

Sobha Developers Limited 4QFY13 Earnings Conference Call

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MODERATOR: MR. RAKSHIT RANJAN, ANALYST, AMBIT CAPITAL

Moderator: Ladies and gentlemen, good day and welcome to the 4QFY13 earnings conference call of Sobha Developers hosted by Ambit Capital Private Limited. As a reminder, for the duration of the conference, all participants' lines are in a 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 call, 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: Good afternoon everyone. On behalf of Ambit Capital, I welcome you all to the fourth quarter FY13 earnings call of Sobha Developers. With us on the call is Sobha's senior management led by Mr. J.C. Sharma, Vice Chairman and M.D.; Mr. V. Ganesh, Chief Financial Officer; and Mr. Kishore Kayarat, Company Secretary and Compliance Officer. I will hand over the call to Mr. J.C. Sharma now for his opening remarks. Over to you, sir.

J.C. Sharma: Good evening, ladies and gentlemen. It gives us immense pleasure to communicate with you all through this concall hosted by Ambit Capital after declaring our audited results for 4Q and for the financial year '13. Over the last one year, India's GDP growth had slowed down and growth for FY 12-13 is expected to be around 5%. In Q4 the liquidity position has remained challenging. Consumer price inflation remained stubborn and globally the commodity prices softened. This helped us to control the current account deficit to a certain extent. With respect to real estate industry, whilst the southern markets performed reasonably well, the overall growth of the industry was not on expected line. We need to look at Sobha's performance in this background.

We have already communicated earlier that we achieved a sales volume of 3.76 million square feet valued at Rs22.15 billion. Our volume had grown by 14.4% and value-wise, we had grown by more than 30%. Our average realization also was at Rs5,897/sqft, which has increased by 14%.

We launched four new projects, measuring about 2.64 million square feet and we also released 2.31 million square feet from our existing projects as offer-for-sale, which helped us in achieving the above new sales. We truly believe that our products have been well received across all the markets and currently, 63% of our new sales come from projects in excess of 1 crore.

Our financial update for the year '12-13 is as under: We achieved our highest-ever revenue of Rs 18.7 billion which is a growth of 32% on a year-on-year basis. We also recorded our highest-ever real estate revenue of Rs.14.16 billion which is a growth of 37% on a year-on-year basis. Our contractual revenue of 4.49 billion also has shown a growth of 20%. The real estate operations had continued to give us 76% of the revenue and the rest has come from Contracts and Manufacturing dividend. The core real estate operations gave us Rs13.09 billion in revenue which is higher by 46% vis-à-vis the last year, which stood at Rs8.95 billion in Financial Year '11-12. The EBITDA for the year at Rs5.54 billion, higher than Rs4.73 billion recorded in the

last financial year. The EBITDA has grown by Rs81 crores, a growth of 17%. We could maintain EBITDA margin at 30% in this financial year. It has been impacted by 3% mainly on account of the change in the revenue recognition which impacted our top-line by 78 crores and bottom-line by 32 crores according to the new accounting guidelines note. We had a one-time payout for the settlement of our contractual labour in one of the manufacturing units as well as lower margin of 30% recorded in the first phase of the villa project at Gurgaon. We had also charged higher depreciation due to amortisation of the office buildings which had full-year depreciation in this current financial year. In addition to that intangible assets also are being amortised. The interest and finance charges also accrued Rs 2 billion this financial year and out of that we have debited to P&L account Rs1.7 billion, probably the highest-ever debit by any real estate company doing out of the total loans being serviced in our industry. Our profit before tax stood at Rs3.24 billion against Rs3.18 billion. And despite this increase in the depreciation and interest, the profit before tax was higher by 6 crores and in absolute numbers, the profit after tax was also higher by 10 crores at Rs2.17 billion, a growth of 5%.

Despite the improvement in sales and price realization on account of new guidelines, we had stated, lost a PAT of Rs32 crores. Had that been recorded on an apple-to-apple basis, our PAT would have been higher by 21% vis-à-vis the last financial year.

We are also pleased to inform that our unbilled revenue as on 31 March '13 stands at 1,800 crores and we hope that about 660 crores will get recognised out of this unbilled revenue in the financial year '13-14. We also hope to collect about 1,200 crores from these existing customers. So when we come back to the cash flows, you will also be happy to note that we crossed a cash inflow of Rs20 billion for the first time in this financial year and the total collection including that of the Contracting division stood at Rs21.23 billion. We needed to spend Rs13.61 billion in our operation which left about Rs7.62 billion at operational cash surplus. Out of that, about Rs1.7 billion was spent on overheads and marketing activities. The remaining surplus of Rs5.93 billion was utilised by the company towards servicing of interest and taxes to the tune of Rs2.91 billion. Investment in land and subsidiaries stood to the tune of Rs2.94 billion and dividend payout of Rs570 million and capex of Rs873 million, resulting in overall excess cash withdrawn to the tune of Rs1.36 billion. The same has been funded by increase in third-party borrowings to the tune of Rs1 billion and investment by joint venture partner. We repaid loans to the extent of Rs 4.28 billion in the last financial year. Our overall net debt as on 31 March 2013 was at Rs12.21 billion against Rs11.34 billion as on 31 March 2012.

We are also pleased to inform you that the strong operational cash flow generated in 4Q helped us to bring down our debt-equity again at 0.57 levels and we were able to bring down our debt by more than Rs100 crores in the last quarter alone. Our current cost of debt stands at 13.44% and we believe that by the end of this year it should be around 12.75%. During the next financial year, we have a loan repayment commitment of Rs3.93 billion and we have unutilised sanction facilities from multiple banks where we can withdraw to the tune of Rs9.7 billion.

The quarterly update – we recorded a top-line of Rs5.88 billion, out of which Rs4.45 billion is from Real Estate operations, Rs1.42 billion from Contracting and Manufacturing activities and Rs11 million from other sources. Real estate contributed 75.7% and Contracts and Manufacturing contributed the rest. The revenue

increased by 12% year-on-year and 36% sequentially. However, significantly, the core real income excluding monetisation of the land grew by 74% and 40% year-on-year and sequentially respectively. For the fourth quarter ended 31 March '13, EBITDA stood at Rs1.63 billion, profit before tax stood at Rs1.03 billion, and profit after tax stood at around Rs70 crores. As mentioned earlier, EBITDA and profit before tax for the year is after considering the change in revenue recognition method according to the new guidelines note, one-time payment to settle the contract labour and lower margins in our Gurgaon I-Phase project. We believe that our cash flow in the coming financial year also should show this kind of a continuous momentum and hopefully this will allow us to manage our operations and chase the growth.

