



“Sobha Developers Q3FY13
Conference Call”

January 31, 2013



ANALYST: MR. NITIN ADNANI

**MANAGEMENT: MR. J C SHARMA
MR. S BAASKARAN
MR. GANESH VENKATRAMAN
MR. KISHORE KAYARAT
MR. BALA MURUGAN**



Sobha Developers Limited
January 31, 2013

- Moderator:** Ladies and gentlemen, good day and welcome to the Q3 FY'13 earnings conference call of Sobha Developers hosted by Axis Capital. As a reminder for the duration of this conference, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should 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. Nitin Adnani from Axis Capital. Thank you and over to you Sir.
- Nitin Adnani:** Thanks. Good evening everyone. We have great pleasure to host this call on behalf of Sobha Developers. From the company today we have joined by Mr. J.C. Sharma, Vice Chairman and Managing Director, Mr. S. Baaskaran, Chief Financial Officer, Mr. Kishore Kayarat, Company Secretary and Compliance Officer and Mr. Bala Murugan, Senior Manager. Over to you gentlemen.
- J.C. Sharma:** It gives immense pleasure to communicate with you all via this concall hosted by Axis Capital post declaring our limited review results for Q3 and nine months for the year 2012-2013. We are happy to inform and introduce to you Mr. Ganesh Venkatraman who joint us as Chief Financial Officer effective today. Mr. Ganesh is a qualified Chartered Accountant, Cost and Works accountant and the Company Secretary as well, with over 23 years of experience in the areas of finance, accounting, legal and secretarial function. Over 17 years of that period he had spent with Titan and Wipro. We hope that you will welcome him with the same warmth and support, which you have always extended to Mr. Baaskaran and his team. Baaskaran has been an asset for us. During over a decade long journey these men of numbers has been instrumental in consistency delivering information on time and his dedication to Sobha even during the last few days is unshakable. We wish him all the best for his future endeavor and I would request him now to continue with our performance highlights and operational updates.
- S. Baaskaran:** Thank you Sharma ji. Thank you all the participants. We started this fiscal 2013 on a very positive note and are hoping the interest rates would decline and the GDP growth is stabilized. But in retrospect for most part of the first nine months of the financial year 2013 we witnessed a continuous GDP decline, rising inflation, increasing land prices, the IT sector being affected, rising input cost and nonavailability of quality manpower.
- Over in this challenging backdrop the company at the end of nine months for the financial year 2013 has achieved the cumulative new sales of 2.68 mn square feet valued at 15.4 billion again the set guidance of 3.75 mn square feet estimated at Rs.20 billion. The sale value achieved during the nine months is up by 24.5% year-on-year and sales in this area has grown by 10.9%. We are on target as far as achieving our new sales are concerned. We should be able to achieve our preset guidance of new sales of 3.75 mn square feet valued at Rs. 20 billion for this fiscal. Our sales realization per square feet has improved and we have successfully protected our margins as well.
- The company has been trying to ensure that it continues to maintain its stability in such a way that it does not lose sight of its volumes and growth. You will notice that our topline for the first nine-months of the financial year including this quarter has gone up and our bottomline is better too. The sales realization and cash flows have also been better and healthier. While there are improvements in booking of income, it is



Sobha Developers Limited
January 31, 2013

lagging behind as a result of new accounting guidelines, which have resulted in booking lower income of Rs.517 mn and result in PBT of Rs.303 mn. Out of the total new sales booked of Rs.15.4 billion in the current financial year we have not been able to book any revenue on the land and construction account for about Rs.7 billion. As on December 31, 2012 our unrecognized income stands at 16.12 billion.

We are also glad to share that our product is well established in 7 cities. About 90% of our new sales are coming from products, which are valued at about 75 lakhs and above. This gives us confidence to venture into the new markets in the upcoming financial year. Sobha has already identified a few land parcels for joint developments in Kochi and Calicut. We also hope to finalize land parcels in Hyderabad, Noida/ Ghaziabad area. We are also hopeful to do better in the coming financial year and confidence to provide a better guidance and chase it with the amount of enthusiasm.

