's plans to enter into commercial segment. Could you give us some more colour what is the plan on that side and how much capital will be deployed?



Sobha Limited
November 12, 2018

Jagdish C. Sharma: See any project which we start, it takes 3 to 4 years to complete, which will apply, in case of such commercial projects also. Currently, we are looking at in Cochin where we had recently invested about Rs.100 Crores to develop it into the commercial space. We have got about 0.5 million square feet in Delhi also, which we will be developing. And we are also pursuing that APMC project, which is right now little bit stuck because of that NGT order, which we hope that by this year-end should get resolved; the buffer zone and other things, it has certain implications which we would like to overcome. Small projects here and there, if they come across, as we said, within our debt equity limits, we will look at. I think that news item what you are referring to, which came in the Business Standard, has been interpreted in a manner whereas if the company has gone into a large scale to the commercial development without considering the cash flow, which is not the situation. The situation is that we continue to grow our existing residential space and the contracting business. We continue to focus on our debt equity. At the same time, hopefully, by the end of next quarter, our St. Mark's Road will get completed. And thereafter, we will have nothing as such on the commercial space. And we would be, at that point of time, providing more clarity about our capex for the year 2019-2020 as far as the commercial space is concerned.

Abhishek Anand: But Sharma Ji, we were not pursuing that actively, if that is the correct word, the APMC project historically. Are we now more active on that project?

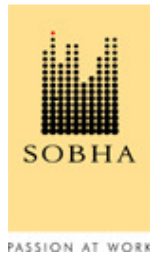
Jagdish C. Sharma: Why not? This project is there where in the recent past, there have been 2 auctions, where the FSI cost had been upward of Rs.3000. It is a public-private partnership. What is wrong in this? I have not understood this question per se, actively or not actively. We have been telling since last 2 conference calls that APMC had come back on our agenda and we have started pursuing it. While pursuing, some old village map and certain NGT-related issues have cropped up, we are in the process of overcoming it.

Abhishek Anand: So by next quarter, we will get more details on that. Is that correct?

Jagdish C. Sharma: Let us see, as and when, yes, some details are available; definitely, we would love to share with that. There had been no investment as such on that APMC as far as the land part is concerned and the rest, let us see how it pans out.

Abhishek Anand: Secondly, Sharma Ji, you have also mentioned comfortable debt-to-equity ratio. What exactly are we targeting if you could just remind us of that? And how much flexibility do we have on the books right now?

Jagdish C. Sharma: It is a good point. See, the first and foremost thing what we look at operationally, right, our operations must cover our lower direct cost, our lower indirect cost, including the interest cost, including the income tax payments. This is what we definitely would like to cover. We would also be covering the dividend payout or any such other payments from our operations. Thereafter,



Sobha Limited
November 12, 2018

whatever surplus remains, definitely, we would like to leverage on that. And to that extent, the debt equity what we believe 0.8 ideal, at some part, is plus or minus. Right, definitely, we would like to take advantage of that surplus money, either to pursue residential space or the commercial space part.

Abhishek Anand: Old standards, right?

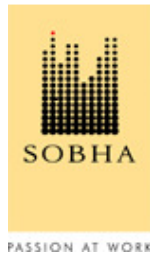
Jagdish C. Sharma: Under the old standards. Naturally, naturally, yes. See basically, if you look at the balance sheet side also, now it has gone to Rs.10000 Crores. The customer's advances are there in the system. So, from a liquidity perspective, the real estate company, they have not been as such impacted because the cash flows remained the same. It is only the accounting treatment where all the customer's advances from the day of launch till you recognize the revenue you are showing it as customer's advances in your books of account. But the money is available for you, and you are investing that money back in the project.

Abhishek Anand: Yes. A related query will be, Sharma Ji, on our overheads in our cash flows. Historically, we have been incurring around Rs.30 Crores, Rs.35 Crores a quarter maybe. But in FY2018, that run rate went up to Rs.44 Crores, Rs.45 Crores a quarter. And now in this quarter, it is Rs.58 Crores a quarter. How should we look at this number? Because Rs.58 Crores...

Jagdish C. Sharma: You are right. I have understood your question. This quarter, primarily the overheads are because of the salary revision, what has been impacted, the incentives, what has been dispersed. On certain expenditures, what we incurred on the advertisement side, sales and marketing promotions including the brokerages, which had been paid during the quarter. So while salary and wages will get amortized over the remaining quarters, the sales and advertising budget for the remaining 2 quarters will remain relatively high in view of newer launches, what we have planned.

Abhishek Anand: So is this now Rs.58 Crores a quarter or maybe Rs.60 Crores a quarter, is this the run rate we should be looking at now on a quarterly basis? If you see, where I am coming from, Sharma Ji, is that it is 10% of our peak sales?

Jagdish C. Sharma: No. Again, I think sorry for my interruption. You have to bear in mind that the real estate company has started following this Accounting Standard 115, where predominantly, what we are recognizing is the revenue of the completed projects as well as what we are recognizing is the contracts and manufacturing-related revenues whereas you keep investing on the projects, the investment on the projects is quite high during this year, and we keep investing on other expenditures, for which we need to develop commensurately your fixed overheads, mainly the staff supervision costs and the sales and marketing cost. So, when we start looking at real estate companies, that Accounting Standard 115 needs to be considered. Had we not followed apple-to-



Sobha Limited
November 12, 2018

apple, my topline would have been close to Rs.900 Crores in this last quarter. Then all this percentage will look relatively better.