The outlook for the Real Estate in the current year is based on what we are currently developing which is 25.83 million square feet of areas across six cities in India. Leaving the area of car park, etc., we have a saleable area of 18.37 million square feet and our share of unsold inventory stands at 8.23 million square feet. We believe that we should be realizing 20.43 billion from our existing customers and we hope to also realise at current prices from the unsold inventory in excess of Rs65 billion. We also expect to incur about Rs47 billion towards completing these ongoing projects based on our current estimates which should leave us with the healthy operational cash flow of approximately Rs38.4 billion. Out of the real estate collection Rs 16.1 billion for financial year '12-13. Rs.6.9 billion was collected out of the sales made as on 31 March '12. We expect to collect Rs.12 billion from the cumulative sales made as of 31st Mar,13.

We have completed six real estate projects in the current financial year. We also hope to launch new projects to the tune of about 9 million square feet and we are also working on about 25 million square feet to develop where some of the lands have been identified in all the cities where the project should start seeing visibility from next financial year.

With respect to the Commercial Real Estate business, we have received plan approval for our St. Mark's Road property where we should be doing about 200,000 square feet and construction activity had commenced from this quarter onwards. We hope to spend about 40 crores for this project.

As far as our other big commercial project is concerned we hope to start the project in the second half of this financial year and we have earmarked 35 crores for this project in the current financial year.

As far as our Contracts are concerned, they are showing steady growth. We currently have about 10.65 million square feet of ongoing projects which should give us visibility for the next two financial years and should be having about 500 crores or so of revenue recognition coming vis-à-vis 450 crores in the current financial year. We continue to maintain that 18-20% margin in our contracting activities.

As we have informed, looking at the current environment and the projects what we have launched recently and likely to be launched in the coming financial year, we are confident of achieving new sales value of Rs26 billion, measuring around 4.2 million square feet. This amounts to a growth of about 17% in sales value and about 12% in volume. We hope that this new increased sales will have a positive impact in sustaining both our revenue and profitability growth in the current financial year and onwards.

We are also happy to inform that in view of the improved cash flow and sales performance, the board has recommended a dividend of Rs7/share which amounts to 70% for the year and this is also the highest-ever dividend this company has declared in its history.

We hope that this coming financial year also will be as good as what we have achieved so far, and thank you for your participation and best wishes in advance. Now you can put forward your questions.

- Moderator:** Thank you. The first question is from the line of Shashikiran Rao from Standard Chartered Bank. Please go ahead.
- Shashikiran Rao:** My question is, you mentioned Rs12 billion of collections from existing customers. Can you provide guidance for the total collections that you will have this year?
- J.C. Sharma:** Total collections should be significantly higher than what we have achieved. But, we are not giving guidance on the cash flows as such.
- Shashikiran Rao:** In this year, per se, you mentioned Rs20 billion received from customers, which includes your contractual business and real estate. I missed that breakup between the two.
- J.C. Sharma:** Out of Rs21.2 billion of cash flow, we collected 400 crores or so from the Contracts and the rest has come from the Real Estate. The core real estate gave us Rs16.1 billion cash inflow and from the land monetisation, we had about Rs103 crores as cash inflow.
- Shashikiran Rao:** One small question, you have Rs21 crores of licence fees and plan approval charges in this quarter, which is significantly higher than the last few quarters. So what is exactly that? Is there anything specific that we need to know?
- J.C. Sharma:** These costs have been incurred when we had launched the one large project in Bengaluru, i.e. Indraprastha and some payments, EDC, IDC what we have made in Delhi.
- Shashikiran Rao:** Specifically within Delhi, is there any significant cost? I think in FY12, you had a cost of some Rs200 crores that I believe was significantly towards the Delhi project, is that right?
- J.C. Sharma:** It was not Rs.200 crores, right. It was about 100 crores for getting the licence approval and other things which you need to incur. Thereafter there are certain installments which they prescribe which you keep paying on every six months or so.
- Shashikiran Rao:** So some cost in that direction is still pending for Delhi or is it done with?
- J.C. Sharma:** There maybe some small amount still pending; we will let you know.
- Moderator:** Thank you. The next question is from the line of Aditya Somani from Goldman Sachs. Please go ahead.
- Puneet:** This is Puneet. I have a couple of questions. First, I wanted to know that is there any seasonality in customer inflow in the fourth quarter? Because in the 4th quarter, your collection from customers jumped up a lot as compared to the previous quarters, and for the kind of operation, cash inflow you have generated in the fourth quarter, will it be sustained or is there some seasonality to it?

- J.C. Sharma:** As we have always maintained in the real estate, the second half is normally better than the first half, and on that basis, whatever you are selling within two months or say within a quarter, whatever has become due against those projects which are getting sold, the payment you collect under normal circumstances. So we have had continuously 4-5 months of great performance, beginning November-December which continued until 31 March 2013. The benefit of that should get reflected in significantly higher cash flows in the first half vis-à-vis the last year first half but still going forward if you achieve higher sales volume in the second half that seasonality impact also will be there.
- Puneet:** So, will it be safe to assume that this Rs5.3 billion, which you achieved in the 4th quarter may become some sort of a base quarter for future quarters?
- J.C. Sharma:** May become.
- Puneet:** Can it be lower in say the first or second quarter based on some seasonality in terms of lower sales in the first half?
- J.C. Sharma:** Need not be. I think that kind of a cash flow we can manage.
- Puneet:** And second thing is that, would you like to quantify the margin impact because of this one-off case due to labour settlement? Will it be linked to the jump in other expenditure of around say Rs15 crores?
- J.C. Sharma:** No, basically the operating margin got impacted by one-time hit of 6.1 crores on the manufacturing division side, and on the Gurgaon I-Phase where we recognised the revenue of about 61 crores, our operating margins were lower than normally what we achieve, which is 40%. Another impact of Rs6 crores was taken in that Gurgaon project. On top of this, when we compare it on a year-on-year basis or quarter-on-quarter basis and I have communicated that there was an impact of about 13 crores in the PAT in the last quarter and overall there has been an impact of about 32-33 crores in the PAT throughout the year had we followed the same accounting policies what we followed in the preceding accounting year.
- Moderator:** Thank you. The next question is from the line of Prashant Poddar from Invesco Ltd
- Prashant Poddar:** In my understanding, the impact of Rs12 crores alone, which can explain around a 2.4% margin impact for the quarter, it looks like either the margins on other projects also are not up to the mark, because it looks like the gross margin on the non-contractual business has come down from last quarter to this quarter by 7%, 8%. So, is there anything else other than this Rs12 crores, which can be attributed?
- J.C. Sharma:** No. I can explain it very clearly for the benefit of everyone who is listening. These are the things you need to look at. We are talking about the quarter only, number one, is because of the new accounting norms there has been an impact of 12 crores. Then this extra cost outflow for the one-time settlement of 6 crores which impacted our margin to the extent of 4 crores. Then we talked about lower operating margin in the Gurgaon project where also things got impacted from a margin point of view by 6 crores and from the PAC point of view by 4 crores. So you have 20 crores impact here. On top of this, the last year same quarter we had a monetisation benefit of about 132 crores where we had higher than 40% margin. So the combination of all these factors resulted into the lower EBITDA and subsequently a lower PAT than what it was in the preceding year same quarter but sequentially if you look at, if you take out these things, the 12 crores impact will give you a clear picture versus the preceding quarter.
- Prashant Poddar:** On an ongoing basis, is it fair to assume that you should be able to do on a full-year basis, 40% margin on the real estate part of the business?