As far as our contracts vertical is concerned, we have a clear visibility of delivering 10.06 mn square feet with expected unbilled revenue of more than six billion in the next five to six quarters.

For the nine months ended December 31, 2012, the company has recorded a top line of Rs.12.82 billion, out of which 9.70 billion was come from real estate operations and 3.06 billion from contracting and manufacturing activity and Rs.45 mn has come from the other sources. Real estate operations contributed 76% and the balance 24% was contributed by contracts and manufacturing.

EBITDA for the nine months period stood at Rs.3.90 billion compared to Rs.2.8 billion and profit before tax stood at Rs.2.21 billion compared to Rs.1.7 billion for the corresponding period of the last year. The EBITDA and PBT are up by 39% and 30% respectively. The profit after tax for the nine months ended December 2012 stood at Rs.1.48 billion compared to 1.10 billion for the corresponding period of the last year. This is up by 34%.

The company continues to maintain operating margin of about 40% on real estate and about 20% on contracts and manufacturing. The income from core operations for the nine months ended December 2012 stands at Rs.8.69 billion vis-à-vis Rs.6.42 billion for the corresponding period of the last year. With, unbilled revenues of Rs.16.12 billion on the sales made so far, out of which we expect a minimum of Rs.2.75 billion to be recognized in the Q4 plus income to be recognized on new sales during Q4, we expect the overall income for real estate to be around 65% of the sales value.

During the Q3 of financial year 2012-2013, the company has recorded a topline of Rs.4.31 billion. Out of which Rs.3.17 billions has come from real estate and Rs.1.13 mn from contract manufacturing and Rs.15 mn from other sources. Real estate operations contributed 74% and the balance 26% came from contracts and manufacturing. The revenue has grown up by 37% year-on-year and 4% sequentially. However, please note that the core income from property development has grown both yoy and sequentially by 40% and 2% respectively.

For the Q3 ended December 2012, EBITDA stood at Rs.1.39 billion compared to Rs.1.16 billion. Profit before tax stood at Rs.798 mn compared to Rs.733 mn. EBITDA has grown up by 20% yoy and PBT by 9%. The



Sobha Developers Limited
January 31, 2013

profit after tax stood at Rs.526 mn compared to Rs.500 mn for the corresponding period of the last year. This figure has gone up by 7%.

We are happy to inform that collection from operations during this quarter is also highest ever. The company during the third quarter has collected 5.38 billion and has spend Rs.3.89 billion in operation leaving a cash flow surplus about 1.49 billion. Out of this surplus, we have spent Rs.379 mns on overheads and marketing activities, leaving a cash surplus of 1.11 billion. This surplus has been utilized towards servicing of interest, taxes and deposits to the tune of Rs.638 mn and also invested in land to the tune of Rs.530 mn and on capex for about Rs.230 mn resulting in the overall excess cash withdrawn to the tune of Rs.285 mn, which has resulted in increase in loan position.

We are reasonably confident that our current operational performance and visibility on upcoming projects will ensure continuous growth in our sales, cash flow, and profitability. The company during the third quarter has repaid loan of Rs. 963 mn and sum of Rs.352 mn is further payable in 4th quarter. The net debt as on December 31, 2013 stood at 13.21 billion. This is marginally higher as compared to a net debt of 12.72 billion during the end of Q2 by Rs.285 mn. The net DE ratio currently stands at 0.62. We hope to bring it down to below 0.6 by the end of this financial year.

For the next financial year the company has got repayment commitment of Rs.3.93 billion. The company has also got sanction facility that it can withdraw the tune of 6.59 billion. This apart the increased cash flow from the fourth quarter onwards in the sufficient enough to repay the commitments. The current cost of borrowing as on December 31, 2012 stands at 13.58%. It is also expected to come down to about 13% in the next couple of quarters.