Abhishek Anand: No Sharma Ji, I am looking at the cash flows only. So, we are Rs.58 Crores...

Jagdish C. Sharma: Cash flows? Cash flows also will come. Cash flows also will come. When you are selling it, the cash flows also will come.

Subhash Bhat: Under the old standard, if I am going to recognize Rs.900 Crores that means activity that is happening on the ground is far more of larger scale as compared to the earlier quarters.

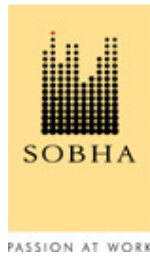
Abhishek Anand: Because I was comparing presales to the overheads, which is an actual cash outgo, which now form almost 10% of your presales. I will take 2018 detail off-line. I have a few more. I will join back in the queue.

Jagdish C. Sharma: No issue, Abhishek. No issue.

Moderator: Thank you very much. The next question is from the line of Kunal Lakhan from Axis Capital. Please go ahead.

Kunal Lakhan: Good evening Sharma Ji and Subhash. Sir, you said that you will continue to or we will maintain our guidance on the launches of 8.6 million square feet over the next 3 to 4 quarters. Sir, we have about 5 million square feet of unsold inventory, and we have about 9 million to 9.5 million square feet of area, which is not yet released, from our ongoing project. And these 8.6 million square feet of Greenfield projects, which will come up. I am just trying to understand, how do we do the balancing act in terms of like focusing on monetizing our existing ongoing projects versus bringing in more supply in terms of Greenfield supply especially?

Jagdish C. Sharma: Thank you, Kunal, for this question. So you also need to look at the way like we are managing the inventories during the project cycle of a particular project. Every single project has been split into 2, 3, 4, in case of Dream Acres, in more than 1.5 dozen individual projects. Accordingly, the investments in the projects are made, accordingly the sales we do. And accordingly, the revenue is getting recognized. The finished stock inventory is about 1% of the total inventory, what we what we are talking about being offered for the sale. When we talk about the new projects, the new projects are either a project, which is complemented to the existing project, or it is a new location or a new city. Say, for example, when you are talking about in Bengaluru, Sobha Dream Acre, it is in the north, which is almost 20 kilometers away from my existing project. When we talk about the Hadosiddapura project, these are the projects where the RERA approval is awaited, right? It is nearer to Dream Acres, but it is a luxury product, which will complement the 1-bedroom, 2-bedroom apartments I am offering. And I do not have in the 5 to 6 kilometers vicinity a luxury



Sobha Limited
November 12, 2018

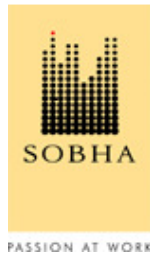
product. The Silicon Oasis, another 15-acre project. It is almost sold out. The project is not complete. But again, we do not have even 1% of the inventory in that particular project. So the whole of southeast of Bengaluru, today, Sobha does not have a project, and we are waiting for this large project to get started. Similarly, when we talk about another project in the Indraprastha, my Indraprastha 2, we call it, the name is different. The Indraprastha 1 is fully sold out, and the project is likely to be completed in this quarter. If that is so, we needed one more project in that location, and that is a continuity of ensuring that, that particular location it well serviced, where the market is growing reasonably well. Otherwise, we talk about the projects in Chennai, where we do not have finished stock inventory. We talk about Cochin where Sobha Isle had already been launched, which is a different product from the Marine Drive. In case of Thrissur also, there is a project in Kuttanellur, which is different from the Lake Edge, where Lake Edge substantially had already been sold, where only the piling work had been completed or a new city like GIFT City residential projects or in Pune, Sobha Elanza, where also we do not have any ongoing projects. So all such projects what we talk about, this 8.6 million square feet, they have been positioned and planned to complement my existing inventory and existing inventory also, we have spoken, see the projects which are likely to get completed in this financial year, there will be hardly any inventory to be left. And this is the formula we have followed for long and we will continue to follow. At the same time, we believe that the new launches by other players, it is getting diminished. And the organic demand in all these cities remains intact. So somewhere, the market share or market size will start showing a positive bias and these kinds of projects we believe will play that vital role in nurturing that kind of a market expectation.

Kunal Lakhan:

Sure. Just to follow up on what you said. So this unsold inventory in the existing projects, ongoing projects or the area that has not been released for sale in the ongoing projects of 9.5 million square feet, over what period of time we can expect this will be released for sale?

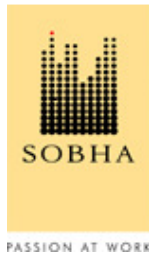
Jagdish C. Sharma:

See, it is like this. We did 3.6 million square feet of new sales last year. We hope to do better than that. A double-digit growth is what, without giving the guidance, we are aiming for. This will consist of some of the existing inventory and something of the new projects what we will be launching. But at the end of the day, this is the inventory of the approved projects. And looking at the kind of approval-related hurdles, which is taking some time, 6 months to 1 year for us to launch a project. Our belief has been if the land cost is already paid for and the product had a kind of a demand in that particular location, take the approval, launch it on a phase-wise basis, complete it on a phase-wise basis, and it does not cost because the rest of the land is an approved project, which can already be taken up based on the velocity of that particular project, so it complements/supplements our objective of growing faster than the market in the locations which we prefer.



