



“Sobha Developers 2QFY14 Conference Call”

November 6, 2013



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Moderator: Ladies and gentlemen, good day and welcome to the Sobha Developers 2QFY14 earnings conference call hosted by Ambit Capital. As a reminder for the duration of the conference, all participants' lines are in listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference please signal an operator by pressing "*" and 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. Rakshit Ranjan. Thank you and over to you, sir!

Rakshit Ranjan: Thank you. Good afternoon, everyone. We welcome you all to the conference call of Sobha Developers. We have with us the senior management team of Sobha led by Mr. J.C. Sharma, Vice Chairman and Managing Director; Mr. V. Ganesh, Chief Financial Officer; Mr. Kishore Kayarat, Company Secretary and Compliance Officer; and Mr. Bala Murugan, Senior Manager, VC & MD's Office. I would now hand over the call to Mr. Sharma to give an overview of the second quarter performance and then we will open the call for Q&A. Over to you, sir!

J.C. Sharma: Good evening ladies and gentlemen. Happy Diwali as well as season's greetings! It gives us immense pleasure to communicate with you all via this concall, hosted by Ambit Capital post declaration of our H1'14 financial results. As you all are aware, the real estate environment had worsened in the last quarter at a macro level, our Indian economy had de-accelerated and it is facing a tough challenge of slower economic growth. In this environment and in this backdrop you have to see our performance where we have done very well in the Bangalore market, in the Chennai market and in the Kerala market and we have shown de-acceleration of our sales in the Gurgaon market.

First, I would like to delve little bit on the market scenario. As all of you are aware that our economy in 2Q continued to experience the slowdown in GDP terms. This combined with rising inflation and volatility in Indian rupee and capital market contributed to the worsening economic climate in the country. The current level of inflation has been above the RBI comfort zone and has led it to take steps to control the same.

The RBI and the government announced various initiatives to shore up the foreign exchange reserve and this has resulted in the stabilisation of the rupee over the past 45 days, but the RBI's move to increasing the repo rates in September 2013 had contributed to the rise in the base lending rates of majority of banks. This slowing down of the economy increased base rates and the tight liquidity position had affected the real estate industry as a whole in an adverse manner. Against this backdrop we present our financial performance for 1H and 2Q for the financial year 2013-14.



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Our performance highlights are as under for the first half:

We have done 1.92 million square feet of new sales valued at 12.35 billion. Our volume has grown by 8% and value by 23% year-on-year basis. Average price realisation of Rs6,420 square feet had increased by 13.6% year-on-year basis. Average price realisation excluding taxes comes to Rs5,875 per square feet.

During 1H2014, we launched four new projects measuring 2.7 million square feet of total developable area and 1.45 million square feet of total saleable area. This includes two project launched during 2Q2014 measuring 1.9 million square feet of developable area and 1.13 million square feet of saleable area. In addition to this we released about 0.85 million square feet of area from the existing project for sale. We have completed and ended over three real estate projects and six contractual projects in total measuring 1.62 million of developable area during this first half.

During 2Q 2014, we also expanded our geographical presence in the real estate phase by entering into Kozhikode, and the project had been well received by the market. Our 80% of the new sales value in 2Q amidst from projects valued at 1 crores and above. While giving the financial update, we are pleased to inform that in the tough environment, ICRA has upgraded our credit rating for long-term borrowings to A- from BBB+. We are also happy to share that the company has received special commendation from the Golden Peacock Award for excellence in corporate governance.

We would also like to share some of the following key highlights of the company's financial performance for the first half and second quarter of financial year 2013-14. Our consolidated revenue of Rs10.08 million is a growth of 18.4% year-on-year basis. Our revenue from core operations grew 34.5% year-on-year basis. Our income from real estate operations stands at 7.17 billion for half month financial year 2014 vis-à-vis Rs5.52 billion excluding land monetisation, which was close to 100 crores in the last financial year first half vis-à-vis in this first half of this current year, which is a growth of 30%.

The constructed revenue for the 1H 2014 stood at Rs2.85 billion as compared to Rs1.94 billion for the corresponding period of last year, a growth of 47%. Real estate operations contributed to 72% while contractual and manufacturing contributed the remaining 28%. The EBITDA during 1H 2014 stood at Rs2.87 billion as against Rs2.51 billion. The EBITDA growth was 14.5% year-on-year and EBITDA growth over last year half year, if we exclude the sale of land, is at 24%.

EBITDA margin for the 1H was at 29%. Depreciation increased to 33 crores from 28 crores mainly on account of additions to capex, interest on 1H 2014 has marginally increased to 83



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crores from 82 crores. The profit before tax for this half stood at 1.7 billion against Rs1.4 billion for the corresponding period of last year.

Profit before tax has grown by 21% year-on-year and growth in PBT over last year is 41% if we exclude the sale of land. PAT stood at 1.07 billion compared to Rs949 million for the corresponding period of the last year. PAT has grown by 12.5% year-on-year and the growth in PAT over last year is 31%, if we exclude the sale of land. If you look at 2Q, the consolidated revenue was at 5.45 billion, a growth of 31% year-on-year. Revenue from core operations grew 33% year-on-year. Income from our core real estate operations stand at 3.7 billion vis-à-vis Rs.3.1 billion for 2Q financial year 2013, a growth of 19.3%. Contractual revenue stood at 1.7 billion in this quarter compared to Rs984 million for the corresponding period of last year, a growth of 74%. This is primarily on account of higher billing for a few completed contractual projects. Real estate operations contributed around 68.5% and manufacturing and contracting division contributed the balance 31.5%.

EBITDA during 2Q 2014 stood at Rs1.47 billion against Rs1.31 billion during 2Q 2013. EBITDA margin of 2Q 2014 stood at 27% on account of higher the normal share of contractual revenue. The profit before tax for 2Q 2014 stood at Rs63 million against Rs714 million for the corresponding period and the profit after tax for this quarter stood at Rs566 million against Rs500 million for the corresponding period of last year, a growth of 13%.