We are currently developing 24.18 mn square feet of area across six cities in India.As on date we have 43 ongoing projects consisting total salable area of 17.4 mn square feet, out of this 15.24 mn square feet is to our account of salable area, the rest goes to the land owner's share. On our share, we have already sold about 6.83 mn square feet and 8.41 mn square feet remains to be sold. In addition to this 0.14 mn square feet of area is to be sold on completed projects.We expect to realize from the existing customer Rs.18.78 billion and further 58.81 billion from unsold inventory based on current selling price. We also expect to incur 42.77 billion to be spent for the entire ongoing development based on current estimates. This will leave a healthy operation cash flow to the tune of 34.82 billion.

During the 3rd quarter we have completed two real estate projects measuring total developable area of 459,000 square feet at Mysore and Thrissur. On the contractual front, we have about 10.06 mn square feet of contractual projects with the unbilled value of about 6.15 billion on hand to be delivered over a period of next four to five quarters. We see the stability of income from contracting activity with very good visibility. During Q3 financial year 2012-13 we have handed over 0.26 mn square feet of contractual projects.

We may be the first company in India who has delivered more than 300 projects totaling about 55 mn square feet in the short span of 17 years. We are grateful to all the stakeholders who made this to be a



Sobha Developers Limited
January 31, 2013

reality. Before we go to the question and answer session I will briefly handover this mike to Mr. Ganesh who is taking over from me to give a brief introduction and then we can go back to question and answer session.

Ganesh Venkatraman: This is Ganesh hear, nice to be a part of this call. I would like to thank each one of your support and warmth given to Mr. Sharma Ji, and Mr. Baaskaran I would expect same amount of support going forward I am excited to be a part of this journey of Sobha.

S. Baaskaran: We will handover to Mr. Sharma Ji just to concluding that before we take up to the question and answers.

Sharma: I think now we can go ahead with the question and answer session.

Nitin Adnani: Can you please start the Q&A?

Moderator: Thank you very much. First question is from the line of Anubhav Gupta from Maybank. Please go ahead.

Anubhav Gupta: Good evening everyone. Sir can you please elaborate on the land income of Rs.205 mn at PAT level, which you could not book in second quarter? Have you already sold this land and how much, will that flow into Q4?

S. Baaskaran: What we are saying is that we have not been able to recognize in the first nine month about 571 mn of land revenue as part of our income recognition method where when we are selling an apartment the land portion of that sales would have been recognized and was getting recognized still last year. In this financial year onwards that income is not getting recognized, so apple-to-apple this land income was getting recognized last year is not getting recognized this year the impact of that has been above 53 Crores on the topline 30 Crores PBT and on a full set basis about 20 Crores on the PAT basis.

Anubhav Gupta: Right so this will be recognized when you complete the project over the next two to three years?

S. Baaskaran: No, when we touch the threshold limit of 25% then the land and the construction revenue both pro-rata this will start getting recognized.

Anubhav Gupta: Second question is on new launches you have given detailed list of projects, which will be launched over the next four quarters. Can you please tell us out of those how many will be launch in the next two months?

S. Baaskaran: We hope that the serial number 1, the city property Minerva Mill will get launched in this quarter we also hope that the Devanahalli property the another plotted development in Bangalore will get launched in this quarter we also hope to get approval for this St.Mark's road property, Hosakerehalli property as far as Bangalore is concerned. Similarly we do believe that in Mysore the Nadanahalli project also may get launch in next 2 quarter.

Anubhav Gupta: Thanks.

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



Sobha Developers Limited
January 31, 2013

Anand Agarwal: Good evening Sir. Yes. I have a few questions, sir. Firstly, we were really hoping that the revenues this quarter would improve because of what the presales you have been doing. So, if you can just highlight why that has not happened in terms of, has any project crossed recognition threshold? And what are the key projects we expect to cross the recognition threshold in the next, let`s say one or two quarters?

S. Baaskaran: As well of this revenue recognition threshold during this quarter we have four projects which have crossed the revenue recognition and during the next quarter we are expecting three projects to further cross the revenue recognition.