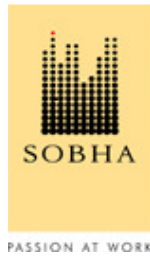
Sobha Limited
November 12, 2018

- Kunal Lakhan:** Okay. Sure, that is helpful. My second question is to Subhash, actually. In Q2, our cash outflow towards contracting was actually higher than the inflow. What is the reason? Is it more of a timing issue? Or this is something...
- Subhash Bhat:** Some projects we would have got the advance, which will be spent.
- Kunal Lakhan:** Okay, okay. So basically, there is something...
- Subhash Bhat:** Overall the dynamics on the contract business continues to be what we have been telling the market. We earn between 8% and 12% EBITDA on the contract business.
- Kunal Lakhan:** So this should sort of correct or normalize in subsequent quarters?
- Jagdish C. Sharma:** It will correct and normalize over the next 2 or 3 quarters.
- Kunal Lakhan:** All right.
- Jagdish C. Sharma:** And from this quarter onwards, you will see the trend reversing as such.
- Subhash Bhat:** Exactly.
- Kunal Lakhan:** Alright Sharma Ji, thank you so much and all the best.
- Moderator:** Thank you. The next question is from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.
- Sameer Baisiwala:** Thank you and good evening everyone. Sir, what is the gross debt on the books at the moment? And what is the collateral behind it? What could be the loan to value for this gross debt?
- Subhash Bhat:** That is Rs.24.76. It is on slide 24. See most of this debt is, about 14% of this is from NBFCs. That is what I said in my introduction. That is purely backed by land. And our land, whatever market value is, the NBFCs normally give 1 to 1.5. So basically, the security cover is about 1.5 times this value. For rest of it, it is all banking system loans, which are covering our working capital requirement in contract and marketing business or our manufacturing business and project-related loans where, again, the equity from our side is close to about 25%.
- Sameer Baisiwala:** So Sir, your bank loan would probably work out to roughly Rs.20 billion?
- Subhash Bhat:** There is Rs.130 Crores of debentures also, so debenture is Rs.130 Crores.
- Sameer Baisiwala:** So, is this fully collateralized?



Sobha Limited
November 12, 2018

- Subhash Bhat:** Yes. Each of these loans are collateralized.
- Sameer Baisiwala:** Okay. So basically, what I am trying to get to say is my guess is loan-to-value will be about 1.5 or thereabout. So what is it?
- Subhash Bhat:** Approximately, yes, you can. You can consider 1.5 -- between 1.25 and 1.5.
- Sameer Baisiwala:** Yes. For this banking loan, what have you collateralized? Is it the, what you have on the other side?
- Subhash Bhat:** For the working capital, my inventory, my debtors and the project security, project cash flows.
- Sameer Baisiwala:** Sir, this is the entire ongoing projects with the area released unsold and as well as the future phases where you have not released, all of that this?
- Subhash Bhat:** Not exactly. Like in Dream Acres, we have taken only for Phase I and Phase II. So for remaining phases, we have not borrowed anything. So as and when we start constructions, we can borrow. So that line will not be given a security, and those project cash flows also will not be given a security to the bank. It will be only on what is released.
- Sameer Baisiwala:** Okay, fair enough. And that sort of roughly matches with your Rs.31 billion pending net inflows?
- Subhash Bhat:** Yes.
- Sameer Baisiwala:** From the ongoing ones here? Okay. And for the NBFC portion, is it multiple land parcels? Is it a couple of land parcels?
- Subhash Mohan Bhat::** There are multiple land parcels, which we do not have a piloting immediate need for 2 or 3 years.
- Sameer Baisiwala:** Okay. Sir, the second question is on the Bengaluru market. Anything to call out in terms of supply, in terms of demand? And consequently, any thoughts on the pricing, increase or decrease going forward in the next 12 months?
- Jagdish C. Sharma:** As far as the pricing is concerned, looking at the margins and looking at the kind of situation in which our fraternity is currently placed, per se, there is no scope, save and except in a situation where they need to do a distressed sale. As far as the market is concerned, market has not improved on the expected lines, market did expect that post-Diwali, post October 10, things will turn around. But somewhere, the sentiments have not improved to the expectation of the market. So these things are what we are hearing. But my gut feeling is that despite that, as far as Bengaluru market is concerned, volumes are there, actual buyers are buying, actual buyers are making payment. And this calendar year also we will be doing better. The market I am talking about it Bengaluru market,



Sobha Limited
November 12, 2018

which some of the reports also substantiate that we will be doing better than what we did it in the calendar year 2017.

Sameer Baisiwala: Sir, any thoughts on the pricing? Do you think you will get some pricing power as you go along? Or you think we should expect flattish outlook?

Jagdish C. Sharma: See we believe that the overhang of the people who are yet to clear their inventory and some of them are clearing large finished stock inventory as well. So this overhang will have some kind of a control for us not to being able to increase the prices. But we are conscious that with whatever price realizations we are having and whatever input costs we are going through with, that the margins still remain protected and are likely to remain protected as we move forward, even with the new launches. There, we get little bit extra cushion on the pricing power, and that will help us to ensure that the overall margins remain within our range, what we are looking at.