Despite the improvements in sales and price realisation, the revenue recognition was lower by Rs1.01 billion, PBT by Rs361 million and PAT by Rs238 million on account of the new guidance note issued by the Institute of Chartered Accountants of India. We are also pleased to inform that the unbilled revenue as on September 2013 is 29.97 billion on the sales made so far, out of which we expect about 500 crores to be recognised during the second half of the financial year 2013-14. In addition to this income from new sales also will contribute to the revenue.

The margins for 1H 2014 were at 29% against 30% for the corresponding period. The current year EBITDA is after testing one-time impact of Rs102 million and change in revenue composition. Real estate is 77%, what it was last year during the same period. For 2Q the EBITDA margin is 27% against 31% for the corresponding period of last year. This was mainly on account of the real estate contributing 68.5% versus 76% what it contributed in the same period last year. During 2QFY14 there had been some increase in our overheads also.

As far as cash flows are concerned, during 1H 2014, we collected Rs12.49 billion and have spent Rs9.91 billion in our operations, resulting in surplus cash flow of Rs2.56 billion. This has been utilised by the company towards servicing of interest and taxes to the extent of Rs1.29 billion. The advance payment for land to the tune of Rs418 million, dividend payout of Rs803 million,



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general capex of Rs249 million and capex for commercial real estate to the tune of Rs199 million, resulting in an overall excess cash withdrawn to the extent of Rs375 million which has been funded by increase in net debt over a period of last six months.

The operating cash flows of Rs2.56 billion shows a marked improvement when we compare the same at the operating cash flows of last year same period which stood at Rs969 million. Cash flows 2Q financial year 2014 if you look at we collected 634 crores, 6.34 billion and had spent Rs4.98 billion in our operations, resulting in a surplus cash flow of Rs1.37 billion. This had been utilised by the company towards servicing of increased tax rate dividend payout, general capex, and capex for commercial real estate, resulting in overall excess cash withdrawn to the tune of Rs326 million.

The net debt for the company has increased to a certain extent after the payment of dividend to the extent of Rs803 million. The company has over the last five quarters been able to generate surplus cash flows after servicing the interest on borrowings and payments towards income tax. The company's debt repayment in the first half had been to the tune of Rs3.23 billion. Net debt stood at Rs12.68 billion against Rs12.21 billion as on March 31, 2013. The debt:equity stands at 0.57 as on September 30, 2013. We hope that our debt:equity ratio will continue to be range-bound between 0.5 and 0.6.

The current cost of debt is 12.73% which had been reduced from 13.44% to what it was in the beginning of this financial year. During the next six months, the company has a repayment of commitment of Rs1.56 billion. The company also had unutilised sanction facilities where it can withdraw to the tune of Rs13.3 billion.

As far as the outlook for the real estate is concerned, we are currently developing 27.77 million square feet of area across seven cities excluding the area of car park, common area, amenities, etc, leasable area of 0.26 million square feet, and share of joint development partners, Sobha's share of total saleable area on ongoing projects is 16.4 million square feet. Also for the sale we have already sold about 8.89 million square feet and we carry an inventory of 7.51 million square feet as on September 31, 2013.

In addition to this 0.1 million square feet of area is to be sold on completed projects. We expect to realise around 23.78 billion from our existing customers and the further amount of Rs61.15 billion from unsold inventory based on the current selling price. We also expect to incur an expenditure of Rs49.77 billion towards the entire ongoing projects as per our current estimates. This will leave us with healthy operational cash flows of approximately Rs35.16 billion. We look forward to the launch of about 12.38 million square feet of new projects covering a land area of about 138 acres in our next four quarters. In addition to this over the next few years we plan to



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develop about 270 acres of land from our existing land bank by launching projects as measuring 21 million square feet.

As informed to you, we have already started the work on our St. Marks Road project and we hope to start the APMC project in the next two quarters. The two commercial projects where we have a visible area of 0.15 million square feet are expected to be completed by this year-end. As far as contractual is concerned, we have ongoing projects measuring 11 million square feet of area with unbilled revenue of about 7.3 billion in hand to be delivered over the next two years. We are pleased to inform that we have bagged four prestigious contractual orders from Dell, Bosch, Lulu, and Manipal University in Bangalore, Cochin and Jaipur valued at approximately 2.2 billion.

As explained earlier the contractual mix of overall revenue increased on account of higher billing for a few completed contractual projects. We expect a steady stream of revenues from the construction activity with good visibility for the future. As on date, we have delivered 322 projects to the tune of 57.87 million square feet in a span of about 18 years. We are grateful to all our stakeholders who have helped the company in making a reality. We thank you all for your participation and request now the participants to put forth their questions. Thank you once again for your patient hearing.

Moderator: Thank you very much, sir. First question is from the line of Akshay Rao from Edelweiss Capital. Please go ahead.

Aashish Agarwal: Thank you. Good evening everyone. Congratulations for a good set of numbers. This is Aashish here. Sir I had a couple of questions actually. The first one, we had earlier earmarked a strategy on diversifying into additional geographies, and we had been exploring certain land acquisition in NCR. So, just wanted to know your sense as to like are we still pursuing with that or do we see some kind of a let up in that strategy or are we delaying it - your thoughts on that?

J.C. Sharma: We have definitely gone slow on NCR, but the belief remains that in NCR we are here for a long-term. We have rather added about 10 acres of land in NCR from our existing partners on the same joint development basis, which we will be developing and hopefully in a couple of months' time, we hope to get the plan approval, wherein we will start seeing the smaller-sized low houses. As far as our plan launch in Calicut and Cochin is concerned, in Calicut we have already launched the projects in the last quarter and in Kochi, we hope to launch a project in this quarter. We are also looking at options as I said, in Hyderabad as well, but nothing so far as been finalised or completed.