Anand Agarwal: Okay and which are these three projects next quarter?

S. Baaskaran: Like this quarter we have crossed row house in the International City Gurgaon, Mykonos block 3& 4 in Sobha City, Serenita wing 3 in Sobha City. These four projects crossed 25% this quarter. In next quarter we expect villas in the international city Gurgaon, Sobha Habitech in Bangalore, and Sobha Meritta in Chennai to cross the threshold limit.

Anand Agarwal: But, do we then expect the revenue recognition to pick up, because it hasn't happened this quarter?

S. Baaskaran: See, if you see the interview what MD has given on what we have also told in introduction call, we have about 1600 Crores plus of unrecognized revenue, out of which we are expecting 275 Crores to hit in the next quarter this year. The top line of real estate to 316 Crores, against which we are having a committed 275 crs to hit progress happening for this fourth quarter, plus the fresh sales whatever happens during this quarter will come also into the recognized income, so we will have a growth of the real estate income in the fourth quarter, which you are always considering from the first quarter onwards, that the development in property income will have only in the third quarter if it misses up it will be on the fourth quarter.

Anand Agarwal: Okay. Second, once that happens, let us say in the fourth quarter the revenues go up and given that you are running an overhead which is basically staff and staff cost and other expenditure of almost Rs.80 crores, Rs.90 crores on a quarterly runrate, would that mean a sharp improvement in your EBITDA margins?

J. C. Sharma: As far as operating margins are concerned, they are not projected, but whatever operating margins we are communicating, we feel that they will be maintained, but there may not to be significant increase in our salary cost or in theoperating cost and resultant benefit should be flowing in bottom line as well, you are right.

Anand Agarwal: Again I think earlier during the last two quarters you had given the guidance and we would probably do a double digit plus or against 15%, 20% EPS or PAT growth this year, now we would have done close to 148 crores in the first nine months, do we still think that we could do a 15%, 20% growth over the 206 Crores that we reported last year?



Sobha Developers Limited
January 31, 2013

J. C. Sharma: Yes, we are reasonably confident that we should be do a double digit growth in our bottomline, also after considering this quarter results without considering any land monetization. So, we are hopeful that we should be doing better both topline and bottomline even in this financial year as well.

Anand Agarwal: But first nine month you also had land sale right, you almost had like 100 Crores of land sale.

J. C. Sharma: I am talking about tax 48 Crores PAT what we have recognized. Regarding 206 Crores what we have shown in the last financial year with the overall possibility of the company is expected to the higher, than what it was in the last financial year.

Anand Agarwal: Thanks a lot.

Moderator: Thank you. The next question is from the line of Puneet Jain from Goldman Sachs. Please go ahead.

Puneet Jain: Good evening everybody. My first question would be with respect to identification of new cities. Like you have mentioned that you have identified a few new cities. Can you highlight the thought process behind those selections? And specially, why more cities in north India?

J. C. Sharma: We are basically you must recognize this as southern west developer with a desire to become pan Indian player and from that purpose first city be branched out by Pune and then we had also gone now and working in NCR. Now it is easier to identify and get started in the southern cities than in the northern cities due to the cultural advantage and the understanding of the market what we have. It does not mean that we are not looking at the northern market as well. We have been looking for certain land parcels in NCR and we do believe that in this coming quarters which should be able to provide more clarity on the NCR market as well. So, whatever we have been able to be close of the transaction, we have communicated it in our presentation. Whatever is there at the various stages of negotiation as and when those things get completely tied up, we should definitely be informing you and with the Ghaziabad, Noida and Hyderabad coming we may have three to four cities getting addressed in the coming financial year as well.

Puneet Jain: So I can understand Hyderabad, but why also include Ghaziabad and Noida when you have got so much more we can do in existing cities you are present in?