- J.C. Sharma:** We hope to do so. Except that somewhere that the impact of the Gurgaon I-Phase revenue recognition will have to be absorbed from the other projects. So we will be closer to 40%. It is fair to assume.
- Prashant Poddar:** The other question is on contractual part of the business where you said that you have received Rs120 crores or Rs130 crores worth of orders last year while the revenues were in excess of Rs400 crores. So is it possible that we could see a decline in this line of revenue in FY14?
- J.C. Sharma:** No. I have said whilst giving the brief account of the operations that we achieved about 450 crores of contracting income in the last financial year. There is likely to be a double-digit growth in this Manufacturing and Contracting income also in this financial year. And the positive thing is we have now got for the first time a good number of orders received from other clients also.
- Prashant Poddar:** So what explains this Rs120 crores order inflow for the year?
- J.C. Sharma:** This is other than the Infosys contracts we are talking about.
- Moderator:** Thank you. The next question is from the line of Samar Sarda from Kotak Securities. Please go ahead.
- Samar Sarda:** With regards to your guidance of 4.2 million square feet for FY14 and the sales value you need to achieve on that, can you throw more light on how this 4.2 million square feet will be achieved. How much would Bangalore contribute and any of the newer projects would be more or the existing projects could add up to this?
- J.C. Sharma:** We believe that the growth should happen from all the regions. That is the prima facie assumption with which we are going ahead in this financial year. The two new cities, Calicut and Cochin may also contribute, may not be that significantly but to bring that additional revenue, they will also be playing a contributory role. Bangalore should do better this year than the last year and the Chennai market and the Pune market also should show a reasonable growth. We have seen some kind of a slowdown in the Gurgaon market but within that we believe that we should be able to produce more sale in this financial year also.
- Samar Sarda:** Just to continue on this, like Bangalore, you have been consistently doing a little more than 500,000 square feet every quarter, and in fact FY13, you have been doing more than 575,000 square feet, last quarter being pretty good. So, could we see a little more increase in these volumes in Bangalore because since you are launching a little more of city center projects with high value, this volume might drop a bit?
- J.C. Sharma:** As such, one single project is not likely to impact either positively or negatively to the overall new sales. We believe that most of the projects today wherever we have launched they are showing good traction and that should be sustained. And launching good number of new projects as well as releasing from the existing projects the new blocks and new towers. So all these things should help us where Bangalore should remain again a leading contributor but with the market share likely to come down to less than 60%.
- Samar Sarda:** My second question was with regards to land acquisitions. Now, you have spent around Rs 2.4 billion on land acquisitions and in 4Q, it seems you have acquired some land in Thrissur and Bangalore. So, could you throw a little more light on these acquisitions? And what is this number likely to be for FY14?
- J.C. Sharma:** We have been scouting for opportunities in the newer locations as well as wherever we feel that we can immediately launch some projects. At the same time, we are conscious that whatever we are doing it should fit in within the debt-equity which we have been communicating, should be around 0.6, and the debt to EBITDA also where last year we have come closer to a little bit above two times our EBITDA. So we believe that this year our EBITDA should be far higher, and we believe that operational cash inflow should be

more than what we achieved in the last financial year. So a combination of this operational inflow, something of the debt, all these things put together should help us in funding our commercial expansion which we have started with the St. Mark's Road Project and should also help us in meeting and managing some of these projects. In Bangalore, a couple of projects are in the southern part. We have purchased or got into the joint development opposite Narayana Hrudayalaya or near Bosch factory which also we believe that we should be able to start the projects in the next financial year.

- V.Ganesh:** Just to add what Sharmaji said, out of the current real estate project expenses, it includes one joint venture, a full value of it, out of 228 crores, roughly about 100 crores was bought on the SPV were funded. So that full value also reflected as the land purchase.
- Samar Sarda:** So that Rs.2.39 billion includes Rs.1.1 billion?
- Management:** That is right.
- Samar Sarda:** Your contribution was only 55 there?
- Management:** That is right, because on a consolidated basis, I will have to reflect the entire outflow.
- Samar Sarda:** And one last thing with regards to debt. Just wanted to know the estimated construction cost for the APMC project. You clearly guided roundabout Rs35 crores of construction for FY14. But what would this be for like the complete project cycle and by when could we see this project completing?
- J.C. Sharma:** We plan to complete the project over a period of 4 years that is our target. As things stand today, the estimated cost should be around Rs4,000/square feet. This does not include about 140 crores or so we should be incurring on the APMC project because we have not paid for the land.
- Samar Sarda:** The 0.7 million square feet of construction?
- J.C. Sharma:** Yeah.
- Samar Sarda:** But do you plan to lease out this project too or sell it in the market?
- J.C. Sharma:** I think still it is 4.5 years away. We will be taking an appropriate call as things move forward.
- Samar Sarda:** But like at Rs.4,000/square feet like the total estimated construction cost would be something around Rs9 billion. So would this impact from a leverage perspective? Can we see some leverage being taken for this project and your long-term borrowings going up?
- J.C. Sharma:** The focus will be maintain the debt-equity, fund all these things from the operational cash flows and going forward, we will keep evaluating multiple options including advance lease rentals, or giving the shares which currently we own at 100%, but those things will be taken at an appropriate time. Currently, we are focusing on that; let us get all the approvals in place and start the project in the second half of this financial year.
- Moderator:** Thank you. The next question is from the line of Abhinav Sinha from CLSA. Please go ahead.
- Abhinav Sinha:** My question is somewhat again on the expansion in sales for the next year in land banking side. Where do you see the Noida and Ghaziabad projects fitting in this? And secondly, you also talked earlier about that you are looking at some 25 million square feet of space to be added pretty soon. So where is that located actually?
- J.C. Sharma:** Noida and Ghaziabad, hopefully I think by the next quarter you should have some clarity because the licensing and other issues need to be resolved. Going forward, mostly this new development you will be seeing in Bangalore, where we have a large land bank holding. Something in Kochi, something in Coimbatore, something in Thrissur, something in

Chennai, Calicut and other places as well—working out so many things. And as and when the plans get crystallised we will be able to share. But since we are carrying a large land bank of more than 2,500 acres as our share we thought we should be sharing that part also with you and investors.

- Abhinav Sinha:** This 25 million that you are talking is in addition to this land?
- J.C. Sharma:** In addition to what we have.
- Abhinav Sinha:** But around existing locations?
- J.C. Sharma:** Around existing locations.
- Abhinav Sinha:** And Noida and Ghaziabad, when you say that you will have clarity in one quarter, so the launch is essentially now being looked at in FY15, right?
- J.C. Sharma:** Maybe the launch still may happen in this financial year because thereafter the formalities are much less.
- Abhinav Sinha:** But is that over and above the 4.2 million square feet estimate?
- J.C. Sharma:** The 4.2 million square feet is the total guidance. But this is not included in my forthcoming launches to that extent I am talking about.
- Abhinav Sinha:** My question is that is it included in the 4.2 million sales forecast or not?
- J.C. Sharma:** That way giving any kind of the guidelines because it will come from a Noida project, it will come from XYZ project. Overall, 4.2 million square feet we will be achieving.
- Abhinav Sinha:** Secondly, my question is on how demand is panning out currently as in first quarter? So, for example, how has been the response to your Indraprastha property, and is Sobha City still doing well, any comments there?
- J.C. Sharma:** Today, Sobha has 3-4 winners. Sobha City continues to do well consistently from the day it was launched. Indraprastha also has done very well as things stand today. And we hope that this kind of momentum should continue. The Gurgaon villa project in our view probably was the largest-selling villa project of India in the last financial year, let us say like Thrissur and Chennai also where we may not have many projects but they also continue to do exceedingly well.
- Moderator:** Thank you. The next question is from the line of Anand Agarwal from Jefferies. Please go ahead.
- Anand Agarwal:** Firstly, on this 25 million square feet of development that you are saying that can potentially come through, my understanding is this is not new land that you are going to acquire, right? This is just projects from the land bank that you own that you have near-term visibility on development?
- J.C. Sharma:** You are 100% right. From my existing land bank which I am showing, because of the stakes already we have, all the projects I am talking about and the plans which we are doing is based on those land banks only, and which is close to 400 acres.
- Anand Agarwal:** So apart from the 12 million square feet of the new launches that you are proposing in FY14, you are saying you are working on another 25 million square feet based on the land bank that you have at the moment?
- J.C. Sharma:** Absolutely right.
- Anand Agarwal:** Second sir, if you can broadly give guidance on what you intend to spend on land? It is variable, but what you intend to spend the amount on land acquisition in FY14?

- J.C. Sharma:** Very difficult, because the land which is not in your hand there are so many slips between cup and the lip, until you do not register or do not enter into an agreement you cannot say. That has been the experience in the past. But opportunities are there. And we hope to continue to generate cash flows good enough for us to be deployed without impacting the debt-equity. That is the core message we are trying to convey and hopefully as you have seen since last two years whilst we have been investing in acquiring certain opportunities, we have not impacted our debt-equity or our liquidity rather the overall interest outflow in the last financial year has come down and the debt also in the last quarter has come down significantly. So keeping all such things into mind and looking at that we are also giving the highest-ever dividend shows our confidence that the cash flows are going to remain healthy in this financial year to fund all such requirements.
- Anand Agarwal:** Have you started work on the mall at the Indraprastha one? And based on your...
- J.C. Sharma:** We have started the work there also.
- Anand Agarwal:** Based on your presale that you managed in Indraprastha, are you confident that you will be able to fund construction of that mall from the cash flows of that project itself?
- J.C. Sharma:** Of course. In addition to that, the bank loan also is available. As I was telling that about 1,000 crores of unused sanction limits, it is currently available and surprisingly, I would also share information, in the last six months, we have not availed a single rupee as a fresh money from the existing bankers who can give us money because most of the construction is being funded through the cash flows of the customers. So, there are lines of credit available and there is an expectation of higher cash inflows from the operations. A combination of that should help us to ensure that to meet all our targets. I am also specifying that we have earmarked Rs75 crores for our other commercial projects as well which includes St. Mark's Road where the work has started. Indraprastha Mall as you asked, had already started and APMC also we hope to start the work in the second half.
- Anand Agarwal:** Lastly, can you tell me which new projects have crossed the recognition threshold in 4Q?
- J.C. Sharma:** One is Gurgaon, where we have recognised Rs60 crores revenue; one is Eternia, six projects have crossed that 25% threshold.
- Management:** Gurgaon City, Sobha Serene, Eternia, Habitech and Meritta.
- Anand Agarwal:** What was the amount that you recognised from these?
- Management:** 199 crores is the revenue recognition.
- Moderator:** Thank you. The next question is from the line of Amit Agarwal from SBI Cap Securities. Please go ahead.
- Amit Agarwal:** At least from the presentation talking about geographical expansion moving into Ghaziabad and Noida, right now, you have a project going on in Gurgaon. Is there a clear plan that once you enter a particular city, you are going to be there, like you are Bangalore-based and you have a couple of these cities, which is a core area or is it more on opportunity which you get in different cities, which you keep looking around and therefore apart from 4-5 poor cities, other cities could vary?
- J.C. Sharma:** It is a good question, but just to answer your question, we started in Thrissur, a very small city with a population of 500,000. We have done last financial year, new sale from Thrissur of about 150 crores and we are going to be there for the next ten years. So once we enter a new city, we do not wish to get out of that city. Rather we will broaden and deepen our presence. That is the philosophy we will follow in the future as well.
- Amit Agarwal:** Can I assume then in Gurgaon, apart from the land which you have, you will be looking around for other projects or other land banks in Gurgaon?

- J.C. Sharma:** Yeah, that is why I have said that couple of land parcels in Ghaziabad, Indirapuram, we have identified, and while it is taking its own time we hope to launch projects there also. And as and when we have clarity we should be sharing it with you.
- Amit Agarwal:** Just on this particular point, now that you are moving in for geographical expansion, moving away from the core cities which you have, is there a possibility of other cities and other regions also getting involved or you probably take 3-4 new cities, develop them, and then look at other cities?
- J.C. Sharma:** We will be focusing on the existing new cities first and then if some other opportunities in some highly promising cities we get, and the debt-equity and the cash flow permits, then only we should be looking. Primarily, we want to be a dominant player in the southern market as well as we would continue to focus in the NCR market and Pune market as things stand today.
- Moderator:** Thank you. The next question is from the line of Tejas Sheth from Emkay Global. Please go ahead.
- Tejas Sheth:** The question is 2.8 million square feet of your residential launch buy plan is going to be in Bangalore. And now with the change in the state government, is there going to be a delay in approval? So how confident are we for these launches?
- J.C. Sharma:** In Bangalore that way the political leadership had never interfered with the plan approval. The plan sanction process is not getting impacted because of their interferences. That is point #1. The problem is this is the only city where any project above 5 acres you need to give complete set of drawings first to the BDA for development plan approval, then you have to come and give again plans to BBMP who also take as much time as much BDA takes. So duplicity happens. And meetings do not happen on a timely basis. But coming back to your point, we welcome the single-party stable government and we believe that this party has the required leadership which will ensure that Bengaluru gets the momentum back from the industry's perspective point of view. All the good things we heard about Bengaluru if you recollect it was during Mr. S.M. Krishna's period and hopefully that kind of environment will be created again. That is what we are hoping for.
- Tejas Sheth:** What is the commitment towards construction cost for real estate in FY14?
- J.C. Sharma:** As such, we are not committing or communicating that part in our guidances. There are multiple factors. The plan launches, suppose if it gets delayed by a couple of months or they happen earlier than what expected, this will have a direct bearing on our cash flows as well as on the expenditure. But prima facie, we believe that on the commercial side, we have earmarked 75 crores and enough cash has been earmarked to ensure that the existing projects get completed on a timely basis which should help us in recognising about 660 crores of revenue from the existing customers and about 1,200 crores of cash flow from these customers. To that extent, we will be working towards it.
- Tejas Sheth:** Do you see your debt coming down further in FY14 on absolute terms?
- J.C. Sharma:** We cannot commit that as things stand today.
- Moderator:** Thank you. The next question is from the line of Mohit Agarwal from IIFL. Please go ahead.
- Mohit Agarwal:** I wanted to know that you just mentioned that about Rs60 crores of revenue has been recognized from the Gurgaon project. Now last year the total contracted revenue from the project was about Rs250 crores. So are we going to see those revenues also impacting your margins as they keep getting recognized over the next few quarters?
- J.C. Sharma:** To that extent, the first phase villa project where the initial sales whatever has happened at the price at which they have happened, that 30% margin will continue.
- Mohit Agarwal:** If you are to compare your expected margins for FY14 with FY13 for Sobha as a whole, are we going to see any upward movement at all or in the best case we are going to get

flattish kind of margins?

- J.C. Sharma:** We have been always communicating that we work on 30% EBITDA margin and that has been consistently reflected. So, in some projects somewhere lower margins, some projects somewhere higher margins, it will keep happening. But overall EBITDA margin of 30% or more should get reflected as we move forward also.
- Mohit Agarwal:** Now, basically in terms of net realizations, I think they have moved up at low-teen CAGR over the last three years. So are you saying that your cost inflation is just being offset by your price increases because you are not really guiding to a continuous improvement in margins as your realizations are going up?
- J.C. Sharma:** We are saying this in every concall and in every communication that we are here to grow our volumes, improve our cash flows and maintain our margins. And this is what we have been consistently doing since the last so many years. Going forward, the thrust on these parameters will continue, because on a higher price per square feet, you are already getting industry leading margins. On a percentage basis, to presume that in India where on plan approval you start selling and complete a project over a period of 3-4 years, whatever best estimation capability any company has, it tends to have higher costs than what you have anticipated due to continuous increase in the labour costs, salary cost of the engineers and the plan approval related cost. We hope that now onwards the commodity prices should stabilise. We are only hoping as such, but on balance, because of the labour cost remaining higher at 15% year-on-year basis, you will see continuous increase in the overall cost of construction which should be set off through increase realization.
- Mohit Agarwal:** Then could you give me a broad ballpark on what is the kind of construction plus labour cost inflation that you faced in FY13?
- J.C. Sharma:** More than 10%.
- Mohit Agarwal:** Is it like 15% or 10% or? And how would that compare to the year before?
- J.C. Sharma:** As my labour cost is concerned it is growing by 15% and other costs they are growing at less than 10%.
- Mohit Agarwal:** What is the current amount of customer advances on the balance sheet?
- Management:** It is about Rs5.7 billion at 4Q.
- Moderator:** Thank you. The next question is from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.
- Sameer Baisiwala:** Just a couple of questions. First of all, last time around, you had guided for the net profit guidance double-digit for fiscal '13. You are doing so for fiscal '14?
- J.C. Sharma:** You are right. As I said, there has been that one-time impact which also impacted but what I had communicated if I recollect it clearly was, that while the first three quarters we had about 145 crores of net profit we should be doing better than what we have achieved in the last quarter of the last financial year of total 207 crores or so. The Gurgaon margins when we did the revision of our estimates we found that whatever we had budgeted for versus what we are likely to incur there has to be a higher revision. It impacted the overall PBT by 6 crores and that one-time settlement which was not estimated but happened almost all in a sudden but looking at the long-term benefit we had gone ahead with that also. It also impacted a little bit towards lower than the expected PAT.
- Sameer Baisiwala:** Sure, sir, I get the point, why the guidance was not met in fiscal '13. My question is would you not be guiding the same or whatever is right for fiscal '14?
- J.C. Sharma:** It is very difficult as such. That is why the end of the last quarter 10 months performance we were more or less clear that what kind of a positive or negative impact the next two months sales will happen primarily. Here, we have just begun the year with only one month

of performance. While we are clear about what is the revenue we will have on the existing sales and what is the cash flow we will have from the existing customers, it is difficult to say the customers choosing which product which will have what kind of margin and what kind of a percentage completion. So that is the big question mark which does not allow us to have this kind of clarity. But on a year-on-year basis the comfort is there that we will be doing better than what we have done in this financial year both on the top-line as well as on the bottom-line.

Sameer Baisiwala: Of the Rs26 billion new sales that you are targeting, how much would be from the current ongoing projects, which is about I think 8.9 million square feet and how much would be from the new launches, which I think your share is about 8.2 million square feet?

J.C. Sharma: You are right. That also is as such very difficult because we were not giving target to our sales people to target a particular project and sell it. But, if you look at the trend, all the new launches normally brings a bit of higher sales. So while the customers have got a good quantum of inventory to choose from, we believe that the existing inventory should give more than 50% and the rest should come from the newer projects.

Sameer Baisiwala: No, I think that is important, because the new projects I assume would take at least four quarters for recognition. So therefore this question.

J.C. Sharma: I agree with you, but looking at that there has been as such no launch. I have taken that point. So when the new sales happen from the existing projects which will become due for recognition we should be showing higher top-line and higher bottom-line. Those factors we have considered.

Sameer Baisiwala: Just one final point on the Gurgaon market. You said that you are seeing some sort of a slowdown. Is it your project specific, because you are located in Dwarka Expressway, which is kind of struggling or was it a broader point on...?

J.C. Sharma: I was giving a broader point that whatever feedback we are getting now is that the response of the new customers on the recently launched projects has not been that great as it was about two quarters back. So that is the message we are getting which we are sharing it with you.

Sameer Baisiwala: But any thoughts on when would the Dwarka Expressway get completed? I think there are a lot of land issues going on. And our project is kind of linked to the success of the Expressway.

J.C. Sharma: Fortunately, what I have noticed is that the tenders have been awarded for all those internal roads according to the new master plan. So work has physically started. Then the access on the Delhi-side Bijwasan Road is likely to improve significantly once the flyover work gets completed in the next 3-4 months. So, overall visibility and accessibility is improving almost on a quarterly basis. Coming back to the Dwarka Expressway, the NCR Road, there are certain issues from the Delhi-side which may take a little bit time but we have been given to understand that most of the legal issues on the Haryana-side stand resolved and the work should get started.

Moderator: Thank you. The next question is from the line of Rahul Bhangadia from Lucky Investments. Please go ahead.

Rahul Bhangadia: I just had one or two questions to ask. One is as I see in your cash flow, you have made some land payments this year of about Rs239 crores. What is the likely number going ahead, because our understanding is that you have a fully paid land bank?

J.C. Sharma: It is not fully paid land bank. If you look at the 2,000 crores of the land bank, paid and unpaid detail has also been given as such. But yes, largely, it is fully paid up. Coming back to what we have invested in the last financial year versus what we are going to invest it is very simple. We are looking for opportunities where we can start projects reasonably well. When we talk about 'reasonably well' means right you made the last payment you should be in a position to start the project in 3-4 quarters depending upon that state's approval

process. Now how many opportunities will be able to consume it in real estate is very difficult to commit or comment upon but we hope to continue to look at opportunity, that is what we are giving the message and we hope to fund it primarily from our internal cash flows.

Rahul Bhangadia: But still you would have some sense of what kind of land payments you would be making.

J.C. Sharma: I get your point. Let us say you are looking at multiple opportunities. All the opportunities in this business will not mature so which will happen first and which will not happen is very difficult to predict and when it will happen also is very difficult to predict. So we cannot say.

Rahul Bhangadia: Okay. And the second was sir on your commercial project of the APMC thing where you are going to spend almost a 1,000 crores. I just heard you before saying that you are not clear whether you are going to leave it out or sell it straight away because the project is going to come 4-5 years down the line. But if you were to hypothetically leave today what the yield generally be for that kind of a project or have you done any study or mathematics for that.

J.C. Sharma: Of course, that is why we have done the bidding.

Rahul Bhangadia: So I am just trying to understand if you lease it out for a 1,000 crore project what could be your revenue.

J.C. Sharma: This will unnecessarily confuse the participants or the market. What we are trying to convey here is this is in our view after having an experience of about 18-19 years in the real estate and a predominant presence on that road, Bellari Road, where Sobha had the highest number of completed projects and the highest number of ongoing projects on that side of the city. We understand that this is one of unique opportunity, a landmark. Development is likely to come with close to 4,000 car parks, the current capacity of your New Delhi international airport with more than one million of retail mall and 1 million of office space. The lease rentals people are aware of what is prevailing in Manyata Developer currently, of office space for the back-ended industries which ranged between Rs50 to Rs60 depending upon which league it is coming for renewal purpose. This land is significantly better and it will have as composition of your retail mall also. You can draw your own conclusion on that basis.

Moderator: We are going to take a follow-up question from the line of Aditya Somani from Goldman Sachs. Please go ahead.

Aditya Somani: As you think about the businesses for FY14, what will be the downside risk you see to your volume numbers? Upside risks, given the fact that 4Q was very-very strong at 6.75 billion of sales. Do you feel downside risks while you are forecasting the number of 26 billion for FY14 or will it be the kind of base-case assumption and with the chances of positive surprise?

J.C. Sharma: Whatever we are seeing or whatever we have discussed so far we believe that keeping all such things into mind that we should be achieving 26 billion new value this financial year with a comfort as we achieved in the last financial year. We do not foresee any kind of a surprise in achieving these targets as things stand today. If something still happens which is you or we have not been able to articulate there will be strong reasons which all of us will be convinced about, but currently there are no excuses for us to say that there is a risk element attached to it because of that we will not achieve 4.2 million square feet.

Aditya Somani: Do you have any thought of the breakup between first half and second half?

J.C. Sharma: Difficult, but we will always maintain that the second half is relatively better than the first half and that kind of a trend should continue. Some kind of fatigue if you could see in the first quarter and the first half and then second half things picks up. At the same time the execution of the hedge funds which helps us in realising more cash flow because these are monsoon-free better days for us to execute. So in totality the second half should still be better than the first half this year also.

Moderator: We can take the follow-up question from the line of Samar Sarda from Kotak Securities.

Please go ahead.

- Samar Sarda:** I had broader questions with regards to the Kerala market and the Bangalore market like you have acquired 2-3 joint development projects as well as like if I see the fourth quarter you have also acquired project in Thrissur, so is it safe to say that the Kerala market is like now picking up and sales volumes would be going up overall in the market, more investments coming in from the Middle East?
- J.C. Sharma:** I truly believe so. We do find that yes, the Kerala market also as such, though overall smaller city-wise but there are multiple cities which are doing well. Cochin has been traditionally the best market followed by Trivandrum, Calicut and then Cochin and other markets. So going forward we believe that due to a superior brand equity of the company as well as debt of the promoter that is P N C Menon, we will be able to do much better in Kerala from day one.
- Samar Sarda:** And sir with regards to the Bangalore market, now the market has been doing good overall and you have projects across but if you just have to point out if there is a certain weakness with regards to a certain price point, now I am just extending my question a bit, you operate in a different market, different price zone but if I see the southeast Bangalore market, the Hallur belt or the Marathahalli belt and the other belt which is Kanakpura belt, the resistance on the pricing above Rs4,500 per square feet in market.
- J.C. Sharma:** I do not think so. My belief is that the Bangalore market will show the same kind of resilience what it has been showing since the last 2-3 years. There have been no regions, if at all there have been some regions that is the results what the state has given by allowing one single party to rule, which should be considered favourable. That is what is our view is. A particular developer selling fast is primarily dependent upon how he has been able to launch the project or what kind of impression he carries amongst the customers. But my belief is that with the new launches we are having a good number of new launches in this financial year in the new territory which includes south, which includes southeast, which includes the Marathahalli market also, we should be doing reasonably well in this financial year also and rather should have a higher rate of growth on the volumes what we have achieved in the last financial year.
- Samar Sarda:** Sir and just as you mentioned launches, could you just guide which of these seven launches or round about 13 launches are possible in the first half like little more confirmation on these launches in the first half?
- J.C. Sharma:** I believe that the Marathahalli project we should be able to launch in this quarter only I think till today. The Devanahalli property we hope to launch in this quarter only. The other properties like this Hosahalli property we should be able to launch in the next quarter. To that extent there is a clarity, the rest as things progress I should be able to convey.
- Samar Sarda:** And the other cities will happen in the second half?
- J.C. Sharma:** Other cities also we are planning that in Calicut we can have launches in this quarter. And Cochin we should be able to launch it. It is touch and go. May be in the first month of the next quarter.
- Moderator:** We are going to take our next question from the line of Abhishek Bhadari from Macquarie. Please go ahead.
- Abhishek Bhandari:** I had two questions. One is on this accounting treatment for interest expense. This year like we have almost expensed out 85% of total 200 crore on the P&L, which is a significant high number as compared to last year's run rate of around 55-60%. So going forward do you expect to maintain a similar rate on the P&L side?
- J.C. Sharma:** We hope that yes we should expense out the interest outflow to P&L account as much as we can and we hope to maintain this kind of a ratio.
- Abhishek Bhandari:** Second question is given that you are trying to enter newer markets, are you only looking at

the residential side of the business or you are also open for commercial and retail mall in the new geographies?

J.C. Sharma: No, it is a good question, thank you for asking this. I should have clarified upfront. We are only looking for residential development in the existing or in the new market as things stand today.

Abhishek Bhandari: And most of them will be greenfield rather than buying out any developer over there?

J.C. Sharma: Yeah, all of them will be greenfield. No buying out as such.

Moderator: We are going to take our next question from the line of Akshay Rao from Edelweiss Securities. Please go ahead.

Ashish Agarwal: Sir my question was with respect to exposure to Bangalore. I understand that FY13 we have had about 64% of our volumes coming in from Bangalore and is my understanding correct that we expect this to be below 60% in FY14? Given that we have 4.2 million square feet of sales that has happened that we are expecting for FY14 that will translate to about 2.5 million square feet of sales coming in from Bangalore in FY14. So that would require a significant leg up and sales volume to come in from other cities. So basically just wanted to check your sense on this that how sensitive is our 4.2 million targets with respect to the new acquisitions because all the other cities put together account for about 1.3 million square feet that we are looking to grow up by about 25% for FY14?

J.C. Sharma: As we were communicating vis-à-vis with investors and my 4.2 million guidance is not dependent upon any of the new acquisition or anything of that sort. Whatever projects we currently have in hand and whatever projects which we are likely to launch and while we are reasonably confident that these projects should be launched in this financial year we believe that the view launched which has already been planned where the approvals are at various phases, along with my existing inventory of 4.2 million square feet should give us a comfort that we will achieve this 4.2 million square feet from the locations where we are operating or likely to operate. We are not as such having the problem that which city should do more or not. But from your question point of view Bangalore bid close to 7 million square feet of new space in the last eight quarters, though it was second half and the best-ever quarter but we believe that your expectation of doing 2.5 million or so definitely should be actualised from Bangalore and as other 1.7 million either from Bangalore or from other cities definitely should be coming to make it up to 4.2 million square feet.

Ashish Agarwal: So would we rather expect as Gurgaon would steer about 0.6 and so that is about 20% higher YoY?

J.C. Sharma: As I say individual city-wise it is very difficult to have a different guidance but the big picture 4.2 million definitely will be achieved.

Moderator: We are going to take our next question from the line of Atul Mehra from Edelweiss Securities. Please go ahead.

Atul Mehra: Sir my question was coming back to commercial projects; you just highlighted sometime back on the call that incrementally you are looking at residential only in Bangalore as well as non-Bangalore areas. So my question was if we have, I think last time when we spoke we were of the view that we will get into commercial also in a more aggressive manner versus what we have had in the past. So is there any roadmap of ramping up commercial projects as a business in a more aggressive manner in the next 6-12 months.

J.C. Sharma: No, see it is not easy to launch a project and become as aggressive within the next 6-12 months when there is no visibility. What we are communicating is that we did not have any commercial portfolio. Whatever experience we have had in the last year in Trichur it has been good and already we have started a very prestigious product and project in the center of the city in Sand Marks Road. We hope to start another very large project of 2 million square feet plus in the second half in the City of Bangalore alone. Then

from our existing land bank if some of the opportunities we get to convert them into commercial space definitely then it will be looked into. As far as scouting for newer opportunities is concerned we are not looking for newer opportunities in the commercial. I hope I am clear.

Atul Mehra: Another question would be that incrementally like now that we have said that we do not want to take our debt equity below 0.5 also on the lower end, so incrementally we believe that on a quarter-by-quarter basis we will end up getting into newer land purchases on a regular basis. So my question was if that is how it will be or are we now looking to retire much more debt than may be previously what we have guided for?

J.C. Sharma: See we are in real estate where only raw material and the main raw material is land. And we are amongst the largest developers of India from the new sales, from the realization, from the execution point of view. Now in the situation when there is a desire to get into newer cities and there are opportunities which are available which is beyond our existing land bank where also we are parallelly working what we are communicating is that all such things should happen where you need to have a clarity of the cash flows, the clarity of the profits, the clarity of the margins with which you will be doing this business and that is what we are trying to clearly set out for ourselves, where we say that EBITDA margin should be more than 30%. We are also talking about that the growth should be in double digit under the normal circumstances and accordingly we are giving the guidance and we are achieving it. Now the cash flow is what we generate from the business we need to recycle. So we are very clear that okay this is the money we have earmarked for the dividend purpose. This is the money we have earmarked for our commercial projects. This is the money we earmarked for our capex and the rest money needs to be recycled either in the new projects or in the existing projects inventory or it will be used for repaying the loan. Last quarter's loan was reduced by 100 crore, and going forward in some quarters you may have loan going up or coming down but it needs to have a clarity that yes, whether it has relationship with your debt-equity as well as with your debt-to-EBITDA, which already I have clarified a number of times today also in my conference call.

Moderator: We are going to take our next question from the line of Nitin Agarwal from IDFC Securities. Please go ahead.

Nitin Agarwal: Thanks for taking my question. Given the fact that we are trying to get into new cities now and our format right now is being super luxury in terms of the product in Bangalore, are we looking at introducing some more products when you go out in some of the newer cities or it is going to be the same products that we have been familiar with, that we will be looking to launch?

J.C. Sharma: Currently we are discussing about those projects you are right with which we are familiar with and which is about 3-bedroom apartment which we sells on a customer sense basis. 80% of the sales come from this 3-bedroom apartment project. The same trend should continue.

Nitin Agarwal: You see enough opportunity for this kind of products even in some of the most newer cities that you are getting into?

J.C. Sharma: Yes, that is what has been our experience whether it is Trichur, whether it is Chennai, whether it is Pune, whether it is Bangalore, whether it is any other city.

Nitin Agarwal: And sir in Bangalore you are already selling about 2.5 million square feet for the product that you are selling do you see any sort of constraints in terms of the size of the potential of the market? Do you know which you probably shifted you at some stage in terms of cap your growth in Bangalore?

J.C. Sharma: I do not think so. You see growth is not kept because of the lack of demand. The growth is currently kept because currently as things stand today the overall economic environment is not that positive what it used to be in 2008 and we believe that if the economy starts showing clear signs of revival your fiscal deficit, current account deficit is contained. Definitely Bangalore is a place where on an average 10 million square feet of office space

has been adjudged over a period of last 10 years on a leasable basis and more than 1 million people, who are working in this service industry, most of these people have not yet taken the call to own a home and in the coming decade their numbers can only increase.

Moderator: We are going to take our last question from the line of Ashish Thakkar from CIMB Securities. Please go ahead.

Ashish Thakkar: Just a question again on Bangalore actually. You talked about 60% of your sales, mostly from Bangalore obviously are from 1 crore and above. Just wanted to know from a very broad perspective, this interest rate cut which we have been seeing for the last 2-3 quarters, I mean does that really matter in terms of this big ticket, high-end luxury houses, just wanted to get your perspective?

J.C. Sharma: It does matter. We may not be able to assess the true impact because the impact is as such very marginal but what happens today, the customers feel doubly sure that they have got into a trajectory where their interest rates or EMIs will not go up. It is a big comforting factor. Whilst retail customers today are being continuously wooed by most of the housing finance companies and the banks, unfortunately that is not seen vis-à-vis the developer community. We have been lucky that we are being given loans at a lower rate and as such the bank is not a problem but when we look around we find that the developers are still struggling to get a loan at less than 15% and until and unless this kind of environment exists for them, growth becomes extremely difficult and challenging. So we believe that with our economy growing, the eligibility should get extended to the developer community. If these two things happen, with the demand kept especially the Bangalore market and the Chennai market, which is the end user given market, should do even better.

Ashish Thakkar: The correlation between a rate cut and say if somebody is buying a luxury apartment it does help?

J.C. Sharma: It is happening.

Ashish Thakkar: That would not be a decision for changing, I mean if it going down or say going...

J.C. Sharma: Sometimes there is deferment. See this is a discretionary, sometimes advance of people differ. So whilst the demand exists the sales are not consistent in our industry because of these factors only. You can get your answers by understanding this phenomenon.

Ashish Thakkar: Understood, and lastly in this guidance how happy you are in terms of 12% kind of growth guidance in terms of sales volume. I mean company like Sobha I would have imagined would have been a better guidance.

J.C. Sharma: It is all subjective, to grow on volumes, double digits when the economy is growing 5%; it is not a small task but we remain confident that yes, this should be growing and the growth has been consistently better for the last 3-4 years or after 2008-09 we have been growing at more than 15% or so. And going forward also on an average we believe that the worst is behind the industry, this kind of growth can be accelerated also.

Ashish Thakkar: One more question here, in terms of scale and size, you are definitely going bigger in terms of adding more projects, 8 million square feet currently and you talk about adding another 25 if I heard it right. But in terms of managing these projects, you have done a fantastic job in executing in the past but when your plate becomes too full, how do you plan to execute all these projects?

J.C. Sharma: Thank you for asking this relevant question. See for most of the players I think that will be the issue which they need to address. Being an in-house company we believe that this is the core advantage that this company enjoys over most of the other developers because there is a common threat. The project manager understands all the stakeholders from their design team to the structure guy, to the finisher guy to the interior guys or the exterior guys of such things. So as we grow, we have made our business modular and scalable. While there are challenges in getting quality labour and quality engineers through a

continuous process of training, we have a good academy and through a continuous process of ensuring that monitoring happens of each and every activity we believe that going forward Sobha should be able to manage this increase in volumes as we move forward.

- Ashish Thakkar:** Right and this means that your contractual business will grow equally well, I mean...
- J.C. Sharma:** Contract business we have been always telling that we will not be growing because we will not be doing that, but as things stand today it adds a lot of value in scaling up as well as in knowing our capabilities or our quality parameters, but being a low margin as such we are not focusing to grow as much as you are focusing to grow our real estate operation.
- Ashish Thakkar:** Okay. So the mix could change. Currently it is 75-25. It could be 80-20 going forward?
- J.C. Sharma:** It used to be about 60-62 3-4 years back
- Ashish Thakkar:** Okay. So it would go in that direction.
- J.C. Sharma:** Yeah.
- Moderator:** I would now like to hand over the conference over to Mr. Rakshit Ranjan for closing comments. Thank you.
- Rakshit Ranjan:** Thank you all for taking out time for this call. I would now like to hand it back to Mr. J C Sharma for closing remarks. Over to you, sir.
- J.C. Sharma:** Thank you Rakshit. Thank you all the participants for giving time to us to exchange our point of view. We hope for the best, for you as well as for this industry in this coming financial year.
- 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. Thank you.