Sameer Baisiwala: One final question from my side. For your very large or I would say, the largest land parcels, any thoughts of monetization? I am referring to Sriperumbudur in Chennai or Island in Kochi or Hosur land. Any thoughts on these?

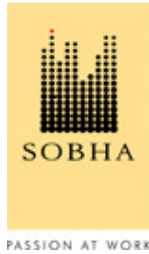
Jagdish C. Sharma: Yes. We are working on all these 3 land parcels. I believe that this Hoskote land parcel will come for development first. Some preliminary work is there. But when we say the preliminary work, still it is a long way to go. The overall land parcel had been split into 4 to 5 phases from the approval perspective. And the master plan is getting worked out. As we progress, we should be able to share more details on the same. On Sriperumbudur as well as on the Kochi, the Cochin, we are in continuous engagement with the government authorities. Certain developments are happening, but still not yet to that level where the monetizable part happens. This is a large land parcel.

And the overall economic scenario in Kerala needs to improve upon. Same logic applies to Sriperumbudur where such a large land parcel must command somewhere some kind of a demand comfort also which we believe that in Hosur land parcel we have. But some preliminary work definitely has been initiated in the Sriperumbudur land parcel also. We will be able to showcase something. I will add one more land parcel at Hosur. There also, we have started working on maybe total development in the first phase for one land parcel, and more clarity will emerge as we move, maybe by the end of this financial year on the Hosur some clarity will emerge.

Sameer Baisiwala: Okay. Fair. Thank you so much.

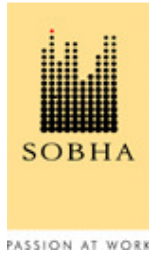
Moderator: Thank you. The next question is from the line of Puneet Gulati from HSBC. Please go ahead.

Puneet Gulati: Good evening. Thank you for the opportunity. I am trying to understand how much of the inventory will you be completing this year? Can you give some sense of what would that number be?



Sobha Limited
November 12, 2018

- Jagdish C. Sharma:** I think the area-wise, the Indraprastha will have about 8 lakhs square feet plus that will get completed. Silicon Oasis is also about 1.5 million square feet that will get completed. Bellevue, about 5 lakhs square feet that will get completed in this financial year.
- Subhash Bhat:** And some phases in Dream Acres.
- Jagdish C. Sharma:** And Dream Acres, every quarter, we continue to complete one phase or so, so that also will get reflected.
- Puneet Gulati:** Okay. So roughly, 3.5 million square feet would be a fair number that is going to be released?
- Jagdish C. Sharma:** Yes, yes. You can say so. You can say so.
- Puneet Gulati:** Okay, okay. Secondly, I am trying to understand, if I look at some of your peers across the country, a lot of them have a decent quantity of finished inventory. But you have pretty much none. How does one think about your sales strategy versus others?
- Jagdish C. Sharma:** See we look at real estate sector like a manufacturing business, where every month, we need to sell from our existing projects. Secondly, the way we plan and design the project, at the time of design itself we ensure that the project is split into many sub-projects. So depending upon the success of or the velocity of the sales, our in-house project team, they plan the construction activities, and it has worked well for us. While completing the projects on time, we are able to collect most of the payment upfront without having that problem of investing and not being able to sell the finished stock inventory. Going forward also, I hope that this will work well. The Dream Acres is the right example, where one of the largest project of India and Bengaluru this project the way we have taken up in bits and pieces ensures that they neither finished stock inventory nor there is a let up in allowing the demand to slip. So whatever demand is available, we are catching it up, we are delivering it. And the same thing applies in case of Sobha City in Delhi. The same thing is applied in case of Marina One in Cochin. And going forward here, in Bengaluru also, a couple of the large projects, we will follow the same model.
- Puneet Gulati:** But are you are not facing the challenge of buyer deferring his purchase when your project is close to completion because there is a high GST incidence?
- Jagdish C. Sharma:** See this year again hype. When we have come to our average realization, it is coming to Rs.6000 only. And it is a myth, save and except in a very high digit priced product with a very high land cost, where the GST impact is really very high, we do not because only one-third of the land value you get as a benefit when you pay 12%. Here in our case, the GST input credit is also reasonably large and while pricing the product, we believe the same is applicable to the other fraternity members. So when that is the scenario, the end price will have some padding up to absorb that



Sobha Limited
November 12, 2018

input cost. So I personally believe that, as far as the customers are concerned, they may have a minor benefit which may be offset with the carrying costs of completing the project with the developer's own funds where their own cost of funds is not less than 13% to 14%. So net-net, I do not think the customer will get any benefit. That is my view, but I do not wish to per se get into as such an argument with how the others look at. I am aware of wherever the high land cost is there.

Puneet Gulati: Like specifically Mumbai?

Subhash Bhat: Yes, there is saving, but not in places that we operate.

Jagdish C. Sharma: Where Rs.5000 to Rs.6000 is the selling price, per se, it will give any benefit to the customer. Most importantly, we are completing the projects on time. Customers have that explicit trust that we will complete the projects on time, so they do not mind paying in bits and pieces over the period of the construction cycle of the project, which, in our view, is a great advantage to the customer as well.

Puneet Gulati: So will it be fair to assume that when you complete the project, you are able to increase your realization by the GST amount of about 12% or that is not the case?

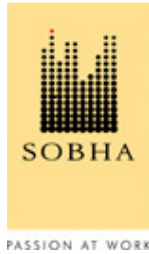
Subhash Bhat: Not exactly 12%. What we do is whatever we see, when the project is declared as completed, whatever input we have taken has to be reversed and paid back to the government. It is payment back, so there is a cash outflow to the company at that point, okay? That value is loaded on to the cost. Yes, GST will not be charged thereafter to the customer, but the cost is recovered in the price, so the price will certainly not be the 100 plus 12, it will not be 100 without 12. It will be probably 109 or 110, and no 12.

Puneet Gulati: Okay. So from customer's perspective, there will still be an 8% escalation?

Subhash Bhat: More.

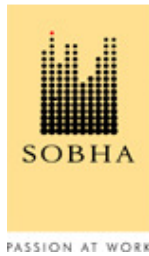
Jagdish C. Sharma: It should be. It depends upon, thereafter, the developer's eagerness to sell or what kind of a margin he is sitting in. What Subhash is trying to explain is the ground reality where, practically speaking, the so-called benefit being passed on, whether it is really a benefit being passed on with you carrying 3 years of construction costs on that particular project. In our view, the prices will not be reduced post-completion, but if somebody is registering, it is the call they are taking.

Subhash Bhat: Plus, you have to remember one thing, let us say you become my customer and GST is getting charged, when the project gets completed you do not go out of the GST net. You are the customer, will continue to be charged on the old base value and the GST will get charged for you. It is only if you are signed up after the completion that is where the GST benefit.



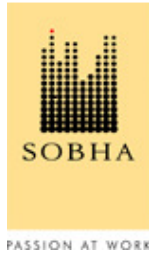
Sobha Limited
November 12, 2018

- Puneet Gulati:** That is what I am trying to understand. For a customer if he signs up after the completion, he ends up saving 12% unless...?
- Subhash Bhat:** People have understood this, they have docket, which is available, they show up to the customer, that it is not something where we will gain by deferring his decision.
- Puneet Gulati:** Okay. Good. Lastly, on your EBITDA margin, post Ind-AS-115, you know the EBITDA margins are higher by about 200 to 300 basis points. Is it because the way you reversed the sales?
- Subhash Bhat:** Not exactly, it depends on specific projects and handovers, which are happening, so it is a mix issue.
- Puneet Gulati:** Okay. So it is a mix issue. So what would be the sustainable EBITDA margins one should think about?
- Jagdish C. Sharma:** See, we believe that more or less, our costs have stabilized. Our selling prices have stabilized. And we are striving that we can improve our EBITDA margins from here also a little bit more. Other things are remaining the same.
- Puneet Gulati:** That is it. Thank you so much Sir and all the best.
- Moderator:** Thank you. The next question is from the line of Adhidev Chattopadhyay from ICICI Securities. Please go ahead.
- Adhidev C:** Thank for taking my questions. Firstly, I just wanted to clarify so what is the total area we have released across from the existing projects during the quarter for sale?
- Subhash Bhat:** 0.21, Sobha City.
- Adhidev C:** Okay, in Gurgaon. So that is the only one now, other projects there is nothing new?
- Subhash Bhat:** And Lake Garden was launched 0.89.
- Adhidev C:** Yes. So Sir, these existing new inventory sale and this new project launch, so of the total sales for the quarter, now I mean let us consider the sales you have done, how much would be the broad contribution in percentage terms from these new launches?
- Subhash Bhat:** We normally do not declare that Adhidev.



Sobha Limited
November 12, 2018

- Adhidev C:** Okay. Just to get the idea on how the response is and how we are looking to monetize the existing inventory across?
- Jagdish C. Sharma:** Sobha City release is based on the philosophy that we follow, right? We launch towers, once 70% of the sales is received, the next tower is launched. The Sobha City follows the process itself, whereas Lake Garden, we will wait for 70% of whatever we have launched to be sold, and then we will release the next phase.
- Adhidev C:** Okay. Sure, sure. So, the second question is on the capex which you incurred for the quarter is all on the St. Mark's project or it is a combination of 2, 3 projects?
- Subhash Bhat:** Capex on commercial is St. Mark's only.
- Adhidev C:** Sir, how much would be the balance capex left on the project? Any ballpark number?
- Jagdish C. Sharma:** We will be completing in next 2 quarters. It is in finishing stage. Just wait for one more quarter, we will have clarity Adhidev.
- Adhidev C:** Okay, okay. Sir, next, we are planning to launch all these projects in the coming quarters, now in terms of, I think this question was asked earlier, but how much inventory we plan to release will be based on what benchmark exactly?
- Subhash Bhat:** See, in each of these new projects, we will release 2 towers based on the basement. If there is a basement, which covers 3 towers, then 3 towers will be released. Like, the Hadosiddapura, we have got 8 phases that we have put in for registration with the RERA, we will release Phase I.
- Adhidev C:** Okay. So you plan to take the approval of the entire phasing or let one go and then just accordingly keep on launching?
- Jagdish C. Sharma:** Yes.
- Subhash Bhat:** That is the philosophy that Sobha follows. All approvals in one go, so that there is no issue for any customer later.
- Adhidev C:** That was very helpful. Thanks.
- Moderator:** Thank you. Next question is from the line from Dhaval Somaiya from Phillip Capital. Please go ahead.



Sobha Limited
November 12, 2018

Dhaval Somaiya: Good evening and thanks for taking the question. So, first of all, Sharma ji, you mentioned just a while back about the Bengaluru market. So I just came across the fact that the price realization for this quarter in Bengaluru has dropped by somewhere around 10% from 7848 to 6959 this quarter. Is that just because of the sales mix? Or has there been any abnormality during this quarter in the Bengaluru market?

Jagdish C. Sharma: There is no abnormality. It is all the sales mix. The high priced items like I do not have any 4-bedroom apartment and I have so many apartments to sell, one way of looking into, correct? So, neither in Indraprastha nor in Palladian, nor in Ghandia So, when you are selling a higher priced apartment, nor in even like in case of your HRC Pristine, we do not have any row house or we do not have that top tower, nor in the Richmond circle also. So sometimes, it is the mix, which is playing its role. It is not that we have reduced the prices and because of that, you have seen this kind of a drop. Going forward, you will see a gradual improvement in these numbers. And secondly, the Mysore launch was also extremely successful, but the realization to us was about Rs.1200 to Rs.1300 per square feet. So, looking at the volume and looking at the price per square foot realization, it also had impacted us negatively in the overall price per square feet realization.

Dhaval Somaiya: Okay, okay. So I believe that justifies the jump in the Rs.50 lakh to Rs.1 Crore ticket size contribution towards...

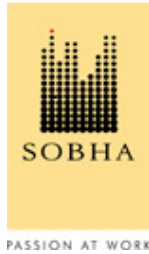
Jagdish C. Sharma: You are right, you are right.

Dhaval Somaiya: Okay, okay. And I see another trend in the Coimbatore market where the price realization, as well as the sales velocity is improving. So do we see a better potential in the Coimbatore market per se?

Jagdish C. Sharma: Not necessarily. We are thinking of launching one more project there in due course. But these markets are basically fillers, like during such times when Kerala did not perform or somewhere something, Mysore will perform, Coimbatore will perform, Thrissur will perform, and this had help us on a standalone basis as well that something will keep happening. And the overdependence on the Bengaluru market or the overdependence on the luxury market we minimize. So this is an extension of that process. Per se, our focus will continue to be, to keep growing the Bengaluru market, and we will focus on Gurgaon, Chennai more and Pune as well to see that we become relevant and a reasonably significant player in this market. This is our stated desire.

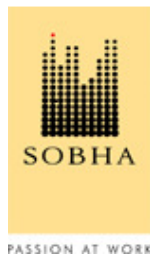
Dhaval Somaiya: Okay, okay. Thank you. That is it from my side.

Moderator: Thank you. Next, we have a follow-up question from the line of Abhishek Anand from JM Financial. Please go ahead.



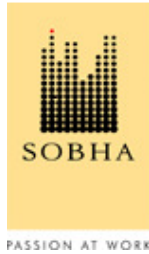
Sobha Limited
November 12, 2018

- Abhishek Anand:** Thank you so much for my follow-up. Subhash Sir, if you could tell us the status of Sobha Dream Acres? Because as I see on Slide 52, we have got some 1.7 million square feet of area to be launched. Is there anything more than that? Because 4.2, 4.3 million square feet is the launched area till date and 1.7, so this does not add up to 7.63, so just trying to reconcile the numbers.
- Subhash Bhat:** Yes, that is almost a million of luxury in Dream Acres which will come up where our plant is.
- Abhishek Anand:** Okay. So that will come in subsequent phases?
- Subhash Bhat:** Yes. That is subsequently once I dismantle the plant and move off, once I complete the structure.
- Abhishek Anand:** So if we are tying it up with Hoskote, so if we are trying to see that Hoskote will be launched, so I believe 1.6 number -- sorry?
- Subhash Bhat:** Most likely we will move that plant to Hoskote and we will make it bigger.
- Abhishek Anand:** So 1.6 million square feet, 1.66 million square feet number is what we should track then?
- Subhash Bhat:** 1 million for the plant area.
- Jagdish C Sharma:** Remaining, yes. You are right. You are right, Abhishek.
- Abhishek Anand:** Yes. So, basically, see our run rate is around 0.8 million, right, if I am not wrong?
- Subhash Bhat:** Approximately, yes.
- Abhishek Anand:** So in next 2 years, ideally we should be looking at Hoskote launch?
- Subhash Bhat:** That is your words.
- Abhishek Anand:** Yes, yes Sir, just verifying that. Yes. So that gets clarified. Sir, secondly, I was just looking at our contract numbers. Any cancellation we saw in the overall contract numbers? Because I think I saw a dip in our order book, because surprisingly, we have not had any completion.
- Subhash Bhat:** Yes, something would have got completed.
- Abhishek Anand:** Okay. Because we have not shown any completions.
- Subhash Bhat:** There have not been any cancellations.