J. C. Sharma: We are doing there. Bangalore we consider as a matured market we are able to sell our products in our price rent reasonably well. Now we need to penetrate into the other market where we see that there is surplus cash flow from operations what we are generating and as we have been restating every time that keeping the debt equity into mind, this surplus cash flow we should utilize optimally and for that purpose all the initiatives have been taken and going forward we will see far superior results once the income from this newly identified cities, also start flowing into our P&L account.

Puneet Jain: Okay. And to the extent, can there be further changes in debt or you plan to keep debt level constant?

J. C. Sharma: Pardon.



Sobha Developers Limited
January 31, 2013

Puneet Jain: What will be the debt?

J. C. Sharma: On quarter-on-quarter basis there can always be some decrease or some increase depending upon whether you got an opportunity or did not get an opportunity, but some biggest picture point of view whatever we will be doing there with the profits and on that basis the resultant benefit what we can of little bit increase in the debt cost supported by the free cash flows, would like to be used either in getting into these opportunity or investing into commercial asset.

Puneet Jain: Okay. But, what about the absolute level of debt?

J. C. Sharma: 13,020 Crores is the debt. Again it will be between 0.6 only, but one need not have to worry. Look at we collected in the last quarter 538 Crores more than what we sold in the real estate side 533 Crores. We feel that revenue also getting kicking in, the cash flow already has started flowing and the sales momentum hopefully to continue we will be generating enough cash flow to sustain operation they will keep investing in our existing project which we have been doing as well as investing into this kind of opportunity.

Puneet Jain: Thanks a lot.

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

Samar Sarda: Hi everybody, good evening and sir congratulations on yet another good operational quarter. Sure. Sir, I had a few questions. One, with regards to investments in to new acquisitions. You made payments of 53 crores in this quarter. So, you basically acquired two JDA projects, one each in Calicut and Cochin. And you also added some land in Coimbatore. So the entire payment is for these three land parcels or you have done some payments for additional land parcels which are yet to come on books?

J. C. Sharma: Significantly the payments have been made for these parcels only. And also the Chennai land also has been added as a joint development for that also the JDA was signed and there may be some small balancing payments here and there on an ongoing basis.

Samar Sarda: Okay. And sir, this Chennai land is the same land which was added in the second quarter?

J. C. Sharma: Of course, but JDA project was in the last quarter.

Samar Sarda: Sir and you mentioned that you might look adding up Hyderabad, Noida and Ghaziabad since you have pointed out on these three cities, can you indicate what amount of land expense and sizes would be coming in these three cities and over how many months?

J. C. Sharma: It is bit premature at this point of time, but the broader guideline what we are communicating is that, whatever money we are spending it should be primarily out of our cash flows and debt equity whatever we have set off for ourselves of 0.6, we should be operating within that.

Samar Sarda: Sure, sir. Sir, and a couple of bookkeeping questions. One, these 23 crores of capex was relating to what?



Sobha Developers Limited
January 31, 2013

J. C. Sharma: For the construction purposes, for some tower cranes, bobcats and others primarily in Delhi and in Bangalore.

Samar Sarda: Sir, with regards to revenue recognition, now you've recognized four new projects have come into recognition for this particular quarter, usually it is seen when new projects are added up for revenue recognition, there is a blip in the revenue recognized. But, we've shown constant revenue recognition. Of course construction is also moving fast, but shouldn't there be an increased revenue recognition shown because of four high value projects getting added up?

J. C. Sharma: Whatever sales we have done 1540 Crores in the current financial year, close to 700 Crores worth of sales they have not qualified for any recognition either land or construction, then due to the new accounting guidelines 53 Crores worth of revenue which could have recognized in the financial year we could not. So whatever sales, which have happened on the 25% with various thresholds that come only, could be recognized. But the silver lining is 275% is there almost in the kitty and I have given the answer to someone's query that though we are at 148 Crores at PAT level we hope to do better than the last year on our bottomline and on our topline which means that in this quarter we hope to recognize quite a bit of revenue as we move forward.

