



“Sobha Limited Q1 FY 16 Earnings Conference Call”

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Moderator: Ladies and gentlemen good day and welcome to the Sobha Limited Q1FY16 Earnings Conference Call hosted by IIFL Capital. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” and then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Bhaskar Chakraborty from IIFL Capitals. Thank you and over to you sir.

Bhaskar Chakraborty: Thank you. On behalf of IIFL, I welcome you all to the 1QFY2016 earnings conference call for Sobha Limited. We have with us Mr. Subhash Bhat – Chief Financial Officer, Mr. Kishore Kayarat – Company Secretary & Compliance Officer, and Mr. Balamurugan – Investor Relations and VC&MD's Office. Mr. J. C. Sharma is going to join us in a couple of minutes. Over to you sir for the opening comments.

Subhash Bhat: Thank you Bhaskar. Good evening ladies and gentlemen. It gives me an immense pleasure to communicate with you via this con-call hosted by India Infoline post our declarations of Q1 financial result. Coming to the market outlook, our view is that the Indian economy today looks poised for a 7%-7.5% growth in this fiscal, however the microeconomic fundamentals even though they remain positive specially for the real estate sector, there are a few challenges that are being faced in terms of lower sales, higher interest rate, and the increasing cost on certain key inputs especially on the labor side. At the same time, the downward revision of repo rates by Reserve Bank of India is not being passed on to the customer and the benefits are still to be passed on to the end users by the banks. So this challenge still continues.

Our operational performance for the quarter has been a mixed bag. As intimated earlier we have sold 840,000 square feet of new area valued at Rs. 5.04 billion and our major market, Bangalore continues to contribute significant portions of the overall volumes and we are seeing some followup on these areas like Chennai and other locations. We are glad to inform you that our new product, Sobha Dream Acres which is one of the largest residential projects in Bangalore has been well accepted with the launch company has bought in compact luxury homes ranging from Rs. 35 lakhs onwards and ensure that we have products across the price points and we are confident of meeting the guidance of 4 million square feet that we gave last year for the current year. The inventory levels have been a concern for the sector but the company is of the view that its unsold inventory is adequate and its unsold inventory especially in Bangalore is not high as compared to the projects under execution. At close of Q1, our unsold inventory on completed and near completion projects is only 330,000 square feet which is about 4.3% of the total saleable area of these projects. Of these, 123,000 square feet is of inventory comprising plotted development projects. Since the company has limited range of



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products in the NCR region comprising of villas and row house development and does not have a product with a lesser ticket size in form of apartment, the company has entered into a joint development agreement with our existing JD partners of Sobha International City for development of 39.375 acres in NCR on a 60:40 revenue share under the group housing scheme. We are confident of the product in spite of the general slowdown in the NCR market. This will also supplement our product range in NCR and will complement the existing infrastructure company has set up in the NCR region.

Coming to the financial performance – during the quarter there was a dip in the revenue from contractual projects owing to the relative longer billing cycles, however contractual project pipeline continues to remain strong with the order book value of Rs. 694 crores to be executed for next 2 years. Our core operating margin remains stable and reduction in profits is primarily due to increased sales, marketing, and general overhead.

Coming to the debt – in spite of the rate cuts by RBI, interest rate cuts by bank and financial institutions for home loan and construction finance is yet to be fully passed on to the lenders. In order to retire certain high cost debt, we have recently issued NCDs to the extent of 150 crores which was also used for land payments and for operations. We anticipate the debt levels should come down from the third quarter of this financial year. Our repayment commitments during the next 3 quarters will be about 427 crores. We believe we should be able to achieve our targeted debt ratio of 0.6 during the financial year 2016-2017. Further we also would continue to pursue auctions for land monetization on an opportunistic basis.

Coming to financial update – we would like to share the following key highlights of the company's performance for first quarter:

Consolidated revenue of Rs. 4.63 billion as compared to Rs. 5.83 billion during the corresponding quarter last year and 5.09 billion during the preceding quarter Q4 of FY2015. Revenue is down by 20% year-on-year and 9% quarter-on-quarter. Income from our real estate operations stands at 3.5 billion for the quarter ended 30th June 2015 vis-à-vis 3.46 billion for Q1 of FY2015 and 3.2 billion during Q4 of FY2015. Real estate revenue is up 1% year-on-year and 9% quarter-on-quarter. Contracts and manufacturing revenue of 1.12 billion during Q1 of this fiscal as against 2.32 billion in the Q1 of fiscal 2015 and 1.87 billion during Q4 of FY2015. Contract revenue is down by 52% year-on-year and 40% quarter-on-quarter. Real estate operations contribute around 75% of the income where contract and manufacturer have contributed 24% and the other income at 1%.

Coming to the EBITDA, PBT, and PAT – EBITDA from our first quarter stood at 1.3 billion against 1.58 billion during Q1 of FY2015. EBITDA margin for the quarter stood at 28.3%. The



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profit before tax for Q1 FY2016 stood at 722 million against 905 million in the corresponding period last year. The profit after tax after adjusting the minority interest for Q1 of FY2016 stood at 450 million against 570 million for the corresponding period last year. PAT margin is at 10%. We are pleased to inform that unbilled revenue as of 30th June 2015 is about Rs. 27 billion on the sales made so far. Out of which, we expect a minimum of Rs. 7.01 billion to be recognized during the next 3 quarters of this current fiscal. In addition to this income from new sales will also contribute to the revenue.

Coming to the cash flows – during first quarter of FY 2015-2016 the company has collected Rs. 4.92 billion and spent 4.87 billion in operations resulting in a surplus cash flow of Rs. 53 million. The company has utilized 769 million towards servicing of interest and tax. Rs. 957 million towards advance and refundable deposits for land, general and commercial CAPEX of Rs. 498 million resulting in an overall excess cash withdrawal to the tune of Rs. 2.17 billion.

Coming to the debt – loan repayment during first quarter was Rs. 1.08 billion, net debt as on 30th June 2015 is at Rs. 20.30 billion, and debt-equity ratio stands at 0.82. The increase in debt is primarily on account of pursuing investment opportunities and lower collection from the contract business. The current cost of debt is at 12.5% per annum.

Giving you an update on the Thrissur Commercial Mall – commercial mall at Thrissur in the Sobha City Project is almost complete. It has a total developable area of 443,900 square feet with a leasable area of 338,500 square feet. We had also initially sold 81,349 square feet and the balance area is being leased. So far we have leased about 83.2% of the area for various reputed brands. The food court will be under the management of the company and several restaurant chains have signed on. The mall will be operational from the second quarter of the current fiscal.

With regards to the contract business – we have ongoing contract projects measuring 9.34 million square feet of area with unbilled value of Rs. 6.94 billion in hand which will be delivered over next 2 years. In the recent past, Sobha has bagged new contractual orders from Lulu in Cochin and Biocon in Bangalore valued at approximately 290 crores. We expect a steady stream of revenue from contractual activity starting third quarter of this fiscal year. During the first quarter, we have delivered 2 real estate projects and 3 contractual projects totally measuring 1.2 million square feet. As on date, we have delivered 369 projects totaling to 71.73 million square feet over a span of past 20 years. We are grateful to all the stakeholders who have helped the company in making this a reality. We thank you for your participation and would request participants to put forth their questions now and Mr. Sharma has now joined this call.



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

Abhishek Anand: My first query relates to our notes to account (2) where we are talking about the land agreement with the buyer has actually backed out I think, could you give us detail on that?

J. C. Sharma: This is one land which we have sold in Pune to Pride Purple Group right and there were certain obligations on all part which the buyer has undertaken to do it from their side and after having agreed there had been a delay in getting the payments. So we have gone for the arbitration. We believe that there will be no adverse impact because of this disclosure or because of this transaction on our financials at any given point of time.

Abhishek Anand: What was the amount involved in the transaction?

J. C. Sharma: About 100 crores or so.

Abhishek Anand: Secondly, on our Gurgaon project, the group housing project which we have added to our portfolio, could you give us the rationale given the fact that we are already facing quite a bit of challenge in the NCR market and still we have gone for I think a group housing project plus and also can you give us the details of the project?

J. C. Sharma: Of course right. While when you say what kind of a macro environment which is existing now, it is a reality. I do not have to add anything. You know better than us but if you look at even in such environment in Bangalore since last 2 quarters after the launch of our Dream Acres, we have been doing better than in all the quarters in the company's history. Here also we have been developing a very large area of about 153 acres. We believe that after we invested we do not have the complementary product. So what we are doing is developing 140 acre of large parcel which has got better accessibility and the product range, it starts from above 1,315 square feet and goes up to 2,300 because Gurgaon has some kind of a typical density loss where the average size of an apartment needs to be about 1,750 square feet. Taking into that account, the product configuration had been done in such a manner that it meets the requirement of most of the buyers who wish to buy in Gurgaon. The buyers they come, they like the products but unfortunately they do not have the kind of affordability what we have anticipated and the way the first two years have reflected. We being a long-term player and having known that if some of the developers who have recently launched projects there have met with good response felt that there is a good opportunity to be incashed with the minimum outflow why not have a product which complements our existing product line. That has been the story and these products do take about 4-5 years to sell and get completed on a page wise basis. Real estate being what it is we believe that having such an opportunity in hand, we will



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make our company relatively better than only focusing on this 153 acres of your large township without having this complementary strength. That has been the thought behind going as with this group housing scheme.

Abhishek Anand: The land purchase cost of 96 crores was for this group housing project or was it for something else?

J. C. Sharma: No, land purchase primarily has been in Bangalore of one particular land parcel about 10-10.5 acres, this we have contacted to buy about 8-10 years back and due to certain legal issues, acquisition and others we could not buy. It has come at a very effective price. So primarily right, almost more than half of this new investment has gone into buying this land and the remaining amount had been invested in this kind of an opportunity. One is this group housing scheme, one what we have done a MoU with this India Hume Pipes in Delhi and some of the other projects what we have done in Bangalore also. So the total outflow of close to 100 crore consist of land buying and some payments towards the joint developments in these cities.

Abhishek Anand: In terms of collection from a real estate we are again seeing a decline sequentially as well despite our Dream Acres doing pretty well and the upfront payment would have most likely been collected in the first quarter. Could you...?

J. C. Sharma: No.

Abhishek Anand: Could you give us the reason why the real estate collections have actually declined over the fourth quarter?

Subhash Bhat: Basically if you look at the breakup, the decline is basically linked to the new sales dropping off in the existing launched projects. On Dream Acres, the collections would start coming in only in this quarter and we will start seeing the benefit of this sales that were done in Dream Acres fully by Q3. What we got is only the booking amount in Q1.

Abhishek Anand: 20% total collection amount in the first tranche has not come through yet.

Subhash Bhat: No, only the booking amount has been taken. The demand for the remaining is right now in process of being sent to various customers who have signed up, in the sequence that they have signed up.

Moderator: Thank you. The next question is from the line of Adhidev Chattopadhyay from Elara Capital. Please go ahead.



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Adhidev Chattopadhyay: Just wanted to understand what is the approval status of both Chennai and Kochi right now, is there any progress in the last quarter or this year on both the projects?

J. C. Sharma: Which projects you were talking about?

Adhidev Chattopadhyay: The Sholinganallur and the one in Puravankara and Kochi, those 2 projects sir.

J. C. Sharma: I think as far as the Sholinganallur Project is concerned, it might take a couple of quarters more. As far as the Kochi Project is concerned, we believe that it can be launched in the next quarter.

Adhidev Chattopadhyay: Just to get an idea like how are you planning the launch, if you could share is it be in 2 or 3 phases or what sort of products we are looking at over there?

J. C. Sharma: See mostly wherever we have more than 5 acres of development coming up, we planned to launch this projects on a stage wise basis.

Adhidev Chattopadhyay: Is it again be like a 1 crore plus or I am just trying to understand the ticket size you are looking at from that point of view?

J. C. Sharma: As far as Sholinganallur is concerned definitely we will have products below 1 crore also in definite sizes and shape sort of a thing because there is a requirement of the EWS housing also and we are also going add with the two-bedroom, three-bedroom apartments there. As far as the Cochin is concerned, it will be launched as a premium product and the prices will definitely be more than 1.5 crores.

Adhidev Chattopadhyay: But in like Kochi again just to continue how do you perceive the demand right now over there in Kochi market? Have you seen any improvement over the last couple of quarters?

J. C. Sharma: We do not find an improvement as far the Kerala market including Cochin is concerned so far.

Adhidev Chattopadhyay: Second question is on the contracting part, now obviously it is lower than this quarter, but for the full year do you expected to do as much as you did last year or do you see a fall in the contracting revenues?

J. C. Sharma: There may be a small fall right in the overall contracting revenue by the end of the year. It is touch and go, it may not exceed, but we will be nearer to that. It is what in the last quarterly conference call also I have indicated while the order book position is there, billing may not be as higher and what we have achieved in the last year which was the record year for us.



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- Adhidev Chattopadhyay:** Just to understand in the real estate so when do we see the revenue booking from real estate picking up, from which quarter are you expecting because it has been fairly starting around 350 crores now for some time. So when do we see a pickup over there in the trajectory?
- J. C. Sharma:** It should start picking up partly from third quarter onwards and fourth quarter we should show significant improvement as far as the real estate revenues are concerned.
- Moderator:** Thank you. The next question is from the line of Abhinav Sinha from CLSA. Please go ahead.
- Abhinav Sinha:** You have reaffirmed your guidance of 4 million square feet of sales but given the pace that we have seen in the quarter as you are counting on something more than Dream Acres to kick start say in the second half?
- J. C. Sharma:** Of course yes. We believe that the Chennai market, the NCR market, and the Bangalore market they should do better for us than the last year. Even the Kochi market while overall environment still remains tough, we should do significantly better. So we are confident that the guidance of 4 million square feet, we should be able to achieve in this financial year. If you look at even in the last financial year also, the second and third quarters, there has been some kind of the challenging situation. We hope to do better than that and we believe that with the new launches and Dream Acres continue to do well, we should be able to achieve this numbers.
- Abhinav Sinha:** Should Dream Acres be part of revenues by fourth quarter, you are talking about a big jump in revenues then?
- J. C. Sharma:** Yes, because the work has started there and we hope to achieve that milestone of 25% and should give us that comfort. You are right.
- Abhinav Sinha:** On the Gurgaon Project, the new one which has been added, was it earlier part of the land? I think there has been a restructuring in the project once, right? If I remember?
- J. C. Sharma:** You are remembering it absolutely correctly. There had been a restructuring that this project we had with us almost on similar terms we have got it back after 3 years.
- Abhinav Sinha:** What will be the construction cost here?
- J. C. Sharma:** The construction cost we are following the Dokasystem sort of a thing, the shear wall, it is not be the block wall kind of a thing. So we are trying to keep the construction cost reasonably under control to be competitive and offer the product at good prices where we can manage our margins also and we can improve our volumes also.



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- Abhinav Sinha:** Finally how far are we in the launch pipeline for Gurgaon in terms of approvals?
- J. C. Sharma:** All the approvals, we are already there. We have redesigned it and resubmitted the plans. So hopefully in next couple of months' time, the approvals should be in place which gives us confidence that next quarter we should be able to launch this project.
- Moderator:** Thank you. The next question is from the line of Saurav Jain from HSBC Bank. Please go ahead.
- Saurav Jain:** Couple of things I missed in the remarks, you said 0.6 will be your net debt-equity target?
- J. C. Sharma:** Yes.
- Saurav Jain:** ByFY2017 you said right?
- J. C. Sharma:** FY2016-2017 yes.
- Saurav Jain:** Yes so financial year 2017.
- J. C. Sharma:** Yes.
- Saurav Jain:** Your unsold inventory 3,30,000 square feet that is the completed inventory right for 4.3 plus on the saleable area?
- J. C. Sharma:** No, have to look at it like this. On the completed projects, we carry an inventory of about 2,10,000 square feet. Out of that 1,23,000 square feet consists of plot in Bangalore, Coimbatore, and Mysore. So we carry only an inventory of about 87,000 square feet of 3.4 million square feet of completed projects which includes products what we have delivered in this quarter also, the current quarter and then we have added products which you are likely to deliver in next 3 quarters consisting of about 3.5 million square feet. There as on 7th of August 2015, we have an unsold inventory of about 120,000 square feet. So the idea was because the market is worried with lots of this inventory hang upkind of a thing. What we are trying to communicate that probably this is an exaggerated way of looking at things because if they look at 7,000 units of Dream Acres and they put it in the inventory, it is not the real reflection. What they need to see if the products ready for delivery, people started taking delivery, and still remaining unsold where working capital pressure is the highest. From that angle, we are well within the comfort zone is what we are trying to communicate.
- Saurav Jain:** What is your NRI mix this quarter? I believe we do not have this number in the presentation, am I right sir?



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- J. C. Sharma:** The Dream Acres and other products prima facie have not been so far purchased by the NRI numbers. There has been a dip from the conventional 25%-75%, now NRI numbers have come down to about 18%.
- Saurav Jain:** One more thing, I think majority of the sales upon this quarter have flown from the Dream Acres project and I see that the non-IT professional and IT professional breakup that has kind of increased this quarter while the business people share has gone down. So does it mean that the Dream Acre sales are more towards end users and rest of investors, is it the right to look at it?
- J. C. Sharma:** See most of our products including Dream Acres, it is being sold to the end users only. We are not selling even one single unit with any kind of assurance or a commitment of any type sort of a thing. The payment terms are the same. The transfer policy remain the same sort of a thing. So for us as such there is no category as investors.
- Saurav Jain:** So any particular reason why we are seeing a shift more towards the professions and less over business people?
- J. C. Sharma:** It is too early for us to assess because there is a new product category, let 3-4 quarters pass, we will be able to analyze and comment on it better probably then.
- Saurav Jain:** What could be the share of 1BHKs in the Dream Acres?
- J. C. Sharma:** Very little, it is less than 10%.
- Saurav Jain:** How much of that is already sold, any idea on that?
- J. C. Sharma:** See there is only about 400 odd units out of 6,945 units to be sold when the project is fully completed. So it is also less than 10%.
- Saurav Jain:** So we still have some inventory which will be sold as 1BHK in future also.
- Management:** Till the inventory is there, we will keep selling it.
- Moderator:** Thank you. The next question is from the line of Saurav Kumar from JP Morgan. Please go ahead.
- Saurav Kumar:** My first question is on your margins. So on this quarter if the contracting revenue contribution is small, your margins should have widely increased a lot both sequentially, and even Y-o-Y but that has not happened. Can you just help me understand why should not they, because the



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contracting margins from what I understand are near 15% levels. So the margin inflation in real estate should have been then much higher.

J. C. Sharma: You have a point there. At the operating levels, the core margins remained as good as what they have been in the immediate past. It is post the operating margins where in view of this new product launches, we have created more call-center on the sales promotion side, Rs. 6 crores has been spent on your new marketing office there itself for the Dream Acres and all such things when we are putting it in to the other cost it is impacting us. So the real estate margins are good but the fixed cost and the sales and marketing cost remained at the elevated levels and due to the dip in the contracting margins, it is reflecting in the overall reduction in the profit numbers but the operating margins remains almost constant at about 28%-29%.

Saurav Kumar: So from what I understand you said you have some fixed expenses on launch of Dream Acres which you have taken this quarter?

J. C. Sharma: Yes.

Saurav Kumar: Of 6 crores?

Subhash Bhat: Where the revenue has still not come, right?

Saurav Kumar: Yes, understand. On Dream Acres itself the earlier plan was that we will launch it in 3-4 new locations on our existing land bank. So when can we expect those launches to start happening?

J. C. Sharma: Right now the focus is on this product and looking at the way the whole market is behaving we believe that this is the answer for us but to give you clarity I think you need to wait for another 2-3 quarters.

Saurav Kumar: Because my question essentially was, if I look at the last 3 years and 4 years, we have been stuck around this 2.5-3 million square feet mark and so the volumes are just not scaling up even though technically you can execute hopefully much more and you have a target to reach 8 odd million.

J. C. Sharma: 7 million.

Saurav Kumar: Yes, so we have a target of reaching those numbers. So when is that target still on? How do we break out from this 3 million square feet to that level?

J. C. Sharma: So the target is still on and we believe that the kind of volume dip what you are seeing otherwise it is more of industry specific but our reasonably aggressive stance on the new



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product launches, it had not dimmed and we are complimenting it with the launches that you have seen in last 3-4 quarters and likely to see in last 3-4 quarters which will further be complemented by just now what I talked about of having this product in more locations, more cities. So we are confident that yes we are on the right track though the current environment does warrant that we need to be cautious as well.

Moderator: Thank you. The next question is from the line of Samar Sarda from Kotak Securities. Please go ahead.

Samar Sarda: I had a few set of questions. My first question was on the Dream Acres Project. So how much sales of this in Bangalore have been from Dream Acres?

J. C. Sharma: It constitutes out of the Bangalore sales less than 50%, of the Bangalore sales of 700,000 square feet but as a single product, it does more than any products anywhere. That much I can tell you.

Samar Sarda: Agreed. Now Sharma Ji fourth quarter FY2015 and first quarter FY2016, your traditional products in Bangalore has fallen below 500,000 square feet.

J.C. Sharma: You are right.

Samar Sarda: You do not have any big launches coming up in Bangalore. I do not know whether the Sarjapur Roads launched could happen this year. So is it possible that you could scale up again to a 2 million square feet a year sales ex-Dream Acres in Bangalore in this year or it could take some time?

J.C. Sharma: We are confident. It is a very good point Samar that without Dream Acres also we should be able to achieve 2 million square feet of our normal product sales in this financial year and we have the required inventory for that.

Samar Sarda: If I could just take the liberty of pushing you on this because see most of our inventory like a it is a little more super luxury Indraprastha, Palladian, Morzaria, and all these products.

J.C. Sharma: No, they are relatively speaking not that numbers. They are in 100s only whereas the products like Silicon Oasis or Park Plaza, Hadosiddapurakind of a thing, they are in 500 plus sort of a thing, 1,000 numbers as well and the products also starts somewhere from 2 bedroom also around 1 crore onwards. Majority of the projects without Dream Acres also and the launch of Clovelly right now you have given me an opportunity to talk about, it is also met with equally good response in Padmanabha Nagar and after a long time, a very high value product only 127 units, 3,36,000 square feet and we have done extraordinarily well close to 25% of the stock



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issold. So we do not foresee as such that there is no demand for the higher price products but of course vis-à-vis what we used to do in the immediate past, there has been a slowdown.

Samar Sarda: When we do see the pickup happening probably by the third quarter?

J.C. Sharma: We believe so because second half normally otherwise also is considered relatively better and somewhere one interest rate reduction of 25-30 basis point to begin with itself may encourage more number of buyers to start buying in. Underlying still remains reasonably intact according to us. The enquiry level still remains quite high. It is where that the conversions does not take as even after commitment of buying somewhere he tries to wriggle out when it comes to the completing formality. So it is more sentiment driven, then the lack of enquiry, the lack of interest in the products.

Samar Sarda: My second question is on your land payments and land additions for this quarter, you paid roughly 96 crores. My first question is the sales have not been going up. I totally take your point on adding up a land in Gurgaon and Delhi. What could be the tentative outflow for land acquisition in the remaining 9 months assuming a fact our sales are going to be a little more stagnant or they increase is only going to be 10% because then we are probably entering a little dangerous territory on the debt doing up and sales being a little more flattish?

J.C. Sharma: Your point is very well taken, thank you for this question. More or less whatever projects we are about to launch and what we have given you the visibility, there is nothing required to be paid. So the investment cycle or whatever you talked about, it is done. Now some plant related, approval related those kind of expenditures definitely will be there but the pressure on making payments towards the opportunities is more or less done as far as the next 3 quarters are concerned.

Samar Sarda: Just a related question on this, actually 3 questions. One, out of this 96 crores, how much has been paid for Gurgaon 46 Acres?

J.C. Sharma: More than half had been paid to acquire the land and the remaining is towards it is Gurgaon you talk about, Bangalore you talk about, Delhi you talk about, all such things.

Samar Sarda: Delhi is not showing up in our land bank yet, right?

J.C. Sharma: Because the visibility is still bit far away. In the land bank, it is shown but in the future project launches, visibility is still not very clear. So it is not to be shown.

Samar Sarda: You shown it as part of NCR?



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- J.C. Sharma:** Yes.
- Samar Sarda:** The 10.5 Acres you contracted in Bangalore like you said it was an old land parcel for which you had to pay amount in this quarter, which one is this?
- J.C. Sharma:** So land addition cannot happen because it is already there as part of my land bank. You get my point?
- Samar Sarda:** Yes, which land parcel was this?
- J.C. Sharma:** It is there in the Bannerghatta, behind Meenakshi Temple.
- Samar Sarda:** One final question with regards to your three big launches for this year, the Sholinganallur launch, the Kochi launch as well as the Sarjapur Road launch in Bangalore, what is the possibility that these launches might get spilled over in FY2017?
- J.C. Sharma:** As far as Cochin launch is concerned it looks certain, correct? As far as the other two launches are concerned we have to wait.
- Samar Sarda:** Our gross margins for this quarter have been little better, how could I understand that?
- Subhash Bhat:** One is the mix of the contract and real estate changing so that has helped slightly and as you are aware the contract margins are slightly lower than the real estate margins and at the same time as Sharmaji explained we have invested on the fixed overheads for the Dream Acres and other projects, so basically there the impact of sales revenue is still not coming in, which was we only got sales there when the revenue starts coming in, that would ensure that the margins would stay at a very high level.
- Moderator:** Thank you. The next question is from the line of Nitin Idnani from Axis Capital. Please go ahead.
- Nitin Idnani:** Sharmaji, you mentioned that Kochi is almost certain, as far as I remember there was a balance payment to be made for the Kochi land, would that come in FY16 considering we are going to be launching this project?
- J.C. Sharma:** In FY15-16 I think we will come. If at all I launch the projects in the next quarter it is likely to hit in the last quarter of 16-17.
- Nitin Idnani:** So it is definitely not in this financial year. Also if you can help us understand how much more spend would we incur on the CAPEX side, specially the commercial project, I see APMC



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project also features in as part of your future launches. Just want to know if you have a sense of how much money will go into the commercial CAPEX in FY16?

J.C. Sharma: If everything goes well, to begin with, still this expenditure may not be more than 5 crores in this financial year as far as APMC is concerned.

Nitin Idnani: Would it feature in a meaningful way in FY17?

J.C. Sharma: We are going minimum three basements so a lot of investments at least for the first one year or so will be on the excavation and then coming up kind of a thing, the footing and other things will be required. So one thing any meaningful significant expenses will be incurred in 16-17 also.

Nitin Idnani: Last question, you have a guidance of about 4 million square feet for this year. How much on that do you see coming from the group housing project in Gurgaon?

J.C. Sharma: Very difficult, we are not that way giving any kind of a guidance but we believe that Gurgaon we did not have, we have been there for about, now this is the fourth year reasonably well, reasonably well accepted, the product is also well accepted, cancellations are next to nothing, payments have been forthcoming from the existing customers. But we did not have to offer to many people the kind of product which we, most of the NCR buyers are buying. Now believing that okay, buying currently seems the main challenge if we do not avail of this opportunity, will miss out something on a huge infrastructure which we have created. So we have taken a call. We can say, with that, the second half definitely will be significantly better for NCR and definitely will add to our overall volumes in totality to achieve this four million square feet of targets also.

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

Sameer Baisiwala: I just have a spreadsheet open and I was quite amused to see that if I look at last whatever 8-10 quarters probably this is the lowest revenue that you have recognized. Probably this is the lowest EBITDA that you have reported and I am pretty sure that it is the lowest PAT that you have reported in last 18 quarters?

J.C. Sharma: You are right. 12-13 was the last financial year, where we have achieved this kind of performance, otherwise more or less we have been there from 14-15, 50 crores onwards. This is again primarily where our overall cost, the fixed component kind of a thing, it has been going by about 10% or so. The revenue recognition both on the real estate side has remained bit stagnant. Thanks to the falling numbers since last two years. So while we have been able to



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protect the margin we have not been able to improve the value part. The contracting revenue has been the primary growth drivers in the last two years when you talk about 13-14 and 14-15 we are from about 400 odd crores we had gone to 600 and 600 to 800 crores kind of a thing. Looking at the order book position we hope to make it up that part also. This year will be the first year where we are reversing the trend on the real estate front as well and looking at the way the investment or the construction cost investments has been done in the various ongoing projects little bit uptick should give us more than proportionate improvement in our topline in the real estate as well but till that happens hopefully from the third quarter onwards the cycle should be reversed and should be sustained for many more quarters and years to come.

Sameer Baisiwala:

I certainly hope so sir. The second question is if I look at the revenues, real estate revenues that you have recognized in the 9 months which is second, third and fourth quarter of last year was about 1300 crores. So for the balance 9 months of this year due you think that you will be able to do that much grow or de-grow and I say that in the context of what was said earlier about 700 crores of possible recognition.

J.C. Sharma:

Yes the possible recognition in the three quarters, this remains committed. So this 700 is definitely there, then whatever incremental sales you are likely to do when the Dream Acre is likely to come for the revenue recognition, in my view whatever projects we are going to launch from now onwards or to an extent the Clovelly, what we launched in this last quarter. Most of the projects has become due for recognition, so that is what I was trying to communicate that while you are doing a construction activities on the project, somewhere this slowdown has impacted us in recognizing the revenue. The 4 million square feet and ability to start recognizing the revenue in Dream Acres should reverse this trend significantly on a sustainable basis?

Sameer Baisiwala:

Right, but I am not sure I got the answer. So you expect this 13 billion in the 9 months to be achieved, higher or lower?

J.C. Sharma:

It will be higher than this. We are still reasonably clear from our visibility point of view that our topline this year overall should be better than what we have achieved in the last financial year.

Sameer Baisiwala:

Just focusing on your net debt you mentioned the guidance for fiscal '17 which I thought was quite strange, what is your thought on the fiscal 16 net gearing?

J.C. Sharma:

The debt is likely to go in this quarter also little bit, correct? And thereafter it will start slowing down and this is based on the cash flow projections, whatever we have got on the basis of the existing sales which has happened in the last couple of quarters. So our belief is that the debt



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levels was in absolute numbers and as well as in the percentage terms will start declining from the third quarter and debt should continue for the next few quarters to bring it back to our desired levels of 0.6 that is what the point we are trying to make.

Sameer Baisiwala: I come back to you again with the same question, for fiscal 16 end what would be the net gearing?

J.C. Sharma: It should be better than what we have got in the first quarter.

Sameer Baisiwala: Which is not very encouraging because that is 82%. I said this question and sorry I am pestering you on this, in fiscal 15 you mentioned that, at the beginning of fiscal 15 you mentioned that your net gearing would be 60%, you ended the year with 75%; just a quarter back you guided for fiscal 16 current year of getting net gearing under 70%; looking at your commentary just now I do not think you are going to meet that at all. So like presales guidance where you have been slipping for last two years, so is the case for net debt. So are these guidances that you gave, the directions that you gave are these well thought off, are they to be taken seriously or not?

J.C. Sharma: They definitely need to be taken with absolute seriousness and we definitely try to do what we are talking about after giving reasonable amount of thoughts. There are still certain things which do happen where all of us take a view, it is not a view which should take on a company, it is a view you take on an overall economy and you need to align yourself and you need to look at your relative strengths and weaknesses and opportunities in that environment. We have reasonably succeeded to ensure that the operational performance strength, that is what your first question that it can be reversed and it will be reversed, that visibility is there. The second question about bringing it down to 0.7 and there to 0.6, when you are saying it should be less than 0.8, it can be anything. But again we need to see that the way we thought this slowdown will stop. It is not seen and still you see that our strengths on the industry and on the locations, it remains confident at what we were. Smaller, relating to the overall structure of the company this issues which we believe are temporary in nature, should not give us a kind of situation in which we go tomorrow where it looks like we are missing the bigger opportunities or roaming our business and getting into that 7 million square feet of new sales. So we have been able to protect the margins. We have been able to reverse the trend of lower sales and we believe that we should be able to reverse this trend of bringing down the debt levels and debt equity both that we have guided.

Sameer Baisiwala: Just on your comment on the market being tough and all, if I look at JLL data and you may dispute that but Bangalore seems to be the brightest spot amongst all the metros and if I see last 8-10 quarters, I think from 7000 units it has actually maintained and gone up to about



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8500-9000 units for the June quarter. So Bangalore is not a difficult market is my understanding.

J.C. Sharma:

You are absolutely right, that is why if you look at in the last two quarters Bangalore alone has contributed about 1.5 million square feet in this calendar year which is the highest ever new sales we have achieved in our history, 20 years sort of a thing. So we are also improving in Bangalore, it is the other markets which are not performing to their potentiality where the 40% of the current inventory lies but gives only 20% of the newer sales. So the other markets are suppose to be performing better, seeing some improvements like we believe that Chennai can sustain, we believe that Gurgaon should improve, so all such things they do take time when we compare the numbers on a quarter on quarter basis, but from a trend perspective we do see that things are definitely improving in our core markets.

Sameer Baisiwala:

I do not think that I agree with you about non Bangalore market, except for NCR I do not see other markets being too tight or too bad if I look at Chennai that is going from 4000 to almost 8000, if I look at Pune that is standing at roughly about 4000 for last 8-10 quarters. So many of the markets that you are there outside of Bangalore have also been pretty okay. I do not see there a problem. Problem is with you and your performance in those markets, I would imagine.

J.C. Sharma:

Not Sameer. As far as other markets are concerned, from relative data that has been collected, we are not that significant a player but what all little bit we know no one does more than 1.5 million square feet in the Chennai market and 7except one listed company in Pune we know the data of other guys, they are at less than half of what they have been doing in the immediate past.

Sameer Baisiwala:

But before giving these guidance I hope you bear in mind, what are the potential of these cities, don't you?

J.C. Sharma:

Yes, of course.

Moderator:

Thank you. The next question is a followup from the line of Samar Sarda from Kotak Securities. Please go ahead.

Samar Sarda:

The new group housing launch in Gurgaon, what is the ticket size we are planning for it?

J.C. Sharma:

From 1,350 square feet onwards. I think you are aware of the fact that there is a norm that average size of units should be about 1,750 square feet or so. So the average unit size will be 1,750 but the product launch will start from 1,350 onwards.

Samar Sarda:

Your cost per unit what will be the likely range?



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- J.C. Sharma:** Right now it is premature because it does impact the marketability kind of a thing but the normal margins what we have been enjoying we should continue to enjoy.
- Moderator:** Thank you. Ladies and gentlemen that was the last question. I would now like to hand the floor over to Mr. Bhaskar Chakraborty for closing comments.
- Bhaskar Chakraborty:** Thank you very much. I want to thank the management of Sobha Limited for giving us the opportunity to host the call and thank you to all the participants. Have a good evening. Bye-bye.
- J.C. Sharma:** Thank you everyone for their patient hearing and allowing us to talk about the company's performance.
- Moderator:** Thank you. On behalf of IIFL Capital that concludes this conference, thank you for joining us and you may now disconnect the lines.