



“Sobha Limited Q1 FY2018 Earnings Conference Call”

August 07, 2017



ANALYST:

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MANAGEMENT:

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Moderator: Ladies and gentlemen good day and welcome to the Sobha Limited Q1 FY2018 Earnings conference call hosted by SBI Cap 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 phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sandeep Mathew from SBI Cap Securities. Thank you and over to you Mr. Mathew!

Sandeep Mathew: A very good afternoon, everyone. 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. Vighneshwar Bhat, Company Secretary and Compliance Officer; and Mr. Bala Murugan from Investor Relations, VC & MD's Office. As the operator indicated, we will now hand over the call to the management and then follow it up with question and answers. Over to you, Sir!

J.C. Sharma: Good evening, friends, and happy Raksha Bandhan. We are pleased to connect with you once again today post declaration of our limited review unaudited financial results for the first quarter and financial year 2017/'18 ended June 30, 2017, through this concall hosted by SBICAP Securities.

We had already shared the details of our operational update of the company in the first week of July 2017. The investor presentation is based on the financial results adopted by the board also can be downloaded from the website of the company.

As far as the market outlook is concerned, as you all are aware that our sector continues to undergo a major transition with government-determined focus to ensure complete transparency in real estate transactions. Making GST applicable to underconstruction projects with clear rules-based rebate of one-third GST rate for land has reduced the scope for rate-related disputes with GST authority as well. These kinds of things we used to find in our joint development agreements and in land purchase agreements with the service tax and with the VAT authorities in the past.

The rules have been also formulated by all the major states where the company operates. And we are pleased to confirm that all our ongoing projects, totaling about 38 in numbers, which we are required to be registered with the authorities, has been completed by the company in states of Karnataka, Tamil Nadu, Maharashtra, and Haryana, as these states have released the final RERA rules.

During the current quarter, the company saw improved number of footfalls at its project sites in the major markets. Bengaluru and Gurgaon regions have shown noticeable improvements as can



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be observed from our operational update shared during first week of July 2017 with all of you. We believe the resilience shown by the market would continue for the rest of the year.

The financial update and other things, CFO, Mr. Subhash Bhat, will share with you.

Subhash Bhat:

Thanks, Sharma Ji. Coming to the financials, revenue for the first quarter stood at Rs.6.9 billion, which was 18% higher year-on-year and 14.5% on a sequential basis. We are pleased to announce that this is the highest ever-quarterly revenue for the company.

Real estate contributed Rs.5.06 billion, which came up at about 73% of the topline revenue. And the contracts and the manufacturing business contributed the rest, which was Rs.1.73 billion. Real estate revenues were up by about 21%, whereas, the contract revenue, contract and manufacturing revenue was up by about 11.4% year-on-year basis.

EBITDA for the quarter stood at Rs.1.31 billion, and the PBT came in at about Rs.728 million. The PAT stood at Rs.471 million, which was higher year-on-year basis by about 31%. At the same time, cash inflow was Rs.7.3 billion. And we generated a net operating cash flow of Rs.999 million after meeting the interest and the tax expenses.

Further, the company is pleased to announce that we have brought down the average borrowing cost as of June 30, 2017, to 10.06% per annum. And cumulatively, we have brought down the average borrowing cost by about 244 BPS since Q1 of FY2015-2016, which is better than the RBI REPO cut during the same period.

From a revenue recognition perspective, one wing of Sobha Dream Acres and the Silicon Oasis row houses project came on the recognition threshold for this quarter. And the revenue from these two projects together came in at about 46 Crores, Rs.460 million.

Coming to the cash flow. Cash flow during the first quarter, as mentioned earlier, was Rs.7.3 billion. This was higher by 23% year-on-year and about 5% sequentially. This is also the highest quarterly collection among last 13 quarters.

We generated a net operating cash flow of Rs.999 million after meeting interest and tax expenses. And for the eighth consecutive quarter, the company has generated net operating positive cash flow after meeting its financial outflows. We have reduced the debt by about Rs.490 million during this quarter. And debt-equity ratio has been brought down to 0.75 as of June 30, 2017.

Continuing with the performance highlights for Q1 of FY 2017-2018. As communicated during the first week of July 2017, we have sold 0.82 million square feet during the first quarter of FY2017-2018, totaling to Rs.6.234 billion. And Sobha's share in the sales value came in at Rs.5.62 billion.



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The average price realization came in at about Rs.6903 per square feet on Sobha share basis. The sales value achieved during the quarter was highest in the past nine quarters.

Please note that the sales volumes were achieved without adding new launches during the quarter. Besides Bengaluru and Gurgaon, Cochin region sales also showed improvements in the sales volume. During the first quarter, we have completed about five contractual projects, totaling to about 0.68 million square feet.

Coming to the inventory on the real estate side. At close of Q1 2017, our unsold inventory in completed projects was only 0.26 million square feet, of which 0.07 million square feet comprised of plot development. We have a total area released for sale in ongoing projects of 15.24 million, of which we have sold 10.46 million till June 30, 2017. The unsold area in the area released for sale is only at 4.78 million square feet. This unsold area accounts only for 31% of area released for the sale, which we consider adequate in this current market scenario. In addition to this, projects approved and area not released for sale is about 10.98 million.

Coming to the contract and manufacturing business. The collections from the contract and manufacturing business remain steady and healthy. Total revenue from contract and manufacturing during this quarter stood at Rs.1.733 billion. Contracts vertical contributed Rs.862 million, and manufacturing revenue came in at Rs.871 million. As of end of June, our contractual unbilled value stood at Rs.5.5 billion, and we expect a steady performance on this division in the current financial year also. As of date, we have delivered 411 projects till now, totaling to 87.41 million in the span of last 22 years. Thank you.

Moderator: Thank you. We will now begin the question and answer session. We have the first question from the line of Atul Tiwari from Citigroup. Please go ahead.

Atul Tiwari: Thank you Sir. Congratulations on very good set of results. Sir, my question is on GST and RERA. So now that you are getting some input tax credit as well and as well, that fact that effective tax rate for the buyer probably would have gone up under GST. So are you reducing or have you reduced prices to pass on some of this input tax rate and realign the prices?

J.C. Sharma: Thank you, Atul. We have, indeed, re-aligned our prices, and we have considered the status of all our ongoing projects, the cost incurred, revenue recognized, unsold stocks and likely benefit. And based on that, the basic price has been reduced in the projects, depending upon where those projects stood at the point of time. And of course, the GST past 12% has become applicable for all the sales, which we have done post July 1, 2017. That impact has not been that great. What I have noticed is that that say except in case of cement where the benefits has been little bit better on this front, in most of the cases, the suppliers have yet to pass the real benefits to us.



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Subhash Bhat: And I would like to add here that the GST impact on 75% of our operations, which is based in Karnataka, is very minimal because we were always charging full VAT and service tax to the customers on the construction value, which probably was not the case with most of our competitors, so this is something which has, in fact, reduced the impact that our customers will face.

Atul Tiwari: Sir, on RERA, just wanted to get your feedback because you are now present across different states. How smooth is the registration process? Is there some manual intervention that you have to do? Or is it completely online? And how long typically it is taking to get registered with RERA and get the registration number?

J.C. Sharma: We have so far got the acknowledgment numbers as far as Bengaluru is concerned. Right. We have got the same response in Gurgaon, where they have not yet set up the website, but they have taken the application in the physical form. As far as Pune is concerned, we have applied and they have given us the registration numbers also. As far as Chennai is concerned, we only submitted the application. We are yet to get the registration number. As far as Kerala is concerned, there is not the new RERA rules they have yet come out with. So what we have done is, the ongoing projects what we have in the state of Kerala, we have intimated through a hard copy about the details of those projects to the Housing Department, which is the nodal agency throughout India, that these are the ongoing projects, like we are selling, please acknowledge that and guide us further as advised by the Kerala Developers Association, or CREDAI. So this is how we have overcome. The process has been initially been new, little bit small challenges were there, but overall, within five days of available time, we were able to complete our registration formalities. And we believe that whatever has happened has happened for the better as far as RERA laws are concerned. Some of the states have yet to notify the agreement to sale. And the sale deeds which the government wants to do it in its own format to protect the buyers' interest. So whatever changes we could do from our lawyers, we have incorporated that and submitted as part of our documents to ensure that our booking forms, our agreement to sale, our sale deed, and our process what we are following today, the authorities are aware of that. We hope that this kind of a process will take little bit extra time even by the authorities and the customers to comprehend. But net-net, it is going to bring huge benefits to all the stakeholders going forward.

Atul Tiwari: Okay. And Sir, just the last question so now, effectively, GST and RERA have been there for a month almost, so have you noticed any change in the preference of your customers to go for larger developers? And broadly, what is the demand environment on the ground? That is my last one.

J.C. Sharma: The demand environment underlying despite so much of a challenge, it remains to be satisfactory. We believe that the performance that operationally we have shown in the last quarters, hopefully, it should continue in this quarter as well. At the same time, uncertainty remains and the impacts of these laws so far to any concerned people is yet to be seen or felt or



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understood properly or comprehended. So we have to wait for those kinds of things as well, but yes, our belief that it is going to help the large developers. It is going to help the organized developers. It is going to help the professionally managed companies. It should come out, too, as things start becoming more and more clear.

Atul Tiwari: Thank you Sir.

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

Sameer Baisiwala: Thank you. Good afternoon everyone. Sir, I am on Slide #8. And it looks like row #F, the area net sellable area is 15.24 million square feet, and I am comparing it sequentially, so it was 15.79 million square feet, so it has net-net come down 0.5 million square feet. Even though there has been some 0.7 million square feet that area that you have released. From 10.98 million square feet, earlier it was 11.69 million square feet. So there is a net delta of 0.5 million square feet and 0.7 million square feet, so 1.2 million square feet. How do we explain this?

Subhash Bhat: Sameer, this is Subhash. We have dropped Sobha Elanza and Sobha Isle. We have put that in the statement from the ongoing projects because these two we do not have the approvals in place, and therefore, we have dropped them completely from the project, and we are not selling any of them now. Right now, because under RERA, we cannot sell anything right now till fully approved projects are there on hand and they are registered. That's the statement that we have put there below.

Sameer Baisiwala: Okay. The point number 3.

Subhash Bhat: Yes.

Sameer Baisiwala: And put together, they are 1.2 million square feet?

Subhash Bhat: Yes. That is right, that is right.

J.C. Sharma: Yes. 0.7 Million is your Sobha Isle. 0.5 Million is Sobha Elanza.

Sameer Baisiwala: Okay. And Sir, second question is, again, if I see sequentially, now I do not know whether this is so positive cash flow expected was earlier Rs.68 billion has fallen to Rs.62 billion. That is row number L.

J.C. Sharma: Because once we take out the sales value of the projects, which we have taken out from the overall list, we need to take out the benefit of it also net, minus the construction cost.



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- Subhash Bhat:** So Sameer that will come back again when we have these two projects coming online in next two to three months.
- J.C. Sharma:** And plus, Sameer, it may be a situation where as the price gets reworked here and there, small impact may be there on account of those things as well.
- Sameer Baisiwala:** Okay. Got it. And then second question I heard your broad commentary on different markets and the overall sales. Now on Gurgaon specifically, we did about, 0.12 million square feet. Do you think this is I guess this is probably the best that we have done in any quarter. So do you believe that was something that can be sustained going forward? And what is helping the Gurgaon market over there?
- J.C. Sharma:** What is helping the Gurgaon market, I think, you people who are listening the calls probably know it better. I will not be able to comment much. But as far as we are concerned, we find that definitely our projects have started moving as I was telling even the last month also in the Gurgaon remains to our expectations. And hopefully, as the progress on the project, the progress on the Dwarka Expressway and the supply constraints, otherwise, say and accept with the reliable and reputed developers what I have been talking about in other contexts will be felt more in the Gurgaon and in NCR market than in any other market is my belief. But then, we have to see this trend till one or two more quarters do not pass. But the ground-level comfort because the number of site visits, the number of inquiries and the way these things have been converted gives us some kind of a comfort and indication that things are definitely trending around turning around for the better place as far as Gurgaon market is concerned.
- Sameer Baisiwala:** And any thoughts on how the Kochi projects are doing, especially the premium one with Purvankara?
- J.C. Sharma:** Good point. The mock-up was completed only in the last month. And the sales what was reflected whatever sales you are seeing, more than 85% has come only in the month of June. Hopefully, right this quarter, the performance from Cochin should be even better than what we have achieved in the last quarter.
- Sameer Baisiwala:** Okay. Sir, one final from my side. And that is, I think, under RERA now, you will have to you will be disclosing the project-level sales data as well with the authority, so if we can have that included in the quarterly presentation as well, that would be very helpful.
- J.C. Sharma:** We will be disclosing it to the RERA authorities on the quarterly basis. What we have been given to understand by the RERA authorities is that some of the data, which we are going to disclose to the RERA authorities, they are not going to disclose to the third parties. What they will be disclosing or not disclosing, well, we do not know. But this is what when we met RERA authorities



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here in Bangalore, they informed. But definitely, whatever is required to be disclosed to them, and which is public in more detail, we'll be disclosing to you people in our investors presentation.

Sameer Baisiwala: Okay wonderfully. Thank you so much.

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

Abhinav Sinha: Thanks for taking my query. Firstly, on the Bengaluru market, we have seen good movement on the premium front it seems during the quarter for helping to push up sales. So this is a mixture, which you see as sustainable going forward as well.

J.C. Sharma: Yes. It appears to me that this mixture is going to remain sustainable in times to come as well. So now the beauty lies that we have got a good product mix. And hopefully, that product mix should show in all the markets that the luxury products also they're being sold and the other side also, movements will continue.

Abhinav Sinha: Okay. And sir, it did not reflect on the margins though, right, this quarter?

J.C. Sharma: In the margins, it is reflected and should compare it with the same quarter last year. Definitely it reflects on the margin also. Subhash, you want to say something?

Subhash Bhat: Yes. Margins, it is getting reflected, and see because of IND-AS, you will see if we are used to those higher EBITDA and PBT margins because of IND-AS additional revenue that comes on the topline, I think this has now become the new normal.

Abhinav Sinha: Okay. Sir, secondly, on, again I mean, continuing with this point on premium, how much inventory would you have in the two main projects, Indraprastha and the other one, Palladian, going forward to give you some sort of comfort here?

J.C. Sharma: And I will tell you, as we have got three ongoing projects on the premium segment in Bengaluru. Grandeur, it is almost sold out, maybe couple of units. As far as Indraprastha is concerned, we have 350-plus units. We have less than 100 units now. As far as Palladian is also concerned, we have less than 20 units now at this point of time. And our next project what we are going to launch in Bangalore, hopefully, next quarter, it will be also luxury product in the north. That might be launched in the next question itself.

Abhinav Sinha: Okay and Sir in the last call you also mentioned that you are planning some affordable sort of a project in North Bengaluru, is that on track?

J.C. Sharma: That is also on track. Earlier, I was giving indication that about 1.7 million square feet will be doing. There is a rumor or there is some kind of a confusion going on in Bengaluru that the FSI



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may be deduced from the 3.25 maximum to 2 sort of a thing. If that happens, small impact may be there. Otherwise, we are designing the project for 1.9 million square feet approximately in North Bangalore again under affordable housing where we can claim income tax benefits.

Abhinav Sinha: Okay. And just last question from my side. On revenues, the pace that we have seen this quarter, how sustainable is this? Thanks.

J.C. Sharma: It cannot be 100% given assurance but the comfort is this year the revenue from the real estate will be much better than any year we have shown and maybe we will be clocking our highest ever revenue in this financial year.

Abhinav Sinha: Okay Sir. Thanks and best of luck.

Moderator: Thank you. We take the next question from the line of Saurabh Kumar from J.P. Morgan. Please go ahead.

Saurabh Kumar: I have 3 questions from my side. Sir, first of all, on this Dream Acres, do you get IT benefit on some of the units you sell?

J.C. Sharma: No because the IT benefit is available if you have got the plan approved, post 2015 financial. Last year budget, this was announced. So we got the approval before that, so we are not eligible. At that time, the super built-up area is 60 meters. They changed this year to carpet area. So the new design what we are doing will be about 1000 square feet, same size Dream Acres average, but it will be eligible for the affordable housing.

Saurabh Kumar: So the next phase will be eligible for this?

J.C. Sharma: No, in fact Dream Acres is fully approved we will not claim. When we are launching a new project of almost two million square feet in north Bengaluru it will be applicable.

Saurabh Kumar: Okay Sir so Dream Acres you will not get anything?

J.C. Sharma: No.

Saurabh Kumar: Okay and to your customers is that ELSI subsidy?

Subash Bhat: They do get ELSI subsidy and that is not only for Dream Acres that is available through almost 85% of our projects.

J.C. Sharma: Because the 110 meters square carpet area covered up to almost 1750 square feet of super built up area.



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- Saurabh Kumar:** Okay and Sir this North Bengaluru project, which you have talked about, can we think this is the Hoskete Road one?
- J.C. Sharma:** No, it is next to Sobha City on the same road almost 1.5 km away.
- Saurabh Kumar:** So basically back to Hoskete Road so if you have almost like 300 to 330 odd acres in that project in those two land parcels and that is very significant portion of your land cost as well, so Since you have to launch that at some point, unlock that investment, which is like timed for 10 years now almost?
- J.C. Sharma:** You are right. We do have a good plan for that. We have divided that parcel into six to seven though significantly large, but otherwise, smaller parcels, need little bit more clarity, see 2015 in there Bengaluru CDP had expired. We are running on the old CDP. We are running on old by-laws, right. It needs some changes for us to work around. Now it has started working. Maybe in a year's time, we will have clarity about the Hoskote project also.
- Saurabh Kumar:** Okay so we can then think that will come into launching about two years.
- J.C. Sharma:** Yes.
- Saurabh Kumar:** And just one last question on your balance sheet, Sir. So I am on Slide 5. So your total current assets are about Rs.7900 Crores and your current liabilities are about Rs.5600 Crores, right. So your effective working capital in that sense is Rs.2200 Crores, which is deployed, which is mostly your land cost only. So basically, all your ongoing projects have basically no capital deployment from Sobha side, right.
- Subhash Bhat:** If you remember whenever I meet you in person, I always keep telling you that the entire borrowing that is there with Sobha is only because of the land bank; otherwise we require only very, very small working capital here or there.
- J.C. Sharma:** Despite having these kind of large manufacturing units, huge contracting capabilities, and huge depreciated assets that is the beauty of this business. But unfortunately, the land bank, which we thought we should have done wonders value-wise, yes, but still the market does not improve and things become clearer that kind of a situation does persist.
- Saurabh Kumar:** Okay. So the in-debt is essentially on the land bank, right. That is fair to think about it.
- J.C. Sharma:** Yes.
- Saurabh Kumar:** Thank you.



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- Moderator:** Thank you. We will take the next question from the line of Abhishek Anand from J M Financial. Please go ahead.
- Abhishek Anand:** Good evening Sir. So my first question, Sharma Ji, will be on the JV treatment under RERA in Pune and Bengaluru You could give us some color on that difference in treatment in these two markets?
- J.C. Sharma:** Pune on the land Abhishek so nothing to worry Pune is on the land, Elanda we own, kind of the thing. As far as the Bengaluru is concerned what we have done we have got the power of attorney from all our landlords and we have registered the projects on behalf of the landlord also. The project has been fully registered. We have opened separate bank accounts for all these projects for our money and we believe that once they provide the basic clarity they will be we sharing with them that the same prospect will continue from the 30% and also we give them their share and from the 70% also we give them their share.
- Abhishek Anand:** The landowners are comfortable with this mechanism or they are asking for the original contracts to be honored because it clearly reduces their share from the project significantly?
- J.C. Sharma:** You are right they have their own issues. We have to handle depending upon the landlord to landlord of such things but net-net we may not have any negative impact on account this kind of joint development in our cash flows. I will go one step further also that even we opened the bank accounts now we have to bring back the money in case of Bengaluru if we have not spent and collected money from the customer. So to that extent some money may be lying in our current account the impact of that as we have worked out is not at all significant.
- Subash Bhat:** Sir all the ongoing projects that we have registered now overall we have to deposit about 12 Crores?
- J.C. Sharma:** Abhishek that is the impact. We may have to keep that money in our current account till the required pending and the required certificates in positive changes completed.
- Abhishek |Anand:** Okay but just for understanding at this sake in Bengaluru they do not allow the land component to be part of the percentage computation for joint accounts?
- Subash Bhat:** They allow, they take guidance value of the land, which is better.
- Abhishek Anand:** Okay they allow?
- Subash Bhat:** That is what helped us because the land owner is not going to share his cost with us but because RERA authorities allowed land cost or guidance value whichever is higher we could take the guidance value and register the project.



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Abhishek Anand: Okay, secondly Sir if you could tell me I understand you mentioned that YoY our margins are stable but slightly higher. But sequentially if I am looking at the contribution from real estate project it has gone up from high 60s it has gone up to now 73% and still on sequential basis the margins are down any particular reason, any cost escalation from there or the newer recognition were at lower margins?

J.C. Sharma: See, basically, what has happened as on June 30, due to the GST requirement, you had to close your books of account from all the vendors, right, whether it was pertaining to the direct costs or indirect costs. Some of such things, as a part of normal practice, you finalize the accounts when the bills come next month or in the next quarter. So you account for on a cash basis. Small amount, but yes, it can be repeated every time. This time, you have to book every single expenditure correct, as of June 30, so that the service tax loss or any kind of VAT loss does not take place on your cost side, direct and indirect. The small impact may be there on that account, which may not help recognize in the past. Now it is got recognized.

Abhishek Anand: Okay. So the margins ideally should go up from here, slightly maybe but...

J.C. Sharma: Perfectly you are right Abhishek.

Abhishek Anand: And then finally, Sir, you mentioned that you are planning one project in North Bengaluru in the next couple of months. Any other projects you are planning to launch in the coming few months? Or any rough guidance you can give of new launches going forward?

J.C. Sharma: Of course, yes. There are two more projects we have submitted to the authorities in Bengaluru, right. One is near Indraprastha and one is near Forest View. So we, hopefully, as and when the approval comes, we should be ready to launch these two projects, okay. We are also waiting that our approvals in Cochin for Sobha Isle as well as for Sobha Elanza. It should happen. And at this place, these two projects are so like during the course of this financial year, we should be able to launch. So there are the projects where these authorities are processing our approvals, right. So hopefully, as and when they come, we will have more clarity.

Abhishek Anand: Perfect. So Sir, just one last thing that we used to share inventory breakup details on ticket-size basis and on city-level basis. I think those slides I could not find in the presentation. If you could may be send it across to us so that we can have those details as well.

Subash Bhat: Yes. So what has happened is you got different definitions of completed projects under RERA authorities in different states. Okay. Now the definition that we always use for completed for a difficult project is when we are handed over. Okay. So even if one or two flats are handed over in a particular tower, we used to show that as completed. Now if we start putting out when we spoke to our real estate lawyer, Mr. Anup Shah, who is also on the board. Remember, last time also, he was the one who asked us to drop showing the projected projects we launched later. So



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he also advised us this time that if you start putting out by cities, basically, the RERA authorities will take two plus two, the cities that are there in their state and say please match this with the number that is there with us, so it will become a huge reconciliation exercise and you will go running around circle because the RERA authorities, they themselves are trying to find the feet right now to understand how to target. And it will take at least six months for them to settle down and the rules to be formalized formally in a right manner. So till then, we will not be showing these, but probably, you can see this in the last quarter of this year coming back.

Abhishek Anand: But the ticket size breakup I think that can be shown?

Subash Bhat: Ticket size break up will be I think Bala we can start putting out from the next quarter okay.

Abhishek Anand: Thank you so much Sir.

Subash Bhat: That was in advertently missed out but the city level we had taken decision not to make for this quarter and probably from next two quarters and by the fourth quarter it will be back.

Abhishek Anand: Okay thank you so much Sir.

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

Puneet Gulati: Good evening. Thank you so much. First of all, some quick query on the RERA part. You said you've received acknowledgment for your Bengaluru projects. Does it allow you to sell and advertise those projects? Or do you still need a final registration number?

J.C. Sharma: See, we had one-on-one talk with the current interim RERA authority, Mr. Kapil Mohan, correctly inquiring that you are given five days time. Once we register, what is our next course? He said the onus is on us to say yes or no, delay or not to delay kind of a thing. If you are complied, you have nothing to worry. You keep doing your sales post July 31 as well. And all of us in Bengaluru, if you look at, we have followed that dictum and advertising or doing whatever we have been doing, even in the last quarter from the RERA compliance point of view. Sorry, sorry, for one minute. That is why I said these are the things, which the government has to come to a conclusion. It is a central act with small leverage being given to the states. No customer in India should suffer on account of lack of transparency or because of the lack of documentation part. At the same time, the government cannot stop a developer to stop its business for no fault of the developer. So these are the things which will happen and that these are the uncertainties in which we are going through, and because of those agents only, this quarter also, we decided that we will not be giving any guidance because these are the things where any time anybody can come and create some kind of a confusion. As we stand today from no place, nowhere any kind of any adverse remark, we have got as far as these things are concerned.



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- Puneet Gulati:** Okay. And post-RERA, at least, internally, does it change your launch plans?
- J.C. Sharma:** See, we were very categorical and clear that till RERA gets implemented, we will not be launching new projects because you have got two sets of customers. We wanted to pass on all benefits of RERA and GST to our new customers with the new launch. When you incur a cost pro-rata this, pro rata that, land costs here and the construction costs there versus total value on 12% based on GST, it was becoming complicated for lare customers. So looking at that is the way the RERA and GST, it was interplaying, it was a conscious call not to pursue any project approval till these 2 acts become operationalized. Now it has operationalized, as I said, one project we have got the plan approval. We are working out its launch in the next quarter.
- Puneet Gulati:** Okay. And did I get it right when you said that even for the existing projects, you would have to bring the money back to 70% level?
- Subash Bhat:** Yes, that is right, and we have worked that out. It is Rs.12 Crores for the 32 projects, which have been registered in the Karnataka RERA Authority. So it is a small difference. This has been only done in case of Karnataka RERA final rules. It has not been made applicable in Maharashtra or in Haryana or in Tamil Nadu. The rules are pretty stringent, in that sense. They are more stringent than what is there in Maharashtra. Whatever you have collected from customers, you can utilize only 30% for your corporate purpose, 70%, you have to look at how much you spent on the project, and differential, you have to report it.
- Puneet Gulati:** Even for the old projects?
- Subash Bhat:** Yes even for old projects you have to do that. This is what the original act envisages.
- Puneet Gulati:** That is great. Thank you so much on this.
- Moderator:** Thank you. We take the next question from the line of Samar Sarda from Kotak Securities. Please go ahead.
- Samar Sarda:** Good afternoon. Congratulations on a good quarter. There are three questions. On Dream Acres, what we have noticed in the last few quarters is the sales pace is down a bit. I think we have sold on about 2 million square feet since the time we've launched. What do we do to actually maintain the sales pace at Dream Acres? And what are the volume will you target like this year, next year?
- J.C. Sharma:** Samar, as far as Dream Acres are concerned, we launched the project in the February 2015. 2015-2016 was a great year. 2016-2017 was not that great, but still, it was the best-performing project. Fortunately, from 2016-2017 to 2017-2018 during the last four months, including the first quarter, which we are discussing today, Dream Acres is performing better quarter-on-quarter, month-on-month that way we did the last financial year. And we are not worried about that because while we launch the project in February 2015, we commissioned the factory in the



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second quarter of the financial year 2015-2016. The factory stabilized only last year beginning, and we have got enough of the sold inventory because we have started delivering it in 20, 22 months versus our average committed date of about four years. So from sales and revenue recognition, I still believe Dream Acres will continue to outperform all other projects on a stand-alone project basis.

Samar Sarda: Okay. But, Sharma Ji, from what we have seen as a momentum in the first year, FY 2016, will that momentum continue because now that the project is already there in the market for the last two years, there might be some drop. I understand it is the best-performing project for Sobha?

J.C. Sharma: Samar, this is not the best performing. This is the largest-ever project launched by any builder in Bengaluru and will be among the largest. And take it for me this will be the project, which will be completed, in India's history, in the fastest possible time. And this will be the sale, which we will be achieving, in the fastest possible time. We have no cause for worry as far as Dream Acres project is concerned.

Samar Sarda: Fair enough. The other question was you mentioned about a luxury project launch in Bengaluru, other than the Thanisandra affordable housing project launch. So if you could just help us the size of that project and where exactly it is??

J.C. Sharma: It is near Jakkur, wherein it is two of our existing completed projects, Sapphire and Windfall, right. It is almost 7 acre and odd. And it is about 7 lakh square feet, if I remember it correctly, subject to correction, is the project size.

Samar Sarda: Okay. And my last question was on the balance sheet and debt for the rest of the year. Now that like I understand from the Puravankara presentation, we have paid the Rs.165 Crores in the second quarter. So what is the outlook for debt and new acquisitions for the rest of the year?

J.C. Sharma: Hopefully, we should be able to pleasantly surprise you on that front also in this financial year. What actually will happen, I do not know. But this quarter also, has started well. And we are confident that despite these kinds of payments, we should be all right as far as our overall debt equity is concerned and overall absolute debt is concerned. And the debt continues to remain under control. The debt costs remains under control, again. Now it is about 9.96, and we hope to bring it down further from that as we move forward.

Subash Bhat: Now that RBI has taken off another 0.25%, we should be able to get it further down.

Samar Sarda: That is great and all the best for the rest of the year.

Moderator: Thank you. We will take the next question from the line of Kunal Lakhan from Axis Capital. Please go ahead.



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- Kunal Lakhan:** Good evening. In terms of collections, this quarter, you would have seen a sharp jump in the collection maybe because of customers paying up in advance due to the GST. Can we expect this runrate to come down? Or is this sustainable going forward?
- Subash Bhat:** Kunal, Subhash here. This question is relevant if I was sitting in places like Maharashtra and Gurgaon and selling more there, okay. In Bengaluru, there is no visible advantage to the customer by paying upfront because it is billing, okay, which decides whether they had to pay service tax or not. And we charge full VAT and service tax, the existing customer is better off getting billed under GST once the land component is already built. So basically, he gets a benefit of almost 4% to 5% on the construction value if the billing happened after the GST came onboard. Okay? So the question is not relevant. And this, what area is seen as collections would continue. It has got only a small negative impact for GST because customers who wanted to pay all those would say, if I pay later, will I get the GST benefit. Which is not the case because we go by billing and not by collection bill.
- Kunal Lakhan:** Okay. That is great. My second question was on your affordable housing project. So how do you expect the margins to be on these projects? Like post-tax benefits at the net level, would these projects have better margins? Or basically, you will just pass on the benefit of taxation in terms of pricing to the customer and probably maintain the same margins as you have on your other projects?
- Subash Bhat:** Yes. At the PAT level, we should be able to maintain the same margin. Okay? But so when we do the project on a stand-alone basis, we will cost in only the benefit that we get from income tax. But once it comes into the balance sheet of Sobha because this project will be a Sobha Limited. It is not in the SPV. The benefit that we get because of MAT should be slightly more than what we would take in the project. So on an overall basis, it should be giving us better margin as compared to rest of our projects at a PAT level. How much it would be, we will know only once we start recognizing the revenue.
- Kunal Lakhan:** Sure, sure. And one last question. In the commentary, you mentioned that the base prices were reduced in certain projects. Again, based on the GST benefits. By how much would the prices have been reduced?
- Subash Bhat:** Typically, anywhere between Rs.65 and Rs.110. And per sellable area, it is not carpet.
- Moderator:** Thank you. We will take the next question from the line of Parkishit Kandpal from HDFC Securities. Please go ahead.
- Parkishit Kandpal:** Sharma Ji Congratulations on a good set of numbers. Sir, on the APMC project, any update?



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- J.C. Sharma:** Update means as I have been telling, till the cash flow and till other things become clearer, while we have the project under our control, we are not pursuing it that aggressively or that actively as Subhash is telling. Hopefully, next year, we will give you more clarity. But this year, we're not likely to start this project.
- Parkishit Kandpal:** This year, we are not going to start this project?
- J.C. Sharma:** No, no.
- Parkishit Kandpal:** There would not be any meaning because last year, I think we had mentioned that, in FY 2018, there would be significant pickup in the capex on this project.
- J.C. Sharma:** But then the RERA thing, GST thing, this kind of a transitional uncertainties, we felt that we will continue to keep this project on hold till we have more cash flow visibility and more operational cash flow surplus.
- Parkishit Kandpal:** And are there any CPs or any liabilities, which will come on account of delays -- on the delay of this project?
- J.C. Sharma:** Yes. It is a good question, correct all the projects, whatever, which is currently being completed as ongoing projects, there are no delays. There are no issues, to the best of our knowledge, which is going to impact us.
- Parkishit Kandpal:** No, no. I am saying on this APMC project, Sir.
- J.C. Sharma:** No, no, no. It has not started, so from their books of account and also from their side.
- Subash Bhat:** They themselves are not finalized yet.
- J.C. Sharma:** They are condition precedent. So they have to first say they are ready for us to start.
- Parkishit Kandpal:** But are you serious about this project at any point of time?
- J.C. Sharma:** Yes. 100% serious. We are 100% serious. No, no, no. We will not walk out. Our bank guarantee is getting extended as and even if it gets expired. We continue to extend and exchange the latest in this project and ensure that the project gets alive.
- Parkishit Kandpal:** Okay. And this is land payment pending; you have reflected in the presentation of Rs.251 Crores, so what is the time lines of this to be done?
- Subash Bhat:** The biggest of that was Puravankara, which has already happened. If you look at the press release from Puravankara, they have got the money from Sobha.



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- Parkishit Kandpal:** Okay. The Rs.250 Crores, out of that, Puravankara has already done.
- J.C. Sharma:** Rs.160 Crores, Rs.165 Crores almost has already happened.
- Parkishit Kandpal:** Okay. So this will impact us at least for this quarter's debt numbers?
- Subash Bhat:** No. Not in Q1. It will have an impact on Q2.
- J.C. Sharma:** Q2, yes. It will have some impact, but still, we will try to recover that also.
- Parkishit Kandpal:** Okay. And in the new launches, Sir, you need to modify the new -- the agreements with the buyers, so that buyers will come in. So can we collect more than 10% until and unless this sale deal is registered?
- J.C. Sharma:** See, we are not going to collect more than 10% while booking the amount. What we have loaded is our agreement to sell, which we will be executing with our customers to whom we have sold post a GST, RERA implementation, right. We are awaiting because the government has communicated to us, they are likely to finalize their draft once that draft comes, we'll be able to have more clarity about how to go about and what is required to be done finally.
- Parkishit Kandpal:** In terms of timeline, when do you expect these changes to happen? And how it is going to impact the collections in the coming quarters?
- J.C. Sharma:** See, as we say, we believe the cash flows or collections should not get impacted. And with improved sales and improved progress in all the ongoing projects, we do not, per se, foresee that whatever guidelines did come, it will have an adverse impact on our cash flows or on our collections.
- Parkishit Kandpal:** So as long as you're able to get the sale agreements done, so then, this restriction of 10% will not be there.
- J.C. Sharma:** No. And still I believe that whatever we have agreed with our customers and put that kind of a payment plan, government has to accept.
- Parkishit Kandpal:** But as of now, the regulation doesn't say it suggests so. That is what I was saying.
- J.C. Sharma:** That is why we are waiting for. We are waiting for the clarification.
- Parkishit Kandpal:** Okay. And sir, so right now, the entire execution is being done by Sobha for all of our projects?
- J.C. Sharma:** You are right.



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- Parkishit Kandpal:** Okay. So we do not outsource anything to any other contract?
- J.C. Sharma:** Zero.
- Parkishit Kandpal:** Okay. Okay. So that more or less drives to complete these projects ahead of schedule under RERA because of the huge penalties, which could be there for delays. So how are we gearing up the execution team to meet these challenges?
- J.C. Sharma:** No. As I said, in the past also, when we delivered 411 projects, there has been any delay. Why there should be any delay in future? And we are checking all our ongoing projects, and we are well within the time what we have committed to our customers for completing them. We are reviewing it almost on a regular monthly basis, and there's no cause for worry.
- Parkishit Kandpal:** And sir, lastly, can you tell us on the Chennai market, any update on the new launch in the Sholinganallur property, where you have a partnered NCC as a joint partner in the property. So any update on that? Or any other new launches you're planning in the Chennai market?
- J.C. Sharma:** See, 2 projects are in the pipeline in the Chennai also; one, the Vengaivasal and one, the Sholinganallur what you talked about. But we still have a small inventory. The market is still right. It is 7 to 10 units a month. So we will do it in again, a sales manner and not hurrying it up.
- Parkishit Kandpal:** But we have approval for Sholinganallur now? How is the progress on that?
- J.C. Sharma:** No, no, no. Both the projects, we have no approvals, but we have submitted the design.
- Parkishit Kandpal:** Even for Sholinganallur, there is some progress versus the last quarter?
- J.C. Sharma:** Yes. Yes. There's some progress versus the last quarter.
- Parkishit Kandpal:** Thank you. All the best. That is all from me.
- Moderator:** Thank you. As there are no further questions from the participants, I would now like to hand the conference over to the management for closing comments.
- J.C. Sharma:** Friends, thank you for your participation. As I have been telling that it is a transition period, at the same time, it is a great period. All of us, we have to learn. We have to evolve. We will keep striving our level best to see that we will become the leaders in complying with all the requirements, which these new laws had asked from us. We hope that despite all these regulatory challenges, company should be doing better in this financial year. And once the demand becomes clear in the markets where we are operating, hopefully, not only the guidance, the growth momentum also will be more visible as things pass. Thank you.



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Moderator:

Thank you very much Sir. Ladies and gentlemen, on behalf of SBICAP Securities, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.