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- Aashish Agarwal:** Sir, my next question was in reference to the NRI volume demand that we have given in our report, in our presentation, which points out that the NRI participation in the tier-II cities is quite high at about 35% to 40%. Is this the number that you are comfortable with or do you think this is sustainable? How would you see this?
- J.C. Sharma:** There has been some spurt in the NRI demand in the last quarters. We do agree and this is primarily on account of when the rupee depreciated, some of the people who are from south India have chosen to invest in the Kerala market, the Chennai market as well as in the Bangalore market, which reflects from 23-24% their contribution now stands at 28% of total volumes. Now we have always seen that the NRI had been contributing 20% plus and irrespective of rupee going in whichever direction, this kind of share of NRI market should be there.
- Aashish Agarwal:** Sir, you would expect that this level of NRI activity should remain at the elevated level that we have seen?
- J.C. Sharma:** At this elevated level of 28% of the total sales but 20% plus around 23-24% it can continue on a sustainable basis.
- Aashish Agarwal:** Hence even if the share of the NRIs would come down, the overall volume targets that we have and the momentum that we have, we would believe would be met up by increase in domestic demand? Is that the right way to look at it?
- J.C. Sharma:** Per se, as I said the project-wise or the region-wise or NRI versus the domestic demand, we do not work around any strategy. It happens as things progress as some projects are more beneficial from the NRI's perspective versus domestic kind of a thing, but on balance, we believe that yes normally the second half had always been good for Sobha. So with the new projects lined up, and traction from the new projects should ensure that we should be able to reach our targeted scale of 2,600 crores as well as 4.2 square feet by the end of this year.
- Aashish Agarwal:** Sir, my next question was in respect to the slide #23 where you mentioned about 270 acres of additional development you intend to undertake over the next 1-2 years. Would you give some geographical breakup with respect to the same?
- J.C. Sharma:** Yes, most of these lands will be developed either in Bangalore or in Coimbatore and some of the land parcels in Chennai.
- Aashish Agarwal:** Broadly can I assume this 70% in Bangalore and 30%...?



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J.C. Sharma: You can say because if you look at from the sales perspective also, my 67% of the sales in the last quarter had come from Bangalore, so two-third, one-third kind of a ratio may continue.

Aashish Agarwal: How would you see this? We have been reading some reports on increase in inventory in Bangalore over the last one or two quarters?

J.C. Sharma: In my view, primarily on account of still the Bangalore market holding up with higher volume vis-à-vis with the rest of the Indian market and developers launching more number of projects in this financial year then may be in any financial year this may be the highest project launches from the developers in Bangalore. So projects take 3-4 years to get completed and by the time the projects get completed, the inventory should be sold out. I have not seen with 5-8 developers per side effects inventory pile up of the finished stock rather it has come down in the financial year than what it was in the preceding financial year.

Aashish Agarwal: Sir, on the same thing that you said that this year we have seen a historically high number of launches; what is driving this? Is it the approval's environment has suddenly improved or what is driving this sharp increase in launches or something that if you can throw some light on?

J.C. Sharma: I think it would be very difficult to represent what has given them to launch this kind of a thing, but prima-facie as I mentioned earlier Bangalore still is holding on, which encourages developers to keep launching at various price points and ensure that cash flows remain comfortable for them to service their commitments.

Aashish Agarwal: Thank you so much. I will come back in the queue for more. Thank you so much.

Moderator: Thank you. Next question from the line of Aditya Somani from Golman Sachs. Please go ahead.

Puneet Jain: Good evening, sir. Sir my question would be with respect to margins in this quarter. You mentioned that one of the key reasons of the margin dip is because higher proportion of contractual income. Do you think that is that the only reason or some amount of margin drop has also come in on account of real estate division?

J.C. Sharma: This is the primary reason as such because the overall margins on all our ongoing projects remain stable what we have been achieving. We have got the price increase to offset the input cost increase sort of a thing though off late there has been hardly any price increase in the last couple of months, and most of the projects which we have sold out this quarter they have not become eligible in respect to Sobha Palladian for the revenue recognition, but yes, primarily it is on account of the income mix and at the same time, the profit margin on one of the small villa what we purchased and sold in the last quarter there also we did not have the real estate kind of a



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margin. So the combination of these two factors gives us a lower EBITDA margin that what historically we have enjoyed.

- Puneet Jain:** What was that and what was the margin on that? What was the quantum of sales on that?
- J.C. Sharma:** There was one small villa we purchased on an auction. People know it is Mr. Gopinath's villa kind of a thing; it was sold again.
- Puneet Jain:** What would be the quantum of that purchase and sale?
- J.C. Sharma:** About 40 crores.
- Puneet Jain:** Also, which projects got completed in this quarter and which projects started revenue recognition in this quarter?
- J.C. Sharma:** What is completed we have the Tumkur road there is a project called Aspire and Elite those projects are completed as far as real estate. There are some 5-6 projects in the contractual that we have completed in Bangalore and Chennai.
- Puneet Jain:** Only the real estate side?
- J.C. Sharma:** Real estate these two projects, Aspire and Elite in Bangalore. There is also some club house development also there.
- V. Ganesh:** As far as the revenue recognition goes, they are recognised from Sobha Meritta phase II and Sobha City, Trissur.
- J.C. Sharma:** No other projects came for any recognition.
- Puneet Jain:** Typically these projects have a similar margins or lower margins compared to earlier projects?
- J.C. Sharma:** As I said overall margins including that of new project launch, what is coming for the revenue recognition more or less having the similar margins.
- Puneet Jain:** Also with respect to your launches, can you give some timeline on the next three months as well, which are the launches coming up?
- J.C. Sharma:** We hope that this Cochin project should be launched in the next month. Then in the first quarter of the next calendar year kind of a thing, we should be able to launch 3-4 projects—one in Trissur, one in Coimbatore and two projects in Bangalore. We also hope that the NCR 10-acre



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project also gets launched in the fourth quarter or the first quarter of the next calendar year. Another project of Kozhikode may also get launched, apartment for this also, and so at least 5-6 projects in the next five months' time should get launched.

Puneet Jain: Also you have added one project called Hosur Property as proposed new launches and here you own 100%.

J.C. Sharma: This is a project on the southeast part of Bangalore and it should be launched only in the beginning of the next financial year.

Puneet Jain: So this has come in from your land bank?

J.C. Sharma: Yes.

Puneet Jain: Thanks a lot. I have got more questions, but I will get back in the queue.