Samar Sarda: Actually it was more from the projects, which were recognized, but I'll take that top line and something on the contractual projects like we have made money from a cash flow perspective on a contractual projects in this quarter and we did not made money FY12 in nine months, so what would be the guidance for the coming quarter and the coming 12 months from the contractual projects from a cash generation point of view?

J. C. Sharma: I think we always make money on the contracts which cost plus versus 20% margin have been always there. The work in progress that is the usual size but going forward also 600 Crores plus of the unbilled revenue is there which is as Baaskaran was telling in the next four, five quarters sign, they will be billed and money collected.

S. Baaskaran: Samar, to add what Sharma Ji said if you are part of the last concall also, we told that the gap what you are seeing in the cash flow negative on contracts was only due to time and difference, where the work has happened there were delays in raising the getting the purchase of amendment which we told that it will happen in the third quarter which has happened, so going forward you will not find the step of mismatch and definitely this should be positive only and as I said 614 Crores is there in the kitty to be build in the next four to five quarter.

Samar Sarda: Thanks a lot for taking my questions.

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

Sameer Baisiwala: Good evening. Just wanted to check on the pricing environment over last three to four months for the same projects which are there in the market for Sobha have you taken any price increases?



Sobha Developers Limited
January 31, 2013

J. C. Sharma: Yes Sameer ji, we have taken the price increases.

Sameer Baisiwala: This is across the board and is it what is the rough magnitude of this?

J. C. Sharma: Not across the board, but to the best of my knowledge in the Sobha City there have been a couple of revisions. In Sobha Habitech also there has been revision one time after the project while launched, on the Sobha Elite and Aspire also, there has been a small revision, in Delhi also we have revised not in this quarter, but in the last quarter some revision has happened. In Pune we did not do much of revision, but this quarter some revision had happened. Chennai hardly any revision has happened. Coimbatore hardly any revision has happened, this should also hardly any revision has happened.

Sameer Baisiwala: And wherever it has happened, it's like ballpark 8%, 10% or different?

J. C. Sharma: 5% to 7%.

Sameer Baisiwala: Okay and what is the outlook going forward next six, nine months?

J. C. Sharma: We believe that we should be doing much better in this quarter from the new sales point of view also, this month has begun with a good note, which gives us confident that while we are 2.68 mn, but probably the first time ever we should be crossing that one mn, 30+ of new sales, with record sales revenue as well. So hopefully, I think as things look better, interest rates also should start declining 53% of our customer still do not go for loan, the policy of the customer remains good, so as such not unduly worried about as far as the environment or the expectants of the product at these prices are concerned.

Sameer Baisiwala: What I was trying to get also, what is the pricing outlook for next six, nine months? Would you be taking more increases?

J. C. Sharma: Basically we try to protect to EBITDA margins and whenever we find that somehow some cost increase has happened, wherever the volumes do not get affected, like I was telling in Sobha City Bangalore there has been more price increases, but the volumes also there has been the best. So we are ensuring that we will not impact our volume and find that there is a demand which little bit, little bit increase is done, so that the blended margin somehow remains what we are looking for.

Sameer Baisiwala: A quick clarification I think you mentioned that the new sales of 533 Crores and the cash collection also catching over 537 Crores, but I think the real estate cash collection was 388, actually it has not?

J. C. Sharma: You are right; there I talked about sorry, I should have clarified. About 150 Crores was collected from the contract and real estate gave us 388 Crore, you are right.

Sameer Baisiwala: Okay and just small clarification slide 21, it shows almost entire debt 1400 odd crores as short-term borrowing sitting in current liability?



Sobha Developers Limited
January 31, 2013

S. Baaskaran: This is because of the schedule 6 requirement, like short-term borrowings if you ask me for the next 12 month is 395 Crores only.

Sameer Baisiwala: That is fine.

S. Baaskaran: Because of the requirement of the guideline to present certainly it is coming as short-term borrowing.

Sameer Baisiwala: Thank you very much and Baaskaran good luck to you.

Moderator: Thank you. The next question is from the line of Tejas Sheth from Emkay Global. Please go ahead.

Tejas Sheth: Sir just one question on what will be the capex for Q4 as well as for FY14 budget?

J. C. Sharma: Capex for the Q4 should be normally about 15 Crores to Rs. 20 Crores every quarter; we may be spending to take care of our increased construction activity as newer projects also start getting operationalized.

Tejas Sheth: Okay, any land payment and outstanding to be made in the coming couple of quarter?

J. C. Sharma: Not much, they have expected if I am going for the newer opportunities I may have to spend money.

Tejas Sheth: How close are we in the deal for this Noida-Ghaziabad belt, because that is part of your launch pipeline?

J. C. Sharma: We have confident that we will not able to put it on that launch pipeline, let us hope it may happen coming month also it will take couple of month as well.

Tejas Sheth: And what kind of land parcels you are looking in these areas? I mean, they are going to be large land parcels?

J. C. Sharma: There will be around 802 mn square feet of development.

Tejas Sheth: That is it. Thank you.

Moderator: Thank you. The next question is from the line of Abhishek Bhandari from Macquarie Securities. Please go ahead.

Abhishek Bhandari: Good evening. Sir I just wanted to know have you planned any land sales in the coming quarters?

J. C. Sharma: No Abhishek. We have not planned any land sale in the coming quarter.

Abhishek Bhandari: Okay. And so secondly, sir what is your anticipated CapEx for your commercial projects in the next six to 12 months especially on this APMC thing and the St. Mark's Road, if these projects were to start?



Sobha Developers Limited
January 31, 2013

J. C. Sharma: Capex as I said we are budgeting about 20 Crores or so, on a quarterly basis, which should be sufficient enough for us to continue with our ongoing normal as well as on the new projects including APMC launch.

Abhishek Bhandari: Okay, how are you planning to position this project, will these be for sale or will you keep them on your books for leasing purpose?

J. C. Sharma: We cannot say, because if it is the public private partnership, with our right to exploit this commercial opportunity for the next 60 years. Whether we will have the partner or not it depends upon the condition which will happen or evolve over a period of time. I think then today initially when start the construction that escalation and other costs or not very high, we hope that from our operational cash flow we should be able to fund it without infecting our debt equity.

Abhishek Bhandari: Okay and sir my last question is that for the first time I think we are hearing about plotted development or plotted sales from you in Bangalore market?

J. C. Sharma: We have already there in Bangalore and Mysore also we have already there.

Abhishek Bhandari: Thanks a lot Sir.

Moderator: Thank you. The next question is from the line of Bhaskar Chakraborty from IIFL. Please go ahead.

Bhaskar Chakraborty: Hi sir. Could you please tell me what is the current size of your land bank?

J. C. Sharma: Of course if you look at the page 26 of the land bank size, Baaskaran.

S. Baaskaran: Total we have about 2630 acres out of which our share is 2525 acres. This will give me a total developable area of about 222 mn over a period of years as we launched the project.

Bhaskar Chakraborty: So this is the sellable area?

S. Baaskaran: This is the sellable area; you are right projected sellable area where from the FSI available today.

Bhaskar Chakraborty: 222 mn square feet Sobha economic interest of sellable area?

J. C. Sharma: You are right.

S. Baaskaran: 220 to be precise.

Bhaskar Chakraborty: 220 and what is the current unbilled receivable numbers?

S. Baaskaran: It is 16.14 billion.

Bhaskar Chakraborty: No on the balance sheet?



Sobha Developers Limited
January 31, 2013

S. Baaskaran: On the balance sheet?

Bhaskar Chakraborty: Balance sheet, unbilled revenue?

S. Baaskaran: Balance sheet one minute. 382 Crores.

Bhaskar Chakraborty: Thank you very much.

Moderator: Thank you. The next question is from the line of Atul Mehra from Edelweiss. Please go ahead.

Atul Mehra: Good evening everyone. My question is on the Gurgaon project in terms of sales offtake. How are we looking at that currently because in terms of this quarter we have seen I think some amount of sharpness the sale side at 103,000 square feet last year number than last quarter, if we could just throw some light on that?

J. C. Sharma: If you look at in the last financial year also, the project was launched in the last month of July, we did about 323,000 square feet of new sales, valued at 276 Crores in the first nine months of this financial year. We have done 376,000 square feet valued at about 355 Crores, we believe that whatever we have targeted for ourselves, we have targeted ourselves about 400 Crores in our 20 billion sales value. We will be crossing that.

Atul Mehra: Okay, so in terms of runrate how do we see this happening in terms of square feet going forward?

J. C. Sharma: We hope that every quarter it will be hope to do this number like Gurgaon 1,20,000 square feet a quarter.

Atul Mehra: Right and my second thing would be in terms of sales guidance if you have for FY14 in terms of how much are we targeting to sale in FY14 entirely? So 3.75 is for this year. What is the targeting in terms of sales in FY14?

J. C. Sharma: We will be sharing it with you in the coming quarter for the next financial year.

Atul Mehra: Right, that is it from my side. Thanks a lot.

Moderator: Thank you. The next question is from the Prem Khurana of B&K Securities. Please go ahead.

Prem Khurana: Good evening Sir. During first nine months we have had booking growth value terms growth of 25% and it is largely seem to have driven by realization 14% volume growth of 10%. Do you see any further scope improvement realization, that it is already increase 14%, so do you see it is going forward?

J. C. Sharma: Realization in the P&L account you are talking about?

Prem Khurana: No, in the first nine months you have done around 15 billion of bookings and if you were to look at volumes in mn square feet terms, growth is around 10% on YOY basis across nine months, respectively with around



Sobha Developers Limited
January 31, 2013

14% improvement realization you seem to have taken improvement around 14% on your realization, So do you see any further scope for improvement in realization going forward?

J. C. Sharma: We work in the market-driven environment. When we feel the inflationary pressure can be contained and we need not have to suffer input cost increase and we are selling to the delivering after a couple of years. We will also not to be increasing in prices, primarily the increase happens to offset, the overall increase in our construction cost. So basically we're trying to mitigate if we see that the EBITDA margins, the operating margins we can continue to manage and maintain, which are well within the industry standard.

Prem Khurana: Okay and Sir, wherever we've taken price hikes and wherever we would have taken in the recent past, have we seen any backlog from customers or the sales have been smooth for us all the time?

J. C. Sharma: Not at all. If you notice, Bangalore, where we have taken little bit sequent price hike, the sales has been the best. We do not know also whether you priced the product rightly or not sometimes, so with the sales flowing in and with the momentum you understand that what kind of the pricing we should be doing and when you do not say the inventory finished stocks we need not have to unduly worry, we are getting good cash flows, the cash flow 388 Crores is what we have collected against 536 Crores what we have sold. So reasonably clear and confident that these are quality customers who will also be getting value for money when they buy our products.

Prem Khurana: Okay, and sir just a small clarification on slide #8 you have this payable location wise stock details. There you have this column increase or decrease in of existing stock what exactly is that.

S. Baaskaran: No, but this is because of the change in the emission when we go for the trail some amendment it is only because of those things.

Prem Khurana: But sir 0.57 mn square feet of reduction area seems to be little on higher side?

S. Baaskaran: We are revised the plan to come up with some rows into high raised range apartments. So automatically this will added.

Prem Khurana: Okay, sure and in last quarter area not afford for sale in case of Bangalore stood at around 2.04 I understand I mean reduction of 0.5 is on account of this increase or decrease in existing kind of area. So but what would you attribute the remaining part to as and from 2.04 it is come off 2.94 we have not seen any new launch in Bangalore during the quarter so what exactly was the reduction on account of?

S. Baaskaran: See the launch is see one is the launch, one is not of existing launch, where we offering for sales so it is not that get added it gets reduced automatically. One new project has been offered for sales this quarