



“Sobha Limited Q3 FY2018 Earnings Conference Call”

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

MANAGEMENT: **MR. J.C. SHARMA - VICE CHAIRMAN AND MANAGING DIRECTOR – SOBHA LIMITED**
MR. SUBHASH BHAT – CHIEF FINANCIAL OFFICER - SOBHA LIMITED
MR. RAMESH BABU - VP FINANCE - SOBHA LIMITED
MR. VIGHNESHWAR BHAT – COMPANY SECRETARY AND COMPLIANCE OFFICER - SOBHA LIMITED
MR. BALA MURUGAN – INVESTOR RELATIONS VICE CHAIRMAN AND MD’S OFFICE – SOBHA LIMITED

Moderator: Good day ladies and gentlemen and welcome to the Sobha Limited Q3 FY2018 Results Update Conference Call hosted by SBICAP Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Sandeep Mathew from SBICap Securities. Thank you and over to you Sir!

Sandeep Mathew: 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. Vigneshwar Bhat – Company Secretary and Compliance Officer and Mr. Bala Murugan – Investor Relation – VC and MD – Software. I now hand over the call to Sharma Ji for opening remarks. Over to you Sir!

J.C. Sharma: Good evening friends. We are pleased to connect with you today post declaration of our limited review unaudited financial results for the third quarter and financial year 2017-2018 ended December 31, 2017, hosted by SBICap Securities. Thank you Sandeep Mathew once again for hosting this concall.

We had already shared the details of our operational update of the company in the first week of January 2018. We have also uploaded our investor presentation and the financial details of this quarter as well as for the nine month, which have been duly adopted and approved by the boards and the same can be downloaded from the website of our company as well as from the NSE, BSE stock exchanges.

As all of us are aware that the calendar year 2017 in particular and the financial year 2017-2018 the first nine months, they have been very tough for the sector as a whole. The demand has remained quite subdued and we have been given to understand that even the secondary market transactions also have come down as we gather from the various sub registrars' office where we operate.

We are also aware that, there has been a pressure on the pricing part where most of us have not been able to increase our prices. We have also seen at least in last three, four months that, the prices of steel, one of the typical input, it has been going up consistently. And the cement prices also in last few weeks it had started going up. The labour cost also remain at the elevated level and post this budget the way the

government is pushing informal sector to come to the formal sector by giving them the incentive of the 12% provident fund for the first three years means that, more and more people from our sectors will get enrolled in times to come and that will also put some kind of an input cost pressure.

All these things we are trying to highlight, because this is the backdrop in which we have been operating for the last nine months and we can say with confidence and conviction that in the tough environment we are not only sustained the operational growth, we have also ensured that whatever we have been selling we deliver it. We spend that money on excise and also bill it and collect that and in that process you are showing improvement in our margins, improvement in our collections and going forward we also believe that the spends should continue. We have been quite successful in bringing down our interest rates, which had come to 9.74% as we spend today as on December 31, 2017. In addition, there is a possibility despite a increase of some of the MCLR rates by some of the banks that our cost of borrowing should keep coming down at least for this quarter and next quarter. We also have expedited now our launch program. We have already launched two projects in the last quarter and we hope to launch one, two, three projects every quarter from now onwards. In Chennai, we have launched one project today.

Going forward, I believe that there has been a significant structural improvement. The RERA had ensured that fly by night or irresponsible developers, they do not come and flood the market. The GST has also ensured that people who have been operating in the formal economy they stand to gain. The excise benefit has been a critical benefit, which had help us to control and contain our direct input cost and it is a good deterrent vis-à-vis the informational players who have been operating in this market for time memorial sort of the thing. The benefits of PMAY under the CLSS scheme it has started working. We have once again given in our presentation almost 59% of the people they have opted for the loans and it is a good time. As far as the product sale is concerned, we have succeeded in selling products across all regions except Chennai and Pune and across all categories. We are putting extra emphasis on the Chennai and Pune market and in couple of quarters, the benefits should start accruing. As we enter the new financial year, we are confident that our operational and financial performance it should keep growing as we move forward.

I will leave Subhash to speak about our financial information.

Subhash Bhat:

Thanks Sharma Ji. Good evening to all of you. Let me just highlight the financial part of the results that we have declared. Revenue for the third quarter stood at 7 billion, which is the best quarter for Sobha till now which are higher by 26.3% year-on-year and 6.5% quarter-on-quarter.

Real estate contributed 5.01 billion, which adds 71.5% of the topline, and the remaining came in from contract and manufacturing business, which was Rs.1.91 billion.

EBITDA for the quarter stood at Rs.1.46 billion with a PBT coming in at 825 million. EBITDA and PBT were respectively 38% and 53.6% higher year-on-year. Profit after tax stood at 538 million, which was 36% higher year-on-year and 7% quarter-on-quarter.

The cash flow that we generated was Rs.674 billion for inflows and at a net operating level after meeting interest and the tax expenses we had an operating positive cash flow of 553 million. As Sharma Ji mentioned we have brought down our average cost of borrowing this quarter to 9.74% and if you look at the cumulative rate reduction that we have achieved since Q1 of 2016 that amounts to 276 basis points, which is much better than the Reserve Bank of India Repo rate cut that has happened during this period.

From our revenue recognition perspective, we had five wings of Sobha Dream Acres, which reached a revenue recognition threshold in this quarter and we recognized 903 million revenue from these five wings.

I would like to inform the listeners here that the gross margin in our real estate business was protected in spite of the increases that Sharma Ji mentioned in steel and other input cost and labor price input cost and this all achieved in spite of not having competitive increase in the selling price by bringing in execution efficiency at the site as well as better price negotiations with the vendors specially after the GST rollout.

Coming to the cash flow, cash inflow during the third quarter as mentioned was Rs.6.74 billion. We generated net operating cash flow of 553 million after meeting interest and tax expenses and this was the tenth quarter that the company had continue to generate net operating cash flows after meeting financial outflows like tax and interest. Our debt equity stood at 0.86 as of December 31, 2017 and as management team we are committed to achieving debt equity of approximately 0.8 by end of this year that is March 31, 2018.

As communicated during the first week of January we sold 0.93 million square feet during the third quarter valued at Rs.7,509 million with our share of the sales standing at

Rs.6.105 billion. The total sales achieved during the quarter or highest in the history of the company. The average price realizations for Sobha stood at 6541 per square feet and we are seeing growth in Bengaluru, Gurgaon and Cochin regions both in terms of volume as well as the per square feet price.

During the third quarter, the company launched two projects one in Bengaluru, which we named Sobha HRC Pristine and one in Thrissur named as Sobha Silver Estate. The total saleable area of these two projects is 0.98 million square feet. As Sharma Ji mentioned, we will be launching at least five to seven new projects in the coming quarters, basically in Bengaluru, Chennai, Mysuru and Cochin region.

Coming to the unsold inventory that we have among the area that we have completed inventory our unsold inventory came in to only about 0.24 million square feet and of this 0.06 million comprises of plotted development. Of the total area release for sale in ongoing projects, which is 15.7 million square feet we have already sold 11.49 million square feet and the unsold area comes to only 4.21 million square feet, which accounts for 27% of the area released for sales. We consider this to be adequate in the market as of now. Would also like to highlight that we have projects, which are approved and not released for sales totaling to 10.76 million square feet.

Coming to the contract and manufacturing segment. Both these segments have continued to show steady progress. During the current financial year manufacturing division have performed well and have good visibility in the coming quarters as well. There was a slight drop in revenue for this quarter in the contract segment; however, we are confident of meeting the good momentum from this quarter going forward. All the segments have contributed meaningfully to both the topline and the bottomline. The order book as of December 31, 2017 stood at Rs.14.7 billion. The total revenue from contracts and manufacturing during Q3 was 1.91 billion with a contract vertical contributing 1.08 billion and the manufacturing revenue coming in at 826 million.

Thank you and I think we can open up for questions.

Moderator:

Thank you very much Sir. Ladies and gentlemen we will now begin the question and answer session. We have the first question from the line of Abhishek Bhandari from Macquarie. Please go ahead.

Abhishek Bhandari: Good evening to the whole management team. Sharma Ji I just had one question. With this impending state election in Karnataka has there been any change in the face of approvals for the whole Bengaluru market?

J.C. Sharma: As things stand today rather the pace is bit increasing. We are seeing more activities and more decreasing up of the proposals, which have been pending with the authorities and I do not foresee that this routine thing we per-se a reason for not getting the plans approved. There is the BDA approved master plan for the CDP up to 2031. They have already circulated the draft master plan. Almost 12000 to 13000 objections has been received by the BDA authority. They are working there in and we have been given to understand that subject to High Court permitting them that, master plan also will be released any time this month before the election board of conduct comes. That master plan we will have a lot of bearing if the way it was circulated. But if it is accepts to the changes what has been recommended by that CREDAI and most of the developers roughly almost 70, 80 square kilometers of the new area will get added at the developable area, some kind of the loss on the TDR on the FSI may happen to be compensated with the page a premium FSI and the some of the lands which were already converted which has been shown as non-developable may go for litigation if those things remain. Next changes are that the master plan which the recommendation suggested could be out any moment and the plans should continue to be approved the way they have been approving till now.

Abhishek Bhandari: Thanks a lot.

Moderator: Thank you. The next question is from the line of Abhishek Anand from JM Financial. Please go ahead.

Abhishek Anand: Good afternoon Sir. Sharma Ji I have one question on the launches we have done recently, so both in Bengaluru, Thrissur and the Chennai ones these have been sort of premium launches villa launches and Pristine doing well and let me ask, are we seeing some uptake in the premium segment or if the company focusing on more on the premium segment if you could help us out in that?

J.C. Sharma: No it is not like this; see we were deliberately not submitting the plan during the RERA phase. We do not know how the things will be moving forward once the RERA understanding was developed that they hardly going to be any disruption and more or less the way we thought RERA should be supportive of the development to me it looks like that the same kind of a thing is turning out with this amount of progress we pushed

the projects to the authority we pushed before the RERA authority and now moving ahead. These are all supplementary projects. We are going to come out with a very large it is almost 1.8 million square feet of new project in Chennai as well in the next financial year. We are also coming out with a similar size affordable housing in Bengaluru also the BDA has already approved the development plant we need to get it approved from the BBMP and certain other approvals are still required to get started. So we are doing 30%, 30%, 30% of the new sales across all categories and we believe that we should continue to focus on our normal products with more focus or more attention now been given to the affordable housing precisely. Because of the size benefit and the income tax benefit to the developers and more interest benefit to the customer.

Abhishek Anand: If I could get it correctly the RERA according to you had little disruption in terms of approval process or if you could explain?

J.C. Sharma: Yes because most of the applications whatever we had submitted it got approved within the time in the first go without much of a problem. Otherwise we were not sure that how they are going to take, what kind of scrutiny, what kind of the other things, they will be doing, nobody knew it. So whole idea was, first to get the ongoing existing project approved without any hindrance, once that first hurdle was overcome, we have started putting our applications to the RERA authority in such places.

Abhishek Anand: And is that the case with all the developers or only the organized ones that they are not facing any issues?

J.C. Sharma: See I cannot say for all the developers but I can say that most of the developers to follow those kinds of basic professional norms and you do not have pending challenges see today if you have pending legal disputes there may be a problem, if you have some disputes with the customers there may be a problem, if you have done some kind of a presales without getting the prior approvals you may have a problem and all such things do not know will you get the registration number. So my issue was, while we may presume that we are okay but the certain things may not be known to us make surface at the point of time. Since nothing of that sort happen and more or less nothing of that sort at least to the best of my knowledge it happening to be a grade "A" developers we believe that RERA was much required intervention and we are moving in the right direction, so the confidence is there now.

- Abhishek Anand:** Just another one you have mentioned that you are going to launch five to seven projects in the coming few quarters could you give us a split between how maybe of them or land on your own land and how many will be under joint development model?
- J.C. Sharma:** Right now I will not be able to say but Bala maybe by the end of this discussion once again he will come and let you know.
- Abhishek Anand:** Thank you so much and I will join back in the queue. Thank you.
- Moderator:** Thank you. Next question is from the line of Saurav Kumar from JP Morgan. Please go ahead.
- Saurav Kumar:** Sir I had two questions. Firstly on the construction cost what is the kind of inflation you are seeing so like if you can just guide us to what is your incremental construction cost per square feet and what was that last year.
- J.C. Sharma:** See today with GST we have started getting the benefit of 18% and initially GST was implemented the steel price was at Rs.33000, Rs34000 now it is crossed Rs.40000, so you can understand that part. The cement price was 215 to 225 per bag earlier, now it has crossed to 275 and not that we are directly getting impacted. But from the sub-contractors point of view will be that if you need to incorporate everybody under the PF laws, that 12% government will give but the initial 12% somewhere means the input cost may go up, then prices also, it is sometimes higher than the cement prices. That was the message I was trying to give that. But for GST and now due to this kind of increases, if they remain at an elevated level, somewhere there will be a pressure on the margins, which can be made up it is okay otherwise we have to leave in that kind of inflationary environment.
- Saurav Kumar:** Sir that is our guidance of like a 30% margin for residential segment hold?
- J.C. Sharma:** It will hold. In the past we have overcome that. Of late there has been hardly any increase, which is getting accounted for again we are seeing the signs of input prices going up. So far the GST excise benefit is still helping us to ensure that nothing of that sort happens.
- Saurav Kumar:** And Sir the second question on your cash flow so you are obviously positive at the operating level but because of your land buys and all these buybacks and because of the debt you have so your financial outflows are also significant. I was wondering this debt is anyway not adding any value it is anyway setting against land it is from what I

understand there is no debt against all your operating projects. So would you think that paying down debt is actually because land is clearly not appreciating even at 9% as per debt cost so should you not pay down that like if I look at your interest to PBT, your interest is almost 60% at a PBT you can just increase your PBT by 60% just paying down that rather than buying new lands so is that something you think about?

J.C. Sharma:

See what we are saying that our interest outflow this year also will be lesser than what we had spent last year, whatsoever new investments we have made, we are trying to make them work for immediate realizations. The repayment terms and other things are being worked out while it may look like on an overall case whatever you are talking about but on a case-to-case basis wherever these investments have been made, they are giving us good returns. When come back to this year's specific investments, there was one prior commitment of Rs.165 Crores we paid and there is one new opportunity, almost at half the price we have got the land value and we believe we can have complementary product there and the work has to begun. So it is just a small timing gap, but all these investments is strengthening the company's position in the respective markets that is the point I am trying to say. Where the overall market has shrunk and we have gained a market share but since the pricing power was not there, and the existing debt and existing land bank continues to remain such situation also gets parallely exist. As we start showing this with more improvement in our operational performance followed by improved cash flow such things will rather give us disproportionately higher benefit than what have able to taken it our view.

Saurav Kumar:

There will be no thought about selling any of your existing parcels, which we have no plan for development even for the next five years?

J.C. Sharma:

In some of big lands means, a good point some of the lands also are being put for monetization or likely to get monetized to give you an update almost Rs.200 Crores. It is stuck where the honorable High Court Karnataka had given an order that metro give the money in an escrow account and the land be acquired because of certain disputes, which they believe they are not going to spend in the eye of the law, but anyway dispute is a dispute, but the method is proceeding and since any couple of opportunities we are exploring. But then looking at the replacement cost and the business opportunities, we also believe we have waited for such a long period if we ask for wait nothing wrong will happen and gradually our presence in especially Bengaluru market and in Kerala market had given us a dominating kind of a situation where we today can grow at a much faster pace than we had grown. So we want to keep that kind of a competitive head at that. So maybe temporary that looks a bit difficult, but looking at the reduced interest outflow

looking at that in the absolute terms and otherwise on the debt equity ratio front at level we are better off and have got good visibility. Because of this land bank, right now we must aggressively looking at that the land monetization will be per-se requirement what we followed post 2008 in the first three four years.

Saurav Kumar: Sir, but my limited point here is, you have 2500 acres of land and that is really not adding any value for the next year.

J.C. Sharma: No some of the lands definitely will take little bit more time but that is the historic part we have to live with that.

Saurav Kumar: Thank you.

Moderator: Thank you. Next question is from the line of Tanuj Makhija from Bank of America. Please go ahead.

Tanuj Makhija: Thanks for taking my question. Sir you earlier mentioned that there are cost pressure to do pricing, steel, cement and labor cost and you also guided for 30% residential EBITDA margins so my question is are you looking at taking price hikes given robust sales in micro markets of Bangalore and Kochi?

J.C. Sharma: See what we are saying is, these things are the ground reality and within the ground reality our last quarter's performance and going forward we remain confident that our overall EBITDA margins and PBT, PAT we would be able to sustain. So the ability to absorb this kind of an input cost and still sustain that the margins is what we are aiming for. We are very clear that as things stands today, as developers, we do not have the right kind of a pricing power where we can sustain the volume and velocity and also increase the selling prices. I think still we are few quarters away from reaching that kind of a stage, it is our assessment.

Tanuj Makhija: Okay thanks Sir.

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

Sameer Baisiwala: Thanks. Good evening everyone. Just on your top level thoughts on new master plan how does it impact your land bank roughly 760 acres of land in Bengaluru in terms, would you be require to pay any charges or some of this will become non-developable?

J.C. Sharma: It is like this. Our largest land bank at Hoskote 300 acres plus. It does not come under BDA. It comes under BMRDA Hoskote as far as that plan is concerned it is fully developable. We had a couple of land parcels like in Sulekunte, which had become developable post with new master plan. Unfortunately some of our land banks, which was developable and also got converted in due course in the last few years there also they have painted it green, which means it is agricultural in nature. We have put forward our objections like most of the other developers have done, we are given to understand that since minister assured publicly that wherever such kind of errors have occurred they will correct it once the objections are there. So we are quite confident and hopeful that things will happen where our objections will be looked into and as we stand today once that part is taken care off, though this BDA new master plan we have gained from a developable area point of view we have lost collectively from FSI point of view, but Sobha has never utilized any TDR so far. It has not used this full FSI due to the low land cost and this current acquisition cost is still not that great. It will materially impact us as far as marketing of the product with those kind of prices are concerned.

Sameer Baisiwala: Thanks Sir. This is very helpful but if I look at your developable area that is well for 75 million square feet and that I understand is a FSI area so on this roughly?

J.C. Sharma: It can undergo some change if the draft plant gets implemented on the FSI reduction part it may undergo some change, which will reflect as and when the drop gets finalized.

Sameer Baisiwala: Fair enough but I just want to push it too hard too much on it but what could be the potential FSI, TDR cost will paid on this, it could be 100, 200 Crores or it could be a larger sum of money.

J.C. Sharma: No I say it is much less the impact will be bear minimum.

Sameer Baisiwala: And second question is over next 12, 15 months how do you look at new land acquisition, new project acquisition opportunities?

J.C. Sharma: See what we are looking at is that right now there are few companies in the market who can capitalize, looking at the emerging scenario one is the affordable housing, one is somewhere in almost all the markets. The competition is much less intense now though it is not visible. No new projects are being launched in any of the major markets for last four to five quarters and our interest cost continues to come down. We are still cautious that our debt equity and our cash flow generation capacities it should remain under control. And within that parameters, wherever we are seeing some opportunities with the

good payment option, we are pursuing it and we believe that the 0.86 what we have because of the buyback this quarter, the capital got reduced, though 44 Crores worth debt has also gone up. We are committed that, see in this quarter itself it should be brought back to that old 0.8 and around this kind of a parameter if such an opportunity will come we will definitely explore.

Sameer Baisiwala: Sir just last final one from my side. Sir how are you thinking about your large land parcels that you have in Sriperumbudur in Chennai?

J.C. Sharma: Sriperumbudur also we are talking with couple of people who have land nearby as well there are certain interesting proposals/ideas, but still we believe they are suboptimal vis-à-vis the kind of efforts and the carrying cost we have suffered on such opportunities. Hopefully, as I have been talking about Cochin where some new development from the government policy guidelines has happened. Even at Hoskote also certain positive developments are happening against from the SEZ and from certain developments taking place, similarly in case of Sriperumbudur as well certain new developments in that area is happening. Right now, the economic viability is not that attractive vis-à-vis when we talk about 30% margins and opportunities at hand. But if we believe the market remains tough and we need cash very badly one of that opportunity definitely we will look at and do it and demonstrate by monetizing.

Sameer Baisiwala: Thank you.

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

Abhinav Sinha: Just wanted to check how the sales are panning out now so we have seen a good 3Q are you seeing 4Q also trending on similar lines?

J.C. Sharma: We are confident that the first quarter also should be trending on similar lines per-se we believe that the momentum what we have got should continue, barring something which I cannot predict right now. But ground level situation is becoming relatively better with less competition in domestic and I am trying to give at the same time that the market remains reasonably difficult also that also our friends must be keeping in mind.

Abhinav Sinha: Sir when I look at 3Q itself then can you give an idea how much been you the sales were from the new launches versus the existing project?

Subhash Bhat: About 100000 was from the new launches.

- Abhinav Sinha:** And going forward also the sales the new launch pipeline that you are talking about so 4Q will see one of the bigger projects now and sir that is still from the first quarter itself?
- J.C. Sharma:** This quarter we are launching one project in Bengaluru in the South, one project where we have got RERA approval in the northeast corridor in Bengaluru also should be launched which is a fairly large about 800000 square feet or so and in Chennai already we have launched the 79 villa one project, in Thrissur also we have launched or likely to launch in the quarters as one more project if possible in Pune. The approval comes that also we will try to do, they are not small either they are not that big also. That the big launch of 1.8 million two launches should happen in the second quarter of next financial year.
- Abhinav Sinha:** Thanks.
- Moderator:** Thank you. Next question is from the line of Puneet Gulati from HSBC. Please go ahead.
- Puneet Gulati:** Did I hear it right that you are guiding for a 30% EBITDA margin?
- J.C. Sharma:** What we are saying is that on our real estate constructing division, we have almost 15% EBITDA margin, and in the real estate residential space we are having EBTIDA margins of 25% and the gross margin in excess of 30%.
- Puneet Gulati:** So for the real estate part currently the EBITDA margin is 25% and do you expect it to go to 30% is that?
- J.C. Sharma:** See what we are saying is that we are gradually improving our margin despite the increase in the input costs and not being able to increase our selling prices now. If things remain likewise due to the efficiency as Subhash was highlighting, there may be small marginal improvement overall in context also in the real estate residential space also. The desire is to take it to 30%.
- Puneet Gulati:** But you said the competition also is lesser so is it not allowing you to increase prices now?
- J.C. Sharma:** No that is the duty while the competition is not much the overall market also is not improving that is also the hard reality.
- Puneet Gulati:** Within the market is it possible to give an assessment of which market has been the worst at the new launch finished product or somewhere in the middle product?

J.C. Sharma: See that the big picture remains that the Bengaluru market has been the most steady market. At that time of launch, some developers do so some good performance but if there are no launches, most of the developers are not showing a sustained operational performance. That is the big picture. In that launches or no launches, we have been continuously selling and outperforming our previous year same quarter performance and vis-à-vis the orders and maybe in 2017 in Bengaluru. We have sold highest quantum of residential space in the Bengaluru market both on the volume as well as in the value terms is our assessment and going forward with the kind of launches we have planned, we believe that we have a significant role to play in the residential space. As the tailwinds starts developing as the market start to seeing the scarcity of the product maybe there can be some price hikes and maybe there will be some momentum, but in a tough environment, we still believe we can do better than the market even going forward.

Puneet Gulati: Secondly if you can give more colour on the affordable housing project how is the momentum in Dream Acres now and what are the new projects that you are trying to launch and when is the like what is the likely timeframe for that?

J.C. Sharma: Dream Acres this financial year has done better than the preceding financial year. It continues to give us good visibility, good volume, good sales recognition and good margins. Going forward but it does not give us the income tax benefit, it does provide the PMAY benefit to the customer and now the last to give us that 4% benefit on the GST part for the customers again. Affordable housing the first project what we have got the approval from the BDA it gives a 1800 plus apartments. This will be fully tax exempt and this will be priced little bit higher than this current Dream Acres project. Every apartment is a two bedroom apartment with amenity is as good as what we may such is providing in the north. And once that comes hopefully effective within PAT should remain the same as and when the revenue gets recognized it will further help us in improving our bottomline.

Puneet Gulati: So where is the project?

Subhash Bhat: It is in Bengaluru North, Bellahalli this is the project that we have been speaking over last two quarters now we are getting some traction we have got BDA approval for the plan we are awaiting now the BBMP approval this maybe have got once in Q1 or Q2 of next year.

Puneet Gulati: And is there clarity whether you will have to pay MAT or will you be able to take full 30% off?

Subhash Bhat: Should be because this will be in the main entity MAT will not be an issue for us.

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

Moderator: Thank you. Next question is from the line of Kunal Lakhan from Axis Capital. Please go ahead.

Kunal Lakhan: Good evening. Just one question from my side, I think your peers basically are entering into platform deals with financial partners to tie-up land and also enter into newer geographies. Are we contemplating something on similar lines or say, are we comfortable that our land bank will be mature in over the next few years to bring in as new launches and we will not have to say rest all to acquiring new land parcels? what is the thought process and in that over there?

J.C. Sharma: Your question has hidden answers. We are putting more of our existing land banks at the design and planning stage in Bengaluru and other places and to that extent none of our existing projects we are giving at a platform deal or to any private equity price. At the same time, we are very clear that with this market is now getting formalized, which is the key transition, which is visible at least to us as developers and the demand is definitely in the affordable segment primarily and other segment also as we have demonstrated to our sales performance for the last three or four quarters whatever you have witnessed will be across all categories. We also are conscious that we need not have to put more debt and serve more interest to get such opportunity. So a fine blend, we are trying to work out where we can be a relevant player who can grow as well about industry standards and at the same time, can keep that the overall debt and the debt equity goes under control, keeping these objectives into mind if somewhere, some private equity or a platform this is materialize it. Right now nothing on the table we cannot rule it out either sort of a situation I can say.

Kunal Lakhan: Just a related question any thoughts of increasing our footprint in markets outside South India? We do have land bank do not that land bank coming into ongoing projects in the next few years?

J.C. Sharma: I do agree. That thought process is also going on couple of markets we have been talking about in the past such discussions have taken place hopefully we should be able to give clarity when we come out without next this quarter performance and next

financial performance couple of markets definitely looks interesting to us we should be doing something there, Hyderabad and Ahmadabad are the two markets.

Kunal Lakhan: One last question from my side. This short time for which, the work had halted at Dream Acres would that impact the sales in this quarter?

J.C. Sharma: No sales were never halted or impacted. It was the construction which was halted with BBMP issuing us a notice, which was withdrawn after 14 days. It had not impacted because we have been always ahead of whatever commitments we had given to our stakeholders so per-se it is not going to have any impact materially on our financials or operationally.

Kunal Lakhan: Thanks so much and all the best.

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

Sameer Baisiwala: Thanks for the follow up. Just two quick ones, Sharma Ji what is our take on the Gurgaon market at the moment and any update on Dwarka Expressway? Second is on the Kochi second land parcel, which you marine drive given the size of the first one and also second so, do you think that you can monetize it anytime soon or would you rather wait for the first marine drive to get over which will get to the effect?

J.C. Sharma: As far as the Gurgaon is concerned we currently keep doing at the pace at which so far. In the last three quarters you have seen the performance. While the Dwarka Expressway promises are being made, some ground work also we see, some tenders being awarded on the Delhi side, some compensation being awarded but still it is not functional it is an embracement to us to our customers and to the state government honestly speaking, but fortunately now again the customers have started believing that it will happen and that is what is sustaining. Secondly the assets have become significantly better now than what it was about 1.5 years back. We are looking at on the other side of the road couple of opportunities we should be able to share with you hopefully by the next quarter. As far as this marine drive is concerned, we are not going to compete with our existing product line. We will be having complementary products and we are working out with our partners. Hopefully there also the clarity should emerge. We will not wait till this product is completely sold out we will start work on that land also in the coming financial year.

Sameer Baisiwala: Thank you.

- Moderator:** Thank you. The next question is from the line of Saurav Kumar from JP Morgan. Please go ahead.
- Saurav Kumar:** Thanks for this follow up. Sir just two data points one is how much will be our construction spending right now and differentiated number for nine months?
- Subhash Bhat:** We have spent about 912 Crores for the nine months so about you can take about 100 Crores a month.
- Saurav Kumar:** And what will be this number in last year Sir?
- Subhash Bhat:** Last year was about 700 Crores for nine months so about 75 Crores 30%.
- Saurav Kumar:** Second is Sir on the slide #11, where you give the projected cash flow so I am looking at the area released for sale, sir, so we are saying, we have to get about 2700 Crores from the existing project, the 15.70 million square feet. What is the money you would have generated out of this already will it be close to 2500 Crores?
- Subhash Bhat:** Collected we would not have worked that out because that.
- Saurav Kumar:** Yes so I am getting about 2500.
- Subhash Bhat:** Unlike we will share over next 10-15 minutes.
- Saurav Kumar:** Okay that I got the only thing that is all thank you Sir.
- Moderator:** Thank you. The next question is from the line of Anil Tulsiram from Contrarian Value Edge. Please go ahead.
- Anil Tulsiram:** Thanks for taking my question. Sir in the recent Business World interview the management mentioned that company aims to increase its PCS from current 30 to 40 lakh square feet to 1 Crores in next five to ten years. So my question is apart from Bangalore which other cities do you think will contribute materially towards this goal?
- J.C. Sharma:** Come again how many square feet?
- Anil Tulsiram:** It was mentioned that from your current 30 to 40 lakhs square feet the goal is to take a 1 Crores square feet in next five to ten years?
- J.C. Sharma:** I think somewhere I have not see that in Business this magazine?

Anil Tulsiram: Business World.

J.C. Sharma: In Business World what we have been communicating to all of you and we have not succeeded materially was our stated desire to take our new sales from this around 3 million square feet where we have been struck for such a long period to hit the 7 million square feet over 5 to 7 years. Last three four years have been the toughest year for our sector and overall volumes have not grown. Last quarter we have seen some kind of a glimpse where Bengaluru which used to contribute 75% to 80% its share has come down to 69% where Bengaluru also has grown for us, that means, other markets were started performing we are putting disproportionately more focus to develop and deepen our presence in markets outside Bengaluru. We have clearly seen the benefits of that in the Kerala market as well as in the Gurgaon market. We have to crack the same thing with Chennai on a consistent basis and in the Pune market. We are trying to add one or two markets as well and once all such things happen with affordable housing now becoming a standard product, we hope that now onwards, we will be in a better position though we are stopped giving guidance but to reach to the stated desire or reaching 6 to 7 million square feet of residential space and in that almost other 3 million square feet plus in any case we are delivering and ending over at contractors to our clients if you add that maybe it was a 1 Crores or 10 million but on residential space the basic idea is 6 to 7 million square feet to be achieved.

Anil Tulsiram: Sir the second question is your real estate margins before corporate overheads used to be around 35% as early as 2016 and not had declined to 27% so what is led to this decline?

Subhash Bhat: Basically Ind-AS has caused it because now we have consider on joint development both the land owner's share on the revenue as well as on the cost side, So basically the topline goes up by the margins would not go up they remain the same in absolute terms.

J.C. Sharma: On top of this, there has been till last year a constant continuous the cost inflation, which got calibrated in the last year last few months again it has started showing its sign as things stand today as per we are concerned we remain that this should not have any material impact in our process of improving margin.

Anil Tulsiram: Sir we are already present in eight to nine cities and in the call you mentioned that you want to expand to another two to four cities. Currently except for Bengaluru, no other city is contributing more than 10% to our presales. So what is the logical expanding to more cities rather than mining the existing cities?

J.C. Sharma:

See existing cities to the best of our knowledge, we agree with you, we are already in the leadership position and we are continuing to grow there also so it is not at the cost of the existing city, which is where we have this kind of a situation. When we talk about this, please understand this is a delivery company. This company had the capability of delivering the projects and products not only in time, but of a superior quality as what we claim and the market has accepted. So that allows us. At the same time, we see that in some markets, we have succeeded better, in some markets after succeeded there has been huge difficult marketing challenges over the tough times which the industry has to go through. But since the real estate sector, as we look at India and we look at other Asian countries for the first time I can say with conviction that it is getting into the hands of good companies, better managed companies, ably supported by the government and the customers activism. So in that as a constructor in any case, we are present in multiple cities and we deliver projects on time, why not in the real estate where every single project of ours is profitable every single manufacturing or contracting activity is also profitable. Since we simply adding to the topline and bottomline is what our motive is.

Anil Tulsiram:

Sir and one last question company has – this question was already answered. I am just asking in different manner. Company has 2500 acres of land the development potential of almost 21 Crores square feet and as we have already mentioned in the call earlier, we have set at 35 lakhs square, so even that we assume we can increase it to 1 Crores square feet in next couple of years still we are holding land for next 20 years, so what is our logic for holding the land for coming years?

J.C. Sharma:

The logic we have explained and have been explaining for last ten years in multiple quarters that these lands were acquired in a different era in a different timeframe, where the SEZ integrated township, 80IB benefit and the overall market, what by supported now we are talking about in the last three to four years there had been any growth. At the same time, lands have been acquired at a highly competitive price, which will be giving us this huge competitive advantage or anybody in the markets, where we are currently operating. We are aware of the negative impact, the land banks have had, at the same time we are talking about our desirous of moving to the next stage of our growth and when that those things happen we can invest money, we can look at monetizing this land bank in a much better manner. Right now they are not hurting us, we continue to generate, continue to operate in a comfortable environment and assure that yes the land per-se do not impact our growth or our margins or our payouts. Going forward as things become better and better, these land banks we believe will be the key

differentiating factor between us and the rest in a sector where the land acquisition will be the greatest challenge.

Anil Tulsiram: Thanks a lot Sir that is it from my side.

Subhash Bhat: Someone had asked the question how much of the cash out inflow till date from the area released for sales Saurav that is 1300 Crores till date net inflow.

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

Abhinav Sinha: Thanks for taking my query again. Quick question on contracts we saw a jump in order received last quarter so when can we expect that to reflect in P&L?

J.C. Sharma: From this quarter itself. This is good that someone asked the question about this as well the constructing and manufacturing division it is doing very well in a tough environment again margins are okay, cash flows are okay and from this quarter onwards we will see a good growth, which will likely to remain there for next four quarters. We have clear visibility for financial year 2018-2019 also and we may cross 1000 Crores topline in our construction division in the coming financial year.

Abhinav Sinha: Thank you sir very helpful.

Moderator: Thank you. Ladies and gentlemen that was the last question I would now like to hand the conference over to the management for their closing comments.

J.C. Sharma: Friends, thank you for your patient hearing. I just would like to conclude that we have much greater responsibility and we believe with that responsibility and accountability in the coming quarters and the coming years, we have to play a meaningful role in our sector where we can grow with better margins, with better profitability, of course there maybe some headwind for the coming one or two quarters. But look forward to this sector again as the sunrise growth. We complement from the government for the kind of steps they have taken. We complement that the active enthusiasm and the activism shown by the customers have brought this industry in alignment with the other industry. If the customer start getting comfort and the confidence in the product what is being offered by the developers, according to me, this means good day for the sector and will be there to outperform in the sectors as we move along. Thank you once again for your kind cooperation and support.



Sobha Limited
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Moderator:

Thank you very much members of the management. Ladies and gentlemen on behalf of SBICap Securities that concludes this conference call. Thank you for joining us and you may now disconnect your lines.