Moderator: Thank you, sir. The next question is from the line of Atidev Chattopadia from HDFC Securities. Please go ahead.

Atidev Chattopadia: Good evening Sir. Thanks for taking my question. I have got a couple of questions. This is mainly pertaining to the cash flow, overall the summary the format you give. So, we have done around roughly 1,200 crores of customer selection in the first half and we have spent also I think around 500 to 600 crores overall. So is there any full-year guidance on those same things for FY2014?

J.C. Sharma: The guidance will be what we are hitting that run rate of 600 crores plus, 200 crores every month. It should sustain and continue and we hope that we should continue to keep generating the positive cash flows going forward, which means that we will be meeting all our operational expenditures, we will be meeting all our interest and the tax liabilities and to the extent whatever investments we are likely to have in the capex or in the commercial assets or towards the payment kind of a thing, either it will get funded through internal accruals or through debt or both keeping the debt:equity between 0.5 and 0.6.

Atidev Chattopadia: Secondly, just wanted to know have you done any soft launch of our new phase in the Gurgaon project and if yes, how has been the initial response to that?

J.C. Sharma: There has been as such no soft launch not only for Gurgaon, it is for any of the projects where we do not have the plan approval.



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- Atidev Chattopadia:** If you could just throw some light on what is the sort of product we are looking to launch in Gurgaon vis-à-vis the existing product which is there in the market, any plans on that?
- J.C. Sharma:** Currently what we are having is the villa projects. We have run out of stock of the low houses. So in the 10 acres of the new land what we have got from the existing landlord we are doing the row houses which means 276 square feet plot with an area of around 4,000 square feet.
- Atidev Chattopadia:** Sir, is this more of a longer term question for the Gurgaon project overall like what is your vision in terms of how many years it would take us to sell our entire inventory in the project if there is any such guidance?
- J.C. Sharma:** We hope that we should be able to clear the existing inventory in the next three years.
- Atidev Chattopadia:** Thanks for taking my question.
- Moderator:** Thank you. Next question is from the line of Prakash Agarwal from CIMB. Please go ahead.
- Prakash Agarwal:** Good evening, sir. Thanks for taking my question. Question on EBITDA, this question was asked, but just wanted to understand this mix change, is it like a one-time thing or is it more sustainable for the year or for the remaining 2H or fiscal 2015?
- J.C. Sharma:** Let me put it like this. The real estate on balance should be giving 70% plus closer to 75% or so of our total revenue. It is on account of these guidelines and the first revenue the way we recognise of the land as well as the debt of the construction kind of a thing, you will observe that from about 1,800 crores of unbilled revenue, our unbilled revenue has gone up to 21.97 or 2,200 crores. So about 400 crores or so of unbilled revenue has gone up whereas we continue to invest in the construction activities and we continue to collect the money also from the customers, 200 crores plus collection, which is coming almost 75% of the collection is coming from the real estate guys and less than 25% is coming from the contracts. So that ratio on the cash flow basis on the expense basis will be there, but because of the accounting policy here on context no sooner a month is over, you bill the client. That is not possible. So sometimes it squeezed and will keep happening. We also do not want to take away the good performance which the contractual and manufacturing division had shown because the 170 crores of revenue in one single quarter is the best ever what we have shown. This may not sustain because some way certain completed projects you get a higher billing and higher realisation may not sustain, but then we have got higher visibility of our constructing revenue now with about 11 million square feet of ongoing projects, which means there will also be an increase in the construction revenue. Hope, I have been able to answer your question?



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- Prakash Agarwal:** Yes, so basically, if I look at a full year kind of thing, 30% EBITDA margin is realistic or because of higher contractual it could be a little lower. That is what I am trying to understand?
- J.C. Sharma:** Again, how it will come, how the sales will happen will be very difficult but the base EBITDA margin on the sales what we are getting the construction cost, the land cost and the current realisations we are comfortable that we should be able to get 30% with 75:25 kind of a mix.
- Prakash Agarwal:** Understood. Second question on the balance sheet if you see the debtor seems to have increased quite a bit, any particular reason?
- V. Ganesh:** As Mr. Sharmaji, explained earlier the question on one of the villa CBD sale had happened that part of consideration was not received. It was received subsequently after the quarter end was over. That was the only reason it has gone up.
- Prakash Agarwal:** Sales value was how much?
- J.C. Sharma:** About 40 crores.
- Prakash Agarwal:** From a total debt perspective, I understand, there has been good cash flows but still given the dividend and all the debt has increased plus also the investment in the commercial projects, is there any internal target not to cross 0.6 and fund these projects through internal cash flows or can we see the debt:equity moving a little ahead or the absolute debt going even higher?
- J.C. Sharma:** On our cost, we have been telling that the absolute debt may go up along the increased activities, which needs higher working capital, but the bigger success should be that we will try to work within 0.6 of our debt equity with good cash flows being generated from our core operations. Sometimes there may be a situation where you may have debt:equity going up or a little bit coming down, but looking at the planned expenditures on the capex as well as rise on the construction part including sometime some land payments required to be made, we believe that we should be able to work within 0.6 debt:equity.
- V. Ganesh:** If you look at the last four financial years when the dividend was paid out, the amount of debt increase this year has been the least, which means the cash flow generations have been good enough to fund a major part of the dividend payout.
- Prakash Agarwal:** Last question here is on one of the projects, which have been added, Sobha Birla in Costa. Could you explain the maths here, developable area 1.1 plus million square feet, total saleable area of 580,000 square feet, 75% share? Could you explain the maths here please?



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- V. Ganesh:** Generally in the villa development we are saying that the developable area of only 0.5 basis so the value of development we are doing the entire development; however, the constructed area will last only on the land.
- J.C. Sharma:** When I have one acre of land, I develop one acre, I sell half acre prima-facie that way. The developable area is one acre.
- Prakash Agarwal:** You have the receipts of 75% of the sales?
- J.C. Sharma:** Right. The ratio is 75 towards 25 to the partner.
- Prakash Agarwal:** How would the revenue recognition go for this, so your development cost is basically the land cost, because you have a separate line accounting, so there is no line accounting in this case?
- V. Ganesh:** Whatever construction area, which we are giving to the joint development will be having typical land cost for me.
- Prakash Agarwal:** So, would you account that as a land cost?
- J.C. Sharma:** The total constructed cost. I have to deliver a hit portion on a revenue sharing basis if we get 25% of the revenue, and so the construction cost being incurrent on width area it works my land cost base, other way of looking at it.
- Prakash Agarwal:** But I was trying to understand from the accounting perspective since you have mentioned a separate line in land cost, when you start recognising this revenue would you have this land cost as a separate item?
- J.C. Sharma:** No. What we do is again the 25% of the projected cost including infrastructure and villa cost, once it is incurred then only I start recognising the revenue.
- Prakash Agarwal:** Thanks. I will join back the queue.
- Moderator:** Thank you. Next question is from the line of Gaurav Pathak from Standard Chartered. Please go ahead.
- Gaurav Pathak:** Wanted to check on are you looking at any kind of land monetisation over the next six months to 12 months?



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J.C. Sharma: Not per se, but opportunistically if some kind of a development happens, it will be an opportunistically sort of a thing. First, we are not in the market for any particular land parcel to get monetised.

Gaurav Pathak: Your cost of debt has been coming down while you know in the general cost of capital has been moving up. So, what explains that? Refinancing, your credit rating moving up, what is leading to this low cost of debt?

J.C. Sharma: Combination of all such things. Most of the newer loans had come at a lower rate of interest. Some of the banks were good enough to revive their interest rates downwards. The credit rating also had impacted couple banks who had in their extension method as a condition people would say, yes okay if you have a rating sort of a thing, we can give you benefit of zero point to basic fund, 20-basis point sort of a benefit. So it is a combination of all such things.

Gaurav Pathak: Your incremental debt is coming at what interest rates?

J.C. Sharma: Around 12%.

Gaurav Pathak: Lastly inventory level is still going up. How should we take it going forward? Will it be stabilising at these levels?

J.C. Sharma: It will be at this level only, and with the so-called newer launches, it may look like going up, but we are spending money on a phase-wise basis only, and so the increased inventory per se that does not necessarily mean that we will be stuck if tomorrow god forbid there is a demand slowdown or for any reason there is an unsold inventory, whether it will be villa project or whether it is a high rise apartment, we are releasing the inventory on phase-wise basis, selling it, constructing it sort of a thing. So, it is not a cause of concern for us.

Gaurav Pathak: Thank you.

Moderator: Thank you. The next question is from the line of Swagatha Ghosh from Jefferies. Please go ahead.

Anand: Good evening Sir. This is Anand here. Sir, my first question, if I look at your 1H breakdown of sales wide of various categories and below 1 crores, you sold almost 27% of your volume are below 1 crores apartment or units, if I look at your inventory that is only about 11%, so just wanted to understand the strategy here. We seem to be focusing a lot more on greater than 1 crores apartment? Is that a risk we are building in because it seems like we are moving more towards the high income category?



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- J.C. Sharma:** This happens because of the plan approval process sort of a thing or some of the projects, which are lined up in Kerala and other villa projects, high value kind of a thing, when we will see the future inventory especially in Bangalore, Marthahalli project or the Kanakpura projects get launched they are relatively smaller sized and most of this inventory additions will be happening below 1 crores as far as Bangalore is concerned, which is my core market, but when we go back to again NCR it will be above 1 crores only, if you want to classify that way. So, there is sufficient stock below 1 crores will be there by the next quarter.
- Anand:** Are we seeing any delays in approvals or any issue with the approval process, which is holding back these launches or is it just we are planning to originally launch it in 3Q and 4Q only?
- J.C. Sharma:** Little bit of delay we have seen due to some changes in the corporate level or the BDA level sort of thing and we are behind as far as Bangalore is concerned, there are couple of months, in our ongoing product launches.
- Anand:** You think the issue is getting resolved now?
- J.C. Sharma:** Yes.
- Anand:** Second the other current liability seem to have gone up, and so could you give me the customer advances number as at the end of this quarter?
- V. Ganesh:** Customer advance number is about 794 crores.
- Anand:** 794 crores. That has almost gone up by 120 crores quarter-on-quarter versus first quarter?
- V. Ganesh:** That is right.
- Anand:** Second, in terms of the pace of sales in Kozhikode and Gurgaon both are we happy with it or what are we doing to improve the pace of sales there?
- J.C. Sharma:** As far as Kozhikode is concerned, we launched only in the last quarter. It is one quarter performance. We are quite happy. As far as Gurgaon is concerned, we are not happy, with the pace of scale.
- Anand:** So are we trying to do something to or just wait out for the market to pick up?
- J.C. Sharma:** It is not that. We are definitely trying to ensure that we reach out to the right set of people, participating and changing the strategy to market the product also, but we do not find per se that anything with the product had gone wrong. The product prices remain strong with the quality



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well appreciated and this time on our investor's presentation we have put the show villa also. It is ready, it has got good response, but people are taking more time to close out and hopefully when the cycle turns things should be all right.

Anand: When are we expected to deliver the first set of apartments, the villas here in Gurgaon?

J.C. Sharma: I think next year around the last quarter.

Anand: End of FY2015 you are saying?

J.C. Sharma: You are right.

Anand: Sir, in terms of revenue recognition for 2H are we expecting any significant projects to cross the thresholds and if so which are those projects?

J.C. Sharma: One project will hit the profit and loss account in Bangalore. Then the Morzaria project will hit, Sobha Morzaria Grandeur project, and Landscape project, and the property development Sobha Landscape is also there. These we are expecting in the third quarter.

Anand: Understood. Thank you very much. That is all.

Moderator: Thank you. Next question is from the line of Atul Tiwari from Citi Group. Please go ahead.

Atul Tiwari: Sir, my question is on the new launches that we have planned. Could you give us some colour on the kind of uncertainty these new launches may face in terms of approval or everything is in the bag and you just need to go and announce? I am asking this because at the start of this year for full year FY2014 I think the new launch guidance was something similar of around 12 million square feet but in the first half we have done a much lower number. So there seems to be a bit of pushing back of the new launch schedule?

J.C. Sharma: We are not as such pushing back. The basic approvals if you look at where most of the developers have been suffering as far as the Bangalore market is concerned, we are well on track. The environment related, the fire force related approvals whether it is pollution control, local authorities, they are all in place in most of these cases, but still yes there had been some delays as such in Bangalore by about two months. In NCR also we are lagging behind by about two months. There is an excess land what we should have developed. In the Kerala market also may be about a month to months, small delays are there, some of the projects should have been launched this month, getting pushed to the next month kind of a thing. So, yes 1-2 months, three months, there may be some slight delay but not a cause of concern per se.



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Atul Tiwari: Thank you.

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

Sameer Baisiwala: Good evening everyone. Sir, I was looking at the operating margins and I just tried to do some simple math based on what you had said, of the 170 crores in the contractual revenue if I just back out 70 crores from the topline and the 20% margin that it gets from the EBITDA line to normalise the numbers, the operating margins just goes up from 26.5% to about 27.4% and so it is just making 80-90 basis point difference versus where we are falling short is 350 basis points, so what was the margin on this villa project 40 crores that was the other factor?

J.C. Sharma: Villa project margin was about 11%.

Sameer Baisiwala: 11%. Second question is taking a big picture view, I think we have got about 7.7 million square feet of closing unsold stock, and you want to launch another 12 million over the next four quarters and another 21 million over 1-3-year period and so if one just totals them up, it works out to about 40 million square feet versus our current year target of selling about 4 million square feet. How does the new sales trajectory go once you start launching with this frequency?

J.C. Sharma: This is right. What we have been also debating ourselves but today when we open a 90 acres of development, we have started working on that, say for example, now that will come under the 270 acres and you would not like to take the partial approval. That is the point I am trying to highlight. We would go ahead with one single approval and if need be we will go for a small modifications here and there which seems less cumbersome than going for separate khatta separate plan approvals, because with the construction and the sales will be happening, on a piecemeal basis. That is much I meant, same thing with Coimbatore, same thing with some of the other larger land parcels, which are there in the 270 acres. Other way of looking it at is also now the projects are more skewed towards 1 crores plus going forward and we will have more of the projects. When we get into another 21 million square feet of new launches it is skewed towards the 1200, 1500, 1800 square feet unit also, and so those will be Sobha products only, but it will fall between that 15 lakhs to 1 crores category where we currently have much lesser inventory. In any case the land cost you are carrying in your balance sheet you will be required to spend that incremental one time the plan approval costs and at the same time you will have the comforts of having the products in all sizes, in all the locations and hopefully next year onwards we do see that real estate markets also should be turning around for the better and this should help us to sustain and maintain the momentum in our increase in volumes. Coming back to your 4 million square feet, our view is that last year we did 3.75 million and in five years' time what kind of guidance we will have for the coming years we do not know because always uncertainty



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availability and other things will be there, but preparing ourselves best over a period of the next five years, our annual run rate should go up from 3.75 million square feet to 7.5 million square feet new sale and for that this kind of a product availability will help us to give and improve that kind of a scenario.

Sameer Baisiwala: Got it. Sir, two points are very clear, so from 3.75 in five years will go to 7.5, so almost doubling in five years' time and so it would be under more like 15-17% CAGR is what you are thinking in terms of volume growth?

J.C. Sharma: You are right.

Sameer Baisiwala: When you say that you are launching 270 acres and 21 million square feet what you are referring is the overall size of the project but what you will really be launching is the first phase or the smaller part of that bigger project.

J.C. Sharma: Take for instance 150 acre of township you have paid EDC, IDC, license fee for the whole project. But you are developing it on a phase-wise basis.

Sameer Baisiwala: I was just looking at the big numbers and give rise to some unrealistic optimism. So, I was just trying to understand. Sir, the other question I had was on the pricing outlook in Bangalore and how do you see that trend over the next 6-9 months, maybe specifically you can talk about your unsold closing stock that you have in Bangalore which is ongoing projects, would you be taking a price rise or give discount, how would this be?

J.C. Sharma: What we find at this point of time that the price rise per se on the existing products we are not contemplating. Similarly, Diwali has come and gone, and I do not think any Bangalore developer per se is offering the kind of discounts on its products and this is primarily because the land cost is going up and the input cost otherwise also it keeps going up. So the net result remains that it will not be generally possible to sustain in Bangalore at the current prices to reduce and offer discounts at the same time till the macroeconomic environment does not change for the better, it may not be possible for most of the developers including us to increase the prices of the existing products.

Sameer Baisiwala: Perfect. Just one final question from my side. We hear a lot of stories about the Dwarka Expressway that there is a lot of litigation related to the land acquisition for the expressway over there. Any thoughts on this when this expressway will be ready in how many years from now and would that have any implications for our projects which are pretty close to that?



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- J.C. Sharma:** There has been a communication by the HUDA conveying that they are giving compensation as well as resettling the people who will be losing the land along the Dwarka Expressway; the final notice has come about one and a half months ago. The developers who are working on the Dwarka Expressway they are also doing their level best to see that this sanction road with almost 95% of the acquisition complete and in process more than 70-80% of the work having started or somewhere completed also should move forward, but it is my guess or anybody's guess the road definitely will come, it may take another 1-2 years to see it functions.
- Sameer Baisiwala:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Samar Sarda from Kotak Securities. Please go ahead.
- Samar Sarda:** Good evening. Just two small questions, one with regards to your future project launches, you have removed Hiranahalli and HUDA stuff Hosur Road Properties, and so just wanted to know a little more in detail about the approval process of the Hiranahalli Project and whether this Hosur Road Property is amongst the new properties you have acquired or is it the part of the larger land bank you are already holding?
- J.C. Sharma:** It is the part of the land bank part that we have been holding as far as the Hosur Road Property is concerned. As far as the Hiranahalli Project is concerned, it was a joint development and where the product configuration is going some changes. Earlier it was purely a villa development, now we have redesigned it to suit it for some kind of an apartment development as well to utilise more efforts. It is part of the 278 acres since the plan has undergone changes it may not happen in the next 2-3 quarter's time and so we have taken that out.
- Samar Sarda:** With regard to the APMC project could you help us with the breakup of the office portion and the mall portion in the saleable area?
- J.C. Sharma:** About 2 million plus square feet will be the office and mall, office is little bit more than the mall area and the remaining 600,000 odd square feet is the area I have to develop or the market has to develop for the APMC.
- Samar Sarda:** I was mentioning about the 2 million square feet of saleable area, which is to Sobha, and so in that 2 million square feet how much would be office and how much would be mall?
- J.C. Sharma:** Office space is a little bit more, it is 63-64% is the office space and the rest 46% is the mall area.



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Samar Sarda: If you could help us with what would be the tentative rental or what are the rentals you are expecting at that project?

J.C. Sharma: Samar, I think today we have just to get the green signal from the government as far as the DPR is concerned. They need to approve. They have given the suggestion. We have compounded the property and we have got including the environment most of the approvals in place. The design is also ready. We are working out now that no sooner we have the DPR in our hands then we should apply for the transmission. So, we hope that in the next 2-3 quarters these things happen, being the government project we believe that the once the plans are submitted for the approvals it will go on a faster pace. From our side, while we are pushing, we are not pushing that hard, because in a tough environment we thought that that is the right way to proceed.

Samar Sarda: Not a problem. Thanks a lot.

Moderator: Thank you. The next question is from the line of Gunjan Prityani from JP Morgan. Please go ahead.

Gunjan Prityani: Sir most of my questions have been answered, just specifically on revenue recognition, if I adjust for this 40 crores villa project that you have sold in this quarter, recognised in this quarter, the revenue from core real estate is just about 330 crores. This is almost 50% of what our presale rate is and even if I look at a sequential basis this has come down from what we did in the fourth quarter and 1Q of this year. So was there an issue on the execution front in this quarter or how do you see the revenue recognition trending up? Again on this point, if I look at the collections from 1Q to 2Q they have actually come down sequentially even though when we had two launches in this quarter?

J.C. Sharma: As far as the progress on the projects which we have launched including Palladian, including Indraprastha, where sales have happened in Bangalore, 67% of the new sales in this quarter had come from Bangalore. The rest whatever has come from even Trissur or in Kozhikode also is the new launches, what is getting reflected in the news there you are getting basically the booking money only. So that is one reason. The project cost continues to be incurred in all these projects whether the revenue is getting recognised or getting recognised. The increase in the unbilled revenue from about 1,800 crores in the beginning of this year to 22.7 billion sort of thing reflects that the new sales which has taken place in this financial year has not resulted into revenue recognition but the customers advantage reflects that the overall collections have been better and year-on-year basis if you look at the trailing four quarters the last four collections have exceeded 2,400 crores, we average about 200 crores sort of a thing. So collections are better, the customers advantage are better, the progress on the projects also appear to be as per our projections, it is the



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revenue recognition method, which had impacted us in not being able to recognise the revenue where the construction cost continue to remain incurred based on these elevated activities.

Gunjan Prityani:

Sir, I do understand that in this quarter you would have seen new launches have been contributing more to the sales but if I really look at the run rate for the last two or three years, our presales has been close to between 500 and 600 crores per quarter whereas our revenue recognition after picking up in 4Q of last year in 1Q of this year has again come down to about 320-330 crores. So, if you can give us some sense on how or when do you think that this gap between the presales and revenue you should narrow and which are the key projects which you think will hit revenue recognition and which are the chunky big projects which are not yet contributing to the revenues?

V. Ganesh:

If you look at 4Q the one reason why the revenue recognition went up was because they are 191 crores of revenue received from projects where revenue recognition was first time in the January to March quarter. That resulted in lumpiness of revenue, if you look at 1Q and 2Q as far as the new revenue recognition goes from percentage revenue; however, the challenge you will see the lumpiness of revenue coming in when we start recognising the public site of Indraprastha or Palladian you will see lumpiness of that coming in. This is the fact that because under new balance note you will see when you first recognise revenue in Indraprastha comes there will be lumpiness coming in and that would be difficult to sustain on ongoing on a quarterly basis unless your project of similar size coming in every quarter which is not possible. So you will have this up and down coming in and so one should not get too worried about some small dip happening in revenue recognition as we go along, but you would see that it is scaling up as we go up.

Gunjan Prityani:

Sir, Indraprastha and Palladian, these two projects have been launched in the last two quarters, and so we do not really expect them to hit revenue recognition in FY2014? These would contribute only in FY2015, right?

J.C. Sharma:

You are right, but the next step to the Villas in Costa or Indraprastha or Palladian or whatever new launches we do the other projects where sales have happened, like all people are talking about the Meritta Park in some of the projects in Sobha Forest or in Sobha City they also should come for the revenue recognition, 500 crores of revenue should be coming in the next half against the sales which have already taken place. So to that extent the revenue should be coming from the committed sales. It should get added by whatever new sales happen on these projects where you are recognising the revenue. Another thing maybe if we look back, had the momentum on the Gurgaon project would have been there somewhere maybe we would have got higher revenue recognition.



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- Gunjan Prityani:** One more thing, in the last two quarters we have had two prime launches in Bangalore; one was Indraprastha and the one which we did in the second quarter. Even though our volumes came of quite a bit in Gurgaon we have been able to sustain the presales because of these prime launches, but you did mention that in the next couple of quarters the launches, which you have planned in Bangalore are more in a less than 1 crores category where the average realisations may be a little lower. So, do you think if the Gurgaon launch does not happen in the next 1-2 quarters or Gurgaon volumes stay muted would we maintain this 600 crores run rate on presales?
- J.C. Sharma:** We should be.
- Gunjan Prityani:** Thank you so much.
- Moderator:** Thank you. We are going to take a follow-up question from the line of Aditya Somani from Goldman Sachs. Please go ahead.
- Aditya Somani:** Good evening Sir. Many thanks for taking my question again. I had couple of questions more. First is that since the APMC project has been pushed back, so is the capex for FY 2014 now lower?
- J.C. Sharma:** Yes it should be lower. We had projected 75 crores for our shopping mall, cinema floors as well as the APMC kind of a thing, and so small expenses here and there may happen, but not what we had projected.
- Aditya Somani:** So, for FY2015 will that capex number be significantly different given the fact that you are indicating that the actual construction may not start before at least before three quarters?
- J.C. Sharma:** These are the projects where you are going ahead three four basement first, so the marching part, the excavation part and PCC part kind of setting that itself will take about a year's time or so.
- Aditya Somani:** I am asking about the APMC project?
- J.C. Sharma:** APMC also and I am not adding or we are not adding any new commercial projects per se.
- Aditya Somani:** When can we start construction? Will the construction be now pushed back to the second half of next calendar year i.e. post July?
- J.C. Sharma:** It maybe in the next financial year whether it is first quarter or second quarter it all depends upon when do I get DPR and then when do I get the plan approval.



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- V. Ganesh:** We are in the process of once we get the DPR approval then we get the plan approved then start it. So that process has to go through. One has to see how it goes through. We are working with agencies, government agencies, but we will have to work through and it is very difficult to give a timeframe right now exactly when the entire capex would start getting expended, but currently there is one moment of delay which Sharmaji explained earlier.
- J.C. Sharma:** But one of the main criteria, the environmental pass that is clear, so basically now I have to have only fire and the plant section.
- Aditya Somani:** Also your trade payables went up in this quarter. Will it also be to the fact of that villa sale and purchase?
- J.C. Sharma:** No. Sales, you are talking about?
- Aditya Somani:** Trade payables went up in this quarter?
- V. Ganesh:** It is a normal trend. It has nothing to do with the villa thing.
- Aditya Somani:** So, the payment for the villa was made in the previous quarter but the cash flow was not received?
- V. Ganesh:** Definitely. Part of it we recovered, and balance we will recover it in this quarter, in the coming quarter. As far as payable goes, it is paid fully in the last quarter.
- Aditya Somani:** How much have we received in this quarter of that Rs400 million?
- V. Ganesh:** We can take it offline.
- Aditya Somani:** Also based on whatever we have discussed there seems to be some change in cash flow deployment strategy, am I reading this correct or there is no change, because your capex has been slightly delayed while also your land purchases have been delayed slightly or have been reduced?
- J.C. Sharma:** As far as capex is concerned, yes you are right and that happened had we got the DPR, we would have started there also, but DPR we have not received and as I said in an environment like this while we are pushing, you want this project, we are not in a desperate hurry to do it. That is the point A. As far as other things are concerned, it will keep happening, whether it be land buying or the joint development sort of thing to deploy, my operational cash surplus here and there we are looking for opportunities and we will keep doing that part.
- Aditya Somani:** Thanks a lot and all the best.



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- Moderator:** Thank you. Next question is from the line of Prem Khurana from Batlivala and Karani Securities. Please go ahead.
- Prem Khurana:** Good evening Sir. Most of my questions have already been...just one question on cash flow situation. Now we have been doing around 1 million square feet of sales in quarterly basis and for second half we are looking at around 13-14 billion of incremental sales we have done already done around 12, and so to be achieve a guidance of 26, we would be required to do around 13-14 odd billion and if I would be able to do that so what kind of uptake do we envisage in our cash collections from customers? As of now we have been doing around 200 odd crores including contractual and so where do we see this number kind of going to if we were to look at 6-7 billion?
- J.C. Sharma:** It is a good question. As we keep selling more and the progress on the projects keep happening, the overall cash interest should be improving. I agree with you. Currently, we are not clear from which of the inventory what will be sold and that project will require what kind of cash inflow or the cash outflow from the customers who are doing the booking. So, we are giving in our presentation that from 1,500 crores in the next six quarters, our annual four quarters cash flow has gone up to 2,400 crores. So if you again look at that way in the next six quarters the cash flow will show a similar kind of an improvement prima-facie, but difficult to give clarity or visibility on a quarterly basis.
- V. Ganesh:** Typically we gave a 60-day credit or 65-day credit for collections. It depends on when the sale happens and when the collection happens. So the sale happens towards the quarter end or towards the way margin will be sitting over the next sales, and so it is very difficult to say the next six months exactly what are the collection coming in.
- Prem Khurana:** But since we have already given our guidance in terms of presales for the year till you would have assumed some kind of a number from some or the other projects and we will have built in some cash flow as well. So in a broader basis if you could share some thought process there it would be kind of help us to kind of build our numbers and kind of give out the estimates?
- J.C. Sharma:** You are right. As the sales numbers improve to the extent that 15% or so the cash flows should also be showing some kind of an improvement on annual basis.
- Prem Khurana:** Thanks. That is it from my side.
- Moderator:** Thank you. Ladies and gentlemen we are going to take our next question from the line of Rakshit Ranjan from Ambit Capital. Please go ahead.



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- Rakshit Ranjan:** Sir, one very quick question from me. If I remember correctly in the past in your list of forthcoming launches you used to have projects in Pune. I do not see any such projects anymore in their forthcoming launches so what is the change of thought process there?
- J.C. Sharma:** That project was already launched and currently nothing is there in the pipeline.
- Rakshit Ranjan:** Fair enough that is it from me.
- Moderator:** Thank you Sir. Ladies and gentlemen, as there are no further questions, I would now like to hand over the floor back to Mr. Rakshit Ranjan for closing comments. Thank you.
- Rakshit Ranjan:** Thank you. On behalf of Ambit Capital, I would like to thank the management of Sobha and the participants on the call. I will hand the call back to Mr. J.C. Sharma for any closing remarks. Over to you, sir!
- J.C. Sharma:** Thank you again. It is almost 75 minutes. Thank you for the patience and we hope to come and address you at the end of the next quarter. Season's greetings to all of you once again!
- Moderator:** Thank you sir. On behalf of Ambit Capital that concludes this conference call. Thank you for joining us. You may now disconnect your lines.