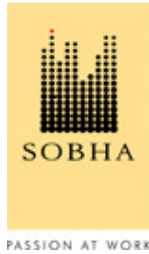
Sobha Limited
November 12, 2018

- Abhishek Anand:** Okay. And on the completion side, over the last 2 quarters, we have not seen completion, so it is just because we are not getting an OC or because the missing basis there? On the completion of projects, I think it is 27.4 million square feet that has remained stable.
- Subhash Bhat:** Yes, yes. So that will remain like that because once I get the OC only, then I will say it is completed for RERA purpose. But we are handing over to customers for varying periods okay. If the customer is willing to takeover by paying us full, they are doing it.
- Abhishek Anand:** Okay, perfect. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Parikshit Kandpal from HDFC Securities. Please go ahead.
- Parikshit Kandpal:** Hi Sharma Ji, congratulations on a good set of numbers.
- Jagdish C Sharma:** Thank you Parikshit Ji.
- Parikshit Kandpal:** Sir, the challenges, which NBFCs are facing currently, so are we looking at any disposition opportunities in the market?
- Jagdish C. Sharma:** See recently, some opportunities, definitely, we have taken advantage of in the Gurgaon market, but this happened before this NBFC part, whatever we have seen. My views, it still remains that what we are witnessing right now, it has got nothing to do with the financial health of this NBFC Company. They are the most well managed HFC or the NBFC and as a company we have seen. They have deepened and they have ensured that the housing market remains in good health. The problem probably has been that asset liability mismatch which you guys probably understand better than what we understand. What I am worried about right now is not at the customer level, where they will continue to enjoy benefits, either from the public sector banks or from the remaining NBFCs. The HDFC is still quite active, otherwise the housing is still quite active. B&D housing is still quite active. So we are not asset worried. But on the B2B, the refinancing of some of the existing loans to our friend may be as challenged, and that is how we have to see how it pans out. If it is all-in and an opportunity which we believe that will add value and which will satisfy our requirements of not cannibalizing our own projects. In all the markets where we have the presence, we have an open mind to look at.
- Parikshit Kandpal:** Okay. Sir, I was coming more from the land acquisition side for your commercial foray was where we want to increase our share.
- Jagdish C. Sharma:** Commercial product, we have already identified 3, 4 opportunities, and we would like to pursue that at this point of time.



Sobha Limited
November 12, 2018

- Parikshit Kandpal:** This Rs.1400 Crores you have already invested? When did we invest in this 0.5 million commercial, which you are saying, Rs.100 Crores?
- Jagdish C. Sharma:** That is part of my township where I am now taking it to the next level of education now. So there is no new investment that has happened. That was my entitlement, correct.
- Parikshit Kandpal:** Okay. Because you mentioned that amount of Rs.100 Crores, so I was wondering if it was something.
- Subhash Bhat:** No, Rs.100 Crores is which we invested for buying the Kochi land in partnership with Puravankara last year. So that is the investment that we did last year.
- Parikshit Kandpal:** And this Delhi 0.5 million, and is it in Gurgaon?
- Subhash Bhat:** Yes, yes. It is the part of the International City.
- Parikshit Kandpal:** The GIFT City, Sir, 1.8 million you said you were planning to get...
- Jagdish C. Sharma:** 1.3, out of this, 0.5 million square feet, right, almost all the approvals are through. We have to submit an application to RERA, which we should be doing anytime now. And hopefully, it should be launched immediately after that. We are working towards launching this in this calendar year itself.
- Parikshit Kandpal:** And what is the configuration here? What would be the target segment?
- Jagdish C. Sharma:** Affordable homes, some 480 units.
- Subhash Bhat:** Yes. Every one of them below 640 carpet.
- Parikshit Kandpal:** So, you have 80IA benefit on that?
- Jagdish C. Sharma:** You are right. You are right. 2 projects will qualify for this benefit, one will be this Bellahalli project.
- Subhash Bhat:** Dream Valley.
- Jagdish C. Sharma:** And the other one will be the GIFT City.
- Parikshit D. Kandpal:** So just lastly on the contractual side of the business, can you just highlight like what kind of opportunities you are seeing there and if you can highlight some of the pipeline, how big is the pipeline?



Sobha Limited
November 12, 2018

Jagdish C. Sharma: See the good news is that the Infosys jobs which used to be our mainstay, like our Bengaluru market in the residential space that we used to operate for multiple cities, that business again has come up in a relatively big way and we have got the visibility for next few quarters as far as the Infosys job is concerned, where we should be showing good growth in the coming quarters. That is one good news. As far as our manufacturing facilities are concerned, we are doing exceedingly well. This glazing division, our interior division, and our CPD division, all these 3 divisions will perform this year with record topline and record bottom line. As far as these non-Infosys projects are concerned, we already got good orders in the last quarter, one from this Azim Premji Foundation; that is their university, one of the largest university of Bengaluru and the other one from the Biocon. We are in the process of getting few more orders, which hopefully we should be able to reflect either in this quarter or next quarter as far as the non-Infosys projects are concerned. So the net-net, the big picture remains that we clocked a topline of about Rs.900 Crores in the last financial year. This financial year, we are aiming at stretching or crossing even Rs.1200 Crores. And next year also, with the kind of visibility what we have, we should be exceeding that number. That is clear. Thereafter, we have enough time to see what new projects we get which as we get, we will keep sharing it with you people.

Parikshit Kandpal: But are we looking at any projects in Gurgaon or say near GIFT City, where we have already established our infrastructure?

Jagdish C. Sharma: See, asset ours too, but the primary focus has been Bengaluru and the southern cities where we believe that we have got a better bandwidth to control the costs, mobilize the resources and sustain our margins.

Parikshit Kandpal: So 8% to 12% will be EBITDA margins?

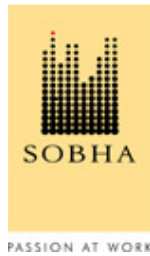
Jagdish C. Sharma: Yes, yes, that we are getting.

Parikshit Kandpal: Okay Sir. That is all from my side, thank you and all the best.

Moderator: Thank you. The next question is from the line of Vaibhav Kacholia from VK Capital. Please go ahead.

Vaibhav Kacholia: Hi Sir, congratulations on a great set of numbers. I wanted to know a little bit about your Pune market situation Sir. How do we compare in terms of brand and customer perception of our apartments compared to the incumbents there? And what are our plans for that market in that sense?

Jagdish C. Sharma: Thank you. Right. This convert project, it's complete and the feedback what we have got from this opportunity from the customers, from the brokers community and the other connected stakeholders. We have been given to understand that this is one of the finest projects Pune has got.



Sobha Limited
November 12, 2018

However, as far as from the sales velocity point of view, we have not succeeded. This is the market, which is yet to be corrected. Now the Alanda we have got the EC approval, we have got the plan approval we are going for the RERA and other registration and hopefully it should happen this quarter, and we should be launching the project anytime soon. We have got couple of small opportunities. One opportunity in Banays, we are pursuing where more or less we should be finalizing that any time. Once these 2,3 projects are visible, visible we will be able to see how the Pune performs for us. There is a strong belief that Pune, we have to track and with this new product launches; hopefully, we should be able to achieve that long cherished objective of ours. project launches, hopefully, we should be able to achieve that long cherished objective of ours.

Vaibhav Kacholia: Sir, as of now, it is a little tough, where existing incumbent players are strong or we think we can create a better brand perception than them?

Jagdish C. Sharma: I have seen in every market, there will be some loyal players who will do well, and they should do well, they understand the market better, they have better access to the raw material, which is the land. But at the same time, if you look at there are a couple of national players who have done reasonably well in the Pune market, which gives us the comfort and confidence that we can also do it, probably somewhere in selection of the land or the consideration part, or maybe the management aspect, we have not performed to our potential, but we are learning from our past experiences. And going forward, we believe that it will be also good market, which should perform better for us.

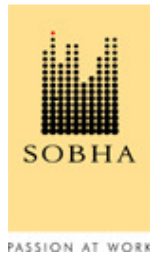
Vaibhav Kacholia: And so who are those companies we treat as competition in Pune?

Jagdish C. Sharma: I think the market knows. Per se, we compete with ourselves only, honestly speaking, in all the market, and not afraid of launching projects at any given point of time in any location. So that focus is important, but yes, the good national players are there in Pune who are doing commendably well, and we respect that.

Vaibhav Kacholia: Okay, great. My second question was, sir, when we get funding from NBFCs is the rate higher than what we are getting from banks?

Subhash Bhat: It is slightly more, slightly more.

Jagdish C. Sharma: See basically, we request and we ensure that and the NBFC also they match our average interest cost. So the prime face that that becomes kind of a yardstick for the bankers to give us the loan. We are having good dialogue with some of the largest public sector banks for our existing, as well as some upcoming projects. And we believe that we should be able to get this new sanction from these banks at even lower than my current existing average cost. So we remain confident that, going forward, while the interest cost will tend to rise because the MCLR and other base rates have



Sobha Limited
November 12, 2018

started increasing, but our rate of increase will be significantly lower than what you will be noticing with the comparable peer developers interest costs, which they are being made to pay by the NBFCs plus the banks.

- Vaibhav Kacholia:** Sir, these are interim loans and if we get a bank limit then we will pay off the NBFC assets?
- Jagdish C. Sharma:** No, no, as such we do not work on ad hoc or on interim basis. As Subhash was explaining to you, that 14% of the NBFC loan, plus the debentures, and this is what we have taken 3 years back, there is a trade with the land. Otherwise, all the other loans are, against the receivable or the projected finance loans against the particular project, and that is a full-term measure, nothing interim about that.
- Vaibhav Kacholia:** Thank you so much.
- Moderator:** Thank you very much. Due to time constraints, we will take that as the last question. I would now like to hand the conference back to the management for closing comments.
- Jagdish C. Sharma:** So good evening once again. Thank you for participating in this con call. As I have stated in the beginning, we believe that the growth of this sector will henceforth be more on a qualitative parameters first, then lending followed on a quantitative parameters. The inherent demand remains robust. Developers are trying to adjust and adapt to the new reality. Some of these challenges and the changes which have taken place, they have come too fast and some of them remain quite unexpected. The developer's fraternity has got lot of resilience. The way the commercial space and the affordable housing is shaping up in India across all cities, it augurs well. We remain quite optimistic that the real estate sector is going to do better in the coming quarter. And we also believe that Sobha has got a greater and a significant role to play, especially in the residential space. Thank you. Thank you once again for your participation.
- Subhash Bhat:** Thank you.
- Moderator:** Thank you very much. On behalf of SBICAP Securities, that concludes this conference. Thank you for joining us. Ladies and gentlemen, you may now disconnect your lines.