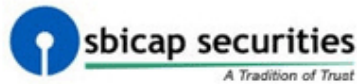




“Sobha Limited
Q1 FY2019 Earnings Conference Call”

August 08, 2018



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Moderator: Good day ladies and gentlemen and a very warm welcome to the Sobha Limited Q1 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 the questions after the presentation concludes. Should you need assistance during the conference call please signal for an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sandeep Mathew from SBICap Securities limited. Thank you and over to you Sir!

Sandeep Mathew: A very good evening, everyone. We are very happy to have with us today again the management of Sobha, represented by Mr. J.C. Sharma, Vice Chairman and Managing Director; Mr. Subhash Bhat, Chief Financial Officer; Mr. Ramesh Babu, VP Finance; Mr. Vighneshwar Bhat, Company Secretary and Compliance Officer; and Mr. Bala Murugan from Investor Relations, VC & MD's Office. I would like to now hand over the phone to Sharma Ji for opening remarks. Over to you, Sir!

J.C. Sharma: Thank you Sandeep and good evening to everyone. We are pleased to connect with you today post declaration of our unaudited financial results for the first quarter and financial year 2018-2019 ended June 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 July 2018. The investor presentation based on the financial results adopted by the board can also be downloaded from the website of our company.

As you are aware that the Ministry of Corporate Affair, government of India circular, the company and the group has adopted Ind-AS 115 from April 1, 2018. Though this had not any changes to the terms of the construction, billings to and collection from our customers and the group tax payment, the adoption has only changed the timing of revenue recognition in the real estate division in the books of account. Thereby impacting the revenue cost of good sold inventory advance from customers and deferred taxes. To give effect to this new tender, we have reversed the revenue of Rs.32.68 billion, which were recognized till March 31, 2018, consequently there has been a reduction in our retained earnings to the extent of Rs.7.57 billion.

For this quarter, also the lower revenue recorded in the real estate division is due to Ind-AS 115 implementation, which has resulted in reduction in our topline by 2.03 billion. In order to provide the comparable numbers to the investors and analyst community, we have also prepared Q1 financials in line with erstwhile accounting standards and included

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the same in this presentation. As you are noticing, we continue to witness steady growth in our residential as well as in the constructing space and this growth is almost in all our verticals and against all our product categories.

We are also pleased to inform that our current order book of contracts and manufacturing vertical stands at Rs.24.4 billion, which is one of the highest order book in our history. We have also been planning to launch further new projects to the tune of 9 million square feet in next three to four quarters across six cities. These projects are in various stages of design and approvals.

The momentum shown by the company in the current quarter should continue going forward as the company is working out various new opportunities in existing and in newer geography, expecting this direction was our foray into the Gujarat residential market with big city transaction where we hope to launch the project in the next quarter.

In this backdrop, Subhash will summarize our performance for the first quarter of financial year 2018-2019.

Subhash Bhat: Thanks, Sharma Ji. Good evening to everyone. You already have the investor presentations with you. I will just like to summarize the financials for the Q1 FY2018-2019 under the new adopted standard of Ind-AS 115.

Our revenues stood at Rs.6.1 billion of which real estate contributed Rs.3.6 billion, the contracts and the manufacturing verticals contributed Rs.2.38 billion and other income came at Rs.124 million. The EBITDA for the quarter stood at Rs.1.43 billion, and the PBT at Rs.740 million. Consequently the profit after tax came in at Rs.534 million.

On the cash flow front, our collections from operations continues to be healthy during the first quarter of FY2018-2019. The total cash inflow during the first quarter was Rs.7.37 billion of which real estate collection came in at Rs.5.03 billion, the contracts and manufacturing vertical collection were at Rs.2.34 billion. We have generated net operational cash flow of Rs.800 million after meeting interest and tax expenses. This is the twelfth consecutive quarter where company has generated operating positive cash flow after meeting the financial outflow.

Our debt equity under the old standard stood at 0.8 and under the new Ind-AS 115 stood at 1.09 as of June 31, 2018. It is not moving as of whatever numbers we presented in March 2018 our debt equity as stood at the same level. We further brought

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down our average cost of borrowing during the first quarter to 9.31. This is the lowest average interest rate for the company in its history.

Coming to the performance highlight, as communicated during the first week of July 2018 during the first quarter FY2018-2019, the company has achieved new sales of 0.96 million square feet valued at 7.62 billion of which Sobha's share was Rs.6.12 billion. Sales volume was up by 18% as compared to the corresponding quarter for the last year with Bengaluru region contributing 64% of the total sales during the quarter.

During the first quarter, company launched one project development project in Mysore name Sobha Meadows with a total salable area of 0.13 million, we also released 0.8 million square feet for sales from exiting project such as Sobha Arena, Pebble Court and The Square. The company had also launched one project in Bangalore Sobha Lake Gardens during July 2018 with a saleable area of 0.89 million square feet.

Coming to the contract and manufacturing vertical, the total revenue from contract and manufacturing during Q1 came in at 2.38 billion, this is up by 37% as compared to the last year. The contract verticals contributed 1.63 billion and the manufacturing revenues came in at 750 million. Also the collection during the first quarter for this vertical stood at Rs.2.34 billion, which is higher by 50% as compared to the previous year.

Thank you and I would request the call coordinator to open the waiting for questions.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin with question and answer session. The first question is from the line of Abhishek Anand from JM Financial. Please go ahead.

Abhishek Anand: Good evening Sir. Subhash Sir just question on this reversal. so if we are looking at the presentation, we see that you have reversed almost Rs.3268 Crores of topline, and Rs.757 Crores of profits, if we backward calculate the margins, we get a significant higher margins, it is almost 28% margins. So why would that be, because we understand it is 23% margins so just trying to understand here, are we missing out something, is it because of sales and marketing expenditure?

Subhash Bhat: Abhishek, we are not missing anything. What has happened is our normal EBITDA margin on real estate projects varies between 25% and 30% and just continues over the last two years, but this EBITDA margins comes in after overheads and interest cost, now when they are reversed these, this includes sales and marketing overheads so when I look at the reversal that has happened as far as the accounting standard, I had to

reverse out only the cost of the project and the revenue so we could not reverse overhead and marketing expenses. Therefore you see optically it is a higher margin, but our EBITDA margins continue between 25% and 30% so that has not got impacted.

Abhishek Anand: But when we again recognize this so effectively we would have already recognized the sales marketing cost?

Subhash Bhat: For this revenue yes for the Rs.3268 Crores, we have already taken the hit for overheads and marketing expenses so going forward when we complete the project only these two items will come back into our P&L.

Abhishek Anand: So effectively the margins will be slightly higher once these are recognized in our P&L is that in front?

Subhash Bhat: Yes that is right but then we will continue to have overhead and marketing expenses during the current year.

Abhishek Anand: Yes, that is of course ongoing process?

Subhash Bhat: It is ongoing process okay.

Abhishek Anand: Any update on affordable housing project, which we are planning and when should be expect to launch of the same?

J.C. Sharma: You are talking about the Bilekahalli project?

Abhishek Anand: Yes Sir.

J.C. Sharma: So they we have got all the approvals except the final bidding plan approval, we should hope that this should happen this month or next month and these approvals should come thereafter so may be October also this projects should be launched.

Subhash Bhat: These are the timelines that we have shared that we will launch during Q3 or Q4 of this year.

Abhishek Anand: Okay so it remains the same no changes there?

Subhash Bhat: Correct.

Abhishek Anand: Sir finally if Sharma Ji if you could helps us we are having a lot of projects big launched in Bengaluru market, do you see your competitors are the supplying going up, but yearly

in the region or these are the outspread but actual area open for sales as much lower, just if you could give some of your thoughts of the supply scenario in Bengaluru market?

J. C. Sharma: What we are clearly seeing today that new launches if you look us on the sector perspective by most of the developers, it has almost come down to very few launches, there has hardly been any noticeable launch even post RERA or during that period if at all the launches are happening so called great, great or the branded players and good scope for this people to give launching and keep selling. As far as Sobha special things are concerned, we are also completing the projects. Our Sobha city project is almost complete. Our Silicon Oasis Project will get completed this financial year. Our Indraprastha will get completed this financial year in some of the largest Sobha Bellevue will get completed in this last year. In the past there also some projects will get completed in this financial year and our finished stock inventory, which is among us the lowest vis-à-vis all the players and still we continued to help large inventory because of some of the project sizes were large and we have been getting approvals in one go, but there are approvals on stage wise basis so with this idea was to keep sufficient inventory in our core market keep launching the projects and finish the selling of such projects almost coinciding with the completion of the project timeline and more or less we have succeeded and I believe that will primarily help us to sustain the volume growth in the Bengaluru market and also we ensure because of that fewer launches that we start bracing the market share so when the Bengaluru overall market has come down by 30%, 40% minimum. Our overall numbers has gone up, is what one can draw conclusion from just know what I have said.

Abhishek Anand: Just a followup on that, do we track the market share numbers for how much Sobha will have in percentage of market share in Bengaluru, do we track those numbers?

J. C. Sharma: It is like this that we are getting the debtors from equity and some of the IPC so if you look at the numbers what they disclose though highly debatable the numbers also vary from one research guys to the other research guys, but just primarily in the segment in which we are there, we are probably amongst the top two developers having significant market shares in the categories in which we operate.

Abhishek Anand: This has changed by how much over the past three to four years?

J. C. Sharma: Basically as I see it the unorganized sectors or even some of the other relevant players also, their launches are very few and far between and while this has resulted into the overall construction in the market side, but probably from the value perspective, I can say that we are almost nearing to the double digit market share.

- Abhishek Anand:** That is helpful. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Kunal Lakhan from Axis Capital. Please go ahead.
- Kunal Lakhan:** Quickly on the sales front if you look at say about six quarters back we used to do about Rs.500 Crores kind of quarterly run rate, which has ramped up to about Rs.650 Crores over the past few quarters now and with 9 million square feet of new launches lined up, where do we see this run rate going ahead in the next three to four quarters?
- J. C. Sharma:** In the short run, we aim for double-digit growth in the volumes and value returns, in the medium to long-term this is the stated desire that all of us we will get the signal that we should be achieving 6 to 7 million square meter and preparing ourselves with our inventory and the project launches to achieve that because the scaling up of the construction activity will not be that a challenge as much as selling it, but to begin with gaining the market share and becoming relatively relevant players especially in Karnataka, Kerala and in Gurgaon gives us confidence that we are on the right track.
- Kunal Lakhan:** Secondly Sir on 9 million square feet of new launches are these Greenfield or this is in also includes ongoing projects where the areas not been relief for sales?
- J. C. Sharma:** These are all 100% Greenfield.
- Kunal Lakhan:** Okay great and over and above how much of area within the ongoing projects that you will release over and above 9 million square feet?
- J. C. Sharma:** That is shown separately for in our investor presentation slide 19.
- Kunal Lakhan:** That is about 7.5 million square feet but how much of that will be launched or relieved in this year?
- Subhash Bhat:** That would depend on how much sales would happen.
- J. C. Sharma:** That depends upon project-to-project. No sooner we believe that sufficient inventory sold out. We will go to the next phase. Say for example in case of Dream Acres this has been happening, one tower consists of 100000 and depending upon the architectural execution thing, we keep releasing the towers almost on an every monthly basis.
- Kunal Lakhan:** Sure that is great and just another related question on this is basically Dream Acres project where I mean project we have been delivering on this project almost every

quarter, we keep delivering certain blocks and there is about 3.8, 3.9 million square feet of unreleased inventory here, by when do we think will be able to completely exit this project and may be next move on to another Dream Acers if possibly?

Subhash Bhat: You are right and average run rate the day since the launched has been about a million square feet and by the same yardstick in the next four year's time, hopefully we should be able to execute this project.

Kunal Lakhan: Thanks so much.

Moderator: Thank you. The next question is from the line of Abhinav Sinha from CLSA. Please go ahead.

Abhinav Sinha: Thanks for taking my questions. Just one followup on the sales bit, you also mentioning some better movement in the market as such so which markets are looking better to you out of the ones, which you are operating right now?

J. C. Sharma: There is clearly right what we can see a Gurgaon market is showing a good traction. We believe that the Kerala market, we can continue the momentum even in our case, the Coimbatore market or the Chennai market also started showing some sort of an improvement. The launch in Mysore has helped us to improve there also the sales numbers and Bengaluru we continue to remain a bullish so based on the first performance and based on the last month performance, we believe we are on the right track as far as improving both the sales number and market share. We believe we are on the right track as far as improving both the sales numbers and the market share in all the markets just now I have talked about.

Abhinav Sinha: Right and Sir this quarter I think Bengaluru was down a bit YOY for you right, so for the full year can we sort of assume roughly similar mix?

J.C. Sharma: We will be doing better. There are good launches, good products, Bengaluru we will be doing better, I am not worried about the Bengaluru market.

Abhinav Sinha: Sir moving onto the contractual side of business, so now order book looks really great currently, I think it is the highest side as you are mentioning right now, so what is the rough conversion pace now, this Rs.250 Crores will go up to what 400 or something?

J.C. Sharma: I think we did Rs.900 Crores plus.

Abhinav Sinha: I am saying quarterly sorry.

J.C. Sharma: Roughly 250, we will go to 300 plus.

Abhinav Sinha: By the end of this year.

J.C. Sharma: By the end of this year, basically what is happening we still believe that even on the similar basis and on this Ind-AS basis both sort of a thing we should be showing not only the volume growth, we should be showing the value growth both in our real estate vertical as well as in our constructing vertical and while the input cost pressure is there the steel prices remain at the elevated level, the labor cost is still high some of the other commodity prices have gone up, but despite that we believe that the small, small margin improvement, we are not taking into account Ind-AS part, the Ind-AS also reflects that probably on the residential space barring couples of guys our margins are quite healthy and going forward also on the real estate margins we believe that we will keep improving the margins bit by bit, despite not being able to get that pricing power, so on the cost side also we have been working very hard to ensure that we keep the margins under protection.

Abhinav Sinha: Right Sir just few accounting bits for the quarter, so what exactly was in the real estate I mean, which projects were there?

J.C. Sharma: Almost all the projects like which are not completed, for example Indraprastha revenue got reversed, Silicon Oasis projects revenue got reversed, Valley View projects revenue got reversed, some of the other, the projects on the Dream Acres, which were ongoing, wherever 25% completion was there the revenue was getting recognized. Now from 25% to 99% wherever the cost has been incurred this revenue has been reversed. Literally speaking we are taking three to four years to complete the projects and roughly two-and-a-half to three years of ongoing projects where revenue used to get recognized is getting deferred. It is unfortunate that this will create some kind of confusion, but we have to abide by, we wish that that even now also if the government reverses it, it will be good, but let it be like this market will accept this kind of minimum.

Abhinav Sinha: So the 3300 should be sort of recovered in what 8, 10 quarters, almost evenly or there is some period lag?

J.C. Sharma: Maximum 8 to 10 quarters because it is 25% plus only we were recognizing, so it should be recovered in 8 to 10 quarter, you are right.

Abhinav Sinha: And with Indraprastha coming this year is current year heavier?



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- J.C. Sharma:** Pardon me.
- Abhinav Sinha:** If with Indraprastha likely to be delivered this year?
- J.C. Sharma:** Yes likely to be delivered this year.
- Abhinav Sinha:** So FY2019 we will see a bigger jump in revenues?
- J.C. Sharma:** Cannot say again. This hand over accepting and there are some other technicality involved, so at least this year we will keep giving the revenue bottomline based on the way we used to complete for you people to do a better comparison.
- Abhinav Sinha:** Sure Sir. Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Mohit Agarwal from IIFL. Please go ahead.
- Mohit Agarwal:** Thanks for the opportunity. Sir I had a question on your unsold inventory number. So in the unsold inventory number in the ongoing projects you have about 4.6 million square feet of unsold inventory, which has come down over a year from about 6.2 to 6.3 million, now at that time you used to share the breakdown of unsold inventory, Bengaluru had about 2.5, 2.6 million square feet of unsold inventory in the area released, just wanted to get a sense of what that number would be now because you have not launched like too many projects and you would have done sales of almost 3 million square feet in Bengaluru alone during this period?
- J.C. Sharma:** So what is the question now Mohit?
- Mohit Agarwal:** I will repeat it, so basically Sir, I wanted to get a sense in your unsold inventory of 4.6 million square feet in the areas released number, how much would be Bengaluru contributing currently?
- J.C. Sharma:** Unsold ongoing or unsold finished?
- Mohit Agarwal:** Ongoing Sir, finished is a very a small number?
- J.C. Sharma:** So you are right, I will give it.
- Mohit Agarwal:** Sir my question is basically do you have enough inventory or is it a good position to be in and you have sufficient under construction inventory over this year because you have a

lot of launches, so just wanted to get a sense of that that how much under construction inventory do you have currently to be sold in Bengaluru?

Subhash Bhat: Bengaluru itself Mohit?

Mohit Agarwal: Yes.

Subhash Bhat: It is about 4 million square feet.

Mohit Agarwal: This is including area not released?

Subhash Bhat: No, on the area released 3.5 million square feet out of the 4.55.

Mohit Agarwal: Could you just break it down in like big projects where this would be big two or three projects?

Subhash Bhat: Dream Acres would be the biggest and the breakup would be about 5 lakhs. HRC Pristine, all like the new projects like HRC Pristine has 5 lakhs square feet, Forest Edge and the recently launched project called Arena Park and Pebble Court Square those kind of a projects.

Mohit Agarwal: Okay, so not much of projects, which are nearing completion is there in?

J.C. Sharma: That is what we have always been always maintaining.

Mohit Agarwal: Okay. Thank you Sir.

Moderator: Thank you. The next question is from the line of Bijay Kumar from Deutsche Bank. Please go ahead.

Bijay Kumar: I think you partially answered my question, but how has been the response to recent launches Sir, we are sensing some kind of demand revival or sentiment improvement in the premium segment? We are seeing this Rs.3 Crores and above category the value composition increasing would you see this as a trend or this is specific to some new launches and specific to this is my question Sir?

J.C. Sharma: Not exactly specific to this quarter, but primarily if you see from the new launches also the Pristine had met with good response, the Forest Edge met with good response, Meadows has met with very good response and the Garden also has met with good response, so the new launches whatever we have done, they are all successful and they have met our expectations. As far as the high value inventory is concerned, we have sold

good number of row houses, good number of high value apartments and going forward it will still hopefully continue to be around 30% of this high value item, so the rough endeavour has been that 1 Crores and below, one-third should be between 1 Crores to 2 Crores and the balance should be about Rs.2 Crores sort of thing, that kind of product mix should continue. Am I clear?

Bijay Kumar: Yes Sir very much. Sir another slightly more generic question was around this quarter also we saw this trend of lower interest cost continuing at a time generally rates have reversed are we doing something differently and would you see this for the fiscal year, are you sensing that this may reverse and the cost may start rising going forward?

Ramesh Babu: Yes, so let me take that Sir. So basically for one more quarter there is a chance that we will see a reversal, but thereafter we will see the upward pressure starting if the current RBI position on the REPO rate continues, so what we are doing differently is that we have got our high cost NCDs which are coming up for repayment, redemption, so that is helping us to bring down the cost on a quarterly basis and plus what we are doing is with the banks we are being very tight in the negotiations so even if the banks have taken up the MCLR we are requesting them not to overall take the rate up and reduce the spread between their MCLR and what they charge us, so we are pushing them on the spread that they charge from the MCLR to what they charge.

Bijay Kumar: Perfect, so nothing specific to the sort of breakup of fixed rate versus floating rate anything like that right?

Ramesh Babu: No. Our fixed rate is the NCDs that we have.

Bijay Kumar: Perfect and generally what will be the breakup of this Sir, 70%, 80% fixed and remaining floating?

Ramesh Babu: No most of it is floating because everything that we take whether it is MCLR, banks all MCLR based, so it is floating either three months, six months or one year, it is only our NCD, which is fixed, which is now less than 160 Crores of NCD, which is there, it is fixed.

Bijay Kumar: 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 so much for the opportunity. Just wanted your thoughts how has new your launches done, is it possible to get a sense of how much of the new launch has already been sold in this quarter?
- Subhash Bhat:** New launches we have Sobha Meadows, Puneet.
- Puneet Gulati:** 0.13 million yes.
- Subhash Bhat:** As Sharma Ji said it has met with good response, which we are also releasing, it is just like a 1,30,000 square feet almost some 60% has been booking we have already taken.
- Puneet Gulati:** Sorry 60%?
- Subhash Bhat:** Yes.
- Puneet Gulati:** Okay and that was the only new launch right?
- Subhash Bhat:** Yes Lake Garden got launched in July.
- J.C. Sharma:** For the quarter, but prior to that there was a launch from the Pristine and the Forest Edge also.
- Puneet Gulati:** How much has been sold from that launch, what percentage?
- J.C. Sharma:** Almost in both the cases more than 25% of the inventory has gone.
- Subhash Bhat:** Till now.
- Puneet Gulati:** Okay and that is in a period of three months, I presume?
- Subhash Bhat:** Not three months, two quarters, Pristine got launched in October 2017 and Forest Edge got launched in February.
- Puneet Gulati:** Can you give some schedule of what all projects will complete this year and next year?
- J.C. Sharma:** Difficult that way till it is not formally completed or not received, I already given the names that we plan to complete the projects like in the Indraprastha, Silicon Oasis, Pristine, Dream Acres, Plaza, these are the prominent projects, which will get completed from the construction point of view definitely, other things fire NOC, normal OC, hand over other things may get delayed here and there, but good number of projects are planned to get completed.



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- Puneet Gulati:** So from revenue recognition perspective will you still recognize all these or would you have to wait for all these fire, OCs and all?
- Subhash Bhat:** Typically for revenue recognition from the AS115 perspective we have to complete all our obligations and intimate to the customer, now if these projects are registered under RERA then we need necessarily to apply for OC and do then do the intimation. Getting OC is not a requirement, applying for OC is a requirement under the obligation, so it all depends on, we have to complete as Sharma Ji said the building construction has to get over we should the fire NOC and then apply for OC.
- Puneet Gulati:** So once you apply for OC you can recognize that revenue?
- Subhash Bhat:** We will intimate the customer and we could have paid up, so those conditions are there, so Puneet it is not something which is in our hands right now to tell you how much will come into the books, we would want to do it quarter-by-quarter.
- J.C. Sharma:** Let me put this in a simple terms, if the projects are going to get completed on a timely basis applications will be made. The final outcome which is there with the third parties it sometimes create certain kind of a delay, as things stand today we have take a view, at the same time the industry also has to involve to a consensus, but prima facie, net-net what has been asked by us to AS115 is that from our side all the obligations once they are completed and the rights and responsibilities of the customers they creep in, it will be treated as completed.
- Puneet Gulati:** What is this land purchase cost relates to this time?
- Subhash Bhat:** Basically we bought land in Thrissur that was a big one and then Gujarat GIFT city, these are the two major ones in it and then there was a registration, which happened also for the earlier purchase.
- Puneet Gulati:** The Kochi one?
- Subhash Bhat:** Yes.
- Puneet Gulati:** Lastly Sir if you can give some comments on, if you are seeing any sense of better pricing coming in at all since momentum at least is better?
- J.C. Sharma:** I keep saying that the pricing power is still not there, but we would have liked in an ideal situation at least to pass on the input cost increase, but what is happening on ongoing projects, it is difficult to increase the prices because there is somewhere some

benchmark, customer already knows, but as and when the new product is launched, we ensure that all input cost whatever we are aware of that gets adequately clustered and the pricing is done accordingly and those prices are being accepted by the customers, probably once these existing ongoing projects inventory gets completed the developers fraternity will be literally compelled to increase the prices from what currently they are prevailing to ensure that they remain viable, so may be few quarters away on the existing projects, but we are relatively comfortable on the new product launches as far as pricing is concerned.

Puneet Gulati: So is it fair to say that for the same locations similar product when you launch a new product the pricing is better than the previous one?

J.C. Sharma: You can say so because Forest Edge when we launched which is adjacent to the Forest View, the realization what we are getting is relatively better.

Puneet Gulati: Any thoughts on starting to give full year guidance again the way you used to earlier?

J.C. Sharma: Instead of giving that way the clear numbers what we are telling that we believe that the double-digit growth we should continue to have, only when we find that if the market is giving clear signals that yes demand is back across all regions for even other players also we will start looking at giving the guidance at that point of time.

Puneet Gulati: That is great. That is all from my side. Thank you so much.

Moderator: Thank you. The next question is from the line of Abhishek Bhandari from Macquarie Securities. Please go ahead.

Abhishek Bhandari: Good evening Sharma Ji and good evening the team of management. Sir I wanted to understand more thoughts on this land purchases and land investments we are doing, if I just flip back to your numbers from 15 to 18 every year we have been investing roughly the same amount whatever is coming out of the positive operating cash flow, so net-net, when it comes to either using to pay out more dividend or paying down debt, we have now been able to recoup money from the business, so is this going to be an ongoing trend that whatever money you are going to get on operating cash flow surplus will be invested back in terms of getting new land or is it more opportunistic you feel?

J.C. Sharma: It is both, you have given a cut off of 15% or so sort of thing, so we felt that when the interest cost reduction benefit and at the operating level in some quarters has been operating cash flow positive it has been there, we should not be missing the

opportunities simply because we have got enough land bank and if we can increase our volumes and the market shares by getting this opportunities simply we should give the past, so that means some investments will be continuously made on the land part where the return should be expected much faster than what otherwise historically used to be done. Say for example for the Lake Gardens we had invested the money in the last quarter and this quarter, we have launched the project, say for example in case of the Gujarat GIFT city we have invested the money in the first quarter and we are planning to launch the project in the next quarter. Say for example, when we talk about investing money in Thrissur my Sobha City last project Lake is I am executing. I have 15 acres of the land, but in the same year I am not planning to develop and we have done very well there, once we wanted to have clarity on at least in Thrissur I should be the presence and visibility, so we have invested some 40 Crores plus money on the land in the Thrissur part also, so this is part of that ongoing process where the fund gets deployed as well as to ensure that the debt equity level what we have been talking about on erstwhile basis it is kept around 0.8, which is still being maintained, so it is works rather better for the organization is our view.

Abhishek Bhandari: Just like you have some medium term target for sales, do you have any medium term target of absolute debt level and on a related question before I forget so what is the update on the money to be got from the Bengaluru metro some land what we had given to them?

J.C. Sharma: It is still to be paid or deposited in the account, but as and when it comes definitely we will let you know but during these two, three years we have completed functioning mall also, right we will be almost completing in St. Marks road development of 400000 square feet again when retail cum commercial space as well, so there has been a parallel investment on such activities also, we had also invested more than Rs.100 Crores plus on the Vikas plant ad well. So when we look at the overall investment it is not only limited true only on the land part.

Abhishek Bhandari: Any target you have on absolute debt level or it will be linked to debt equity as you have been in the past?

J.C. Sharma: We believe that as the volume grows, the working capital cycle and the requirement will keep going up. As and when we launch some larger side commercial projects also the requirement will be there, but we believe that 0.8 as per the old method is a good reference point, we would like to speak around that to plan our capex requirement or to plan our dividend payout.

Abhishek Bhandari: Thank you and all the best for the year.

Moderator: Thank you. The next question is from the line of Chandrashekhar Shridhar from Fidelity. Please go ahead.

C Shridhar: I just had a couple of questions. One is on 9 million square feet which you are going to launch over the next few quarters what are the land costs, which you will have to pay one and second is how do you think you are going to margin is this only because you have some of these unused GST credits and third is margins which are working on the low cost housing if you can just take me through that? Thanks.

J.C. Sharma: To answer your last question first. Let Subhash was pointing it out, we work on 25% to 30% EBITDA margins on our real estate projects, which is generally blended somewhere the land may be the historic cost, somewhere the land may be relatively new or somewhere you may have a joint development on an area sharing basis or on a revenue sharing basis, so from a project to project its varies, but that variation is restricted to roughly that 5% only is what as Subhash has communicated. The margin expansion is happening primarily on account of doing higher volumes, higher values, both on the real estate and the contract side where the fixed cost is not rising in that proportion. Coming back to the GST part, there is hardly any credit we have. Of course on the new projects, the overall benefit because of the GST is relatively higher at the excise benefit has started accruing in from now onwards, but this is considered there is a part of the cost where you exclude the GST from both side what you collect from the customer and what you take at a credit, so for determining the margin we are not considering the GST factors at all.

Subhash Bhat: Both the sides we do not consider GST neither in the cost, neither in the revenue.

J.C. Sharma: Do you have any other question, which I missed out?

C Shridhar: On the 9 million square feet what is the land cost which I have to pay?

Subhash Bhat: Basically we have to pay some amount to GIFT City, so that is the biggest one and then there will be some approval cost which will be there other than that it is hardly anything some one or two places we may have to give some refundable deposit linked to the approval.

C Shridhar: What would be the total amount, which you can say?

Subhash Bhat: Probably overall about another Rs.50 Crores max for that 9 million.



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C Shridhar: Okay. Thanks.

Moderator: Thank you. The next question is from the line of Manoj Dua from Geometric Securities. Please go ahead.

Manoj Dua: Good evening Sharma Ji. In Q3 concall you said about development planning in Gurgram that you will be looking at some new deals etc., any update on that that is the first question and second question is we are looking to increase our sale to 2.5 times in next five year, what are the vertical areas which you think... We want to increase our sales to 2.5 time in the next five year, so which area like affordable would be there in key driver or the projects like Dream Acres would be the key driver for increasing our sales? Thank you.

J.C. Sharma: Primarily as far as the NCR Gurgram is concerned, we have tied up with two more agreements, but the project will take its own time to get launched. As far as going for 2.5 times out of a thing our stated desire has been that we should be taking our current sales momentum to 6 to 7 million square feet at the earliest where we believe that the Bengaluru market should be contributing half of that and the remaining half should be coming from all other markets put together. As far as the products are concerned, this ratio of one-third, one-third, one-third up to Rs.1 Crores, Rs.2 Crores and above Rs.2 Crores kind of a thing it is what we are focusing on. You are right, right now it is Dream Acres, which is contributing the maximum, but going forward the good number of new products launches should be happening in this category including in Bengaluru in couple of more locations and this should give us that much extra volume what we have been hinting when we talk about taking it to 7 million square feet or so. Am I clear?

Manoj Dua: Yes. One last thing, in affordable what are the challenges you see for the company like Sobha because we construct ourselves cost or little bit higher on the quality also it much better, so what are the challenges you see for going entering to affordable for Sobha?

J.C. Sharma: So far we have enjoyed this experience of whatever we have achieved with the Dream Acres and that is what which has prompted as to look at this particular category with much more seriousness. Challenges are there in selling all kind of products, but here we have been able to attract the customers who are of the age of 21. If you look at my customer profile, you will see that 17% of our new customers today they consist between the age group of 21 and 30 and almost 60% of the new sales is within the age group up to 40 years, which is giving us the hope that with the increased loan tenure and actual buyers now forming a significant portion of the new sales this is the segment where we can growth faster and the whole market also can grow faster. While Rs.1

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Crores plus market also will be there and it will continue to remain reasonably good, but India's real estate will get a revival primarily through this affordable housing 60 meters square 1000 square feet saleable area also product in my view.

Manoj Dua: Thank you and best of luck. Thank you.

Moderator: The next question is from the line of Vivek Kumar from Bestpals Research & Advisory. Please go ahead.

Vivek Kumar: Thanks for taking the questions. My first question is on can you describe more clearly how are affordable. Is it going to be like Dream Acres, which are affordable starting at Rs.70 lakhs to Rs.80 lakhs because our players in the market are coming around Rs.45 lakhs to Rs.50 lakhs so given that our cost of construction and quality are way above others, so what would be the mix of our product mix and also the pricing of our affordable projects and what scale do we think achieve in affordable in the next two to three years? That is my first question. The second question is on the contracting side, are we doing contracting because we have lot capacities that we can use or this is the line of business that we intent to grow and maintain at some run rate in the future? These are my two questions. Thank you.

J.C. Sharma: Thank you. As far as your first question on the affordable or the Dream Acres is concerned, in the future we will try to see that till the government continues to give affordable housing a special treatment, the projects will be launched under the 60 meter square carpet area category only. As far as the cost is concerned, we need not to have worry because as I repeat and Subhash had been communicating that we are primarily working to ensure that our EBIT margins does not fall below 25%, so when we are starting the project and pricing our projects we ensure that we start with that threshold, so cost is immaterial. As far as the percent, I have tried to answer that the focus is not to lose on our luxury segment, which will continue to remain the core segment. It may be Rs.1 Crores plus. We still believe that two-third of the sales will continue to be derived from that market, but we also believe that there will be a good amount of volume growth expected and where initially the numbers will be coming more from the affordable segment than from the other numbers. Coming back to your constructing and the manufacturing part, more or less as far as the manufacturing part is concerned, we have reached our stated capacity that means today the interior division and the metal working division right now is operating at its full capacity. As far as the sales, finishes, plumbing, electrical, and fire related jobs are concerned right, we have a scope to keep growing. These were not flowing because there was some contentment and we believe that the

backward integration with a good client like Infosys, we are okay, but then when we thought that the overall contribution from this client, which still remains our number client is likely to get reduced in the future we focused on the other contracts and within a year and a half we have shown this kind of an improvement in our order book position. We believe that still there is a scope to increase this order book by another Rs.500 Crores to Rs.600 Crores and we believe that there is also scope that from expected Rs.1200 Crores also what we are likely to do the billing in this contract and manufacturing division, we can take it to may be Rs.1500 Crores to Rs.2000 Crores in due course.

Vivek Kumar: In the contracting division, this is not because we have some real estate capacity and the backward integration that is left we are using? We are seeing this as another line of business that we want to grow right Sir?

J.C. Sharma: You are right. On the contracting side, when you grow you will definitely have to scale up, but more or less when the processes are set, it is relatively easier to go for this kind of an increase without hurting the quality or hurting any having kind of dissatisfaction in the clients mind. Basically you will see most of the contracts are getting repeated, so when you get a customer you get a repeat business and our margins maintained on that business.

Vivek Kumar: The last question and my question on affordable what will be our pricing and not the cost sale, the pricing to the customer is different from the competitor because Provident is selling at Rs.45 lakhs, Rs.50 lakhs and Rs.35 lakhs, I am not comparing, you are a much better player, but how is our affordable being positioned? Will it be at Rs.70 lakh like Dream Acres or it will be at Rs.50 lakh to Rs.60 lakh that is what I wanted to understand the pricing and not the cost side?

Subhash Bhat: Our pricing if I look at my current costing and look at the current land areas where we are going to launch an affordable housing in Bengaluru, we should be launching a 60 square meter saleable area of about 1000 square feet at Rs.5000 to Rs.5200 per square feet after taking into account in EBITDA that we want to make and the tax benefit that I will get, so it will be appropriate to 50 lakh kind of product. Now the customer will get a subsidy from the PMAY of about 2.3 because that the segment that we are targeting here, so he will get 2.5 and then a 4% reduction in GST also because this entire project will be in the affordable segment, so the GST from 12% to 8%, so 4% there is another Rs.2 lakh.



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- Vivek Kumar:** Once we start launching and get good response, we have future plans to scale it up immediately in the next one to two years if not let us say our first project is having a grand success? Are you going to scale up growth?
- Subhash Bhat:** If the market picks up, the market show except the product that we are giving at the price point, we are completely open to scaling it up. I do not think capacity would be constraint there.
- Moderator:** Thank you. The next question is from the line of Parkishit Kandpal from HDFC Securities. Please go ahead.
- Parkishit Kandpal:** Thank you Sharma. Congrats on a good set of numbers. Sir any update on the APMC project?
- J.C. Sharma:** This financial year definitely, I will try to give an update. We have started pursuing that project again.
- Parkishit Kandpal:** Started pursuing like is there any commitment capex coming?
- J.C. Sharma:** We have approached government there has been certain changes here and there. We have established the context and we are going ahead with that project. That much I can tell you.
- Parkishit Kandpal:** How will the capex outline here? Will this year is there anything?
- J.C. Sharma:** Again we start with the plan approval and actual work will get started only in the next financial year.
- Parkishit Kandpal:** Total capex will be close to Rs.1000 Crores only?
- J.C. Sharma:** Yes at the current prices you can say.
- Parkishit Kandpal:** Sir just coming back on the Kerala projects, the RERA rules are not still notified there?
- J.C. Sharma:** Not yet.
- Parkishit Kandpal:** Just on the Marine Drive project, so out of the total ongoing, which is like 1.49, so much we would have sold as of now in this project?
- J.C. Sharma:** Pardon me.

Parkishit Kandpal: In the Marine Drive one project what would have been the sales?

J.C. Sharma: We will let you know. Any other question you have?

Parkishit Kandpal: Because you have planned another so I was just wondering not release for sale under RERA?

Subhash Bhat: Half a million we have sold till now.

Parkishit Kandpal: Out of 1.2, half a million you have sold because in that 9 million square feet, you are planning to raise an additional area, so I was just wondering?

J.C. Sharma: Not in Cochin. Kochi is Sobha Isle, which is a different location.

Parkishit Kandpal: Sir, this Gujarat GIFT City project, residential projects, I mean, we are planning to launch it probably next quarter, so can you give some more sense like what kind of demand could be there and what kind of catchment you are looking at because I think this will be one of the first project in Gujarat which you are planning and what kind of realizations or value or the configuration of this project, this will the flats and also if you can just give some more colour on this?

Subhash Bhat: It is a 1.3 million square feet that we have signed up of which the first phase that we launched is about half a million and it will be an affordable segment, which is the 60 square meter that we are talking about. Again the pricing will be very similar to what I spoke for Bengaluru Rs.50 lakhs to Rs.55 lakhs. The segment that we are targeting there is basically people who are working within the GIFT City about 7000 people as of March were working. I am sure that number has gone up by some amount over the last four months, so that is the basic criteria segment that we are targeting plus very close to area that they have given us there is a NRI Nursing School, which is fully functional, so the other segment that we target is the people who are sending their students from Ahmedabad into that particular school. A rise of the current half a million that we are talking about I think this kind of segment should be targeted.

J.C. Sharma: Additionally for the first time GIFT City when they have allotted us the land, they have given a concession. Earlier whosoever who have been allocated the land parcel they were literally forced to sell only to the existing people who were working. Now they say the first 5000 units can be sold to an investor who can let out those apartments to the people working in the GIFT City, so it is a bit concession. We have not yet tested how many investors will be showing interest, but looking at the overall potential that there

will be 42 million square feet of commercial space likely to come up in due course on these 800 acres of land and 20 million square feet or so of the MOU had already been entered into, we are worried about the sales velocity or the momentum in that particular project.

Parkishit Kandpal: Because I was just wondering your other competitors are looking at taking up the commercial side. They are developing capex intensive developments there and you are doing RESI?

J.C. Sharma: After that complimentary strength is quite there.

Parkishit Kandpal: You are leveraging that, so I could guess it and Sir just lastly if you can just say on the contracting business what kind of margin we are able to maintain historical margin? What could be the levels now?

Subhash Bhat: We are maintaining between 8% and 12% EBITDA we are maintaining.

Parkishit Kandpal: That is all from my side. Thank you and all the best.

Moderator: Thank you. The next question is from the line of Manish Poddar from Renaissance Investments. Please go ahead.

Manish Poddar: Sir I had just had one question. Just wanted to understand let us say the nature of contracts, which you have with your customers is it different let us in different states? I am just trying to understand would the Ind-AS impact has different effect in different states?

J.C. Sharma: Generally as far as this Sobha Core rise and responsibilities are concerned that essence continues everywhere. As far as somewhere some specific requirements are mentioned we do incorporate that part as well.

Manish Poddar: So would it be right let us say this Ind-As impact, which you would have in this quarter would be largely similar let us say Bengaluru?

J.C. Sharma: For all our ongoing projects.

Subhash Bhat: All our ongoing projects have very similar contract obligations that Sobha has to deliver.

J.C. Sharma: Got it thanks.



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- Moderator:** Thank you very much. That was the last question. I now hand the conference over to the management for their closing comments.
- J.C. Sharma:** Thank you Sandeep and thank you all of you for attending to this conference call and listening to us. We would like to reassure that this financial year also, we will be doing better than what we have achieved in the last financial year on all parameters. As far as the last quarter is concerned, it has been quite satisfactory and as far as the future quarters are also concerned, we believe there should be improvement in our operational performance, which will be followed with further improvement in our financial performance. Thank you very much.
- Subhash Bhat:** Thank you everyone.
- Moderator:** Ladies and gentlemen, on behalf of SBICap Securities that concludes this conference call for today. Thank you for joining us. You may now disconnect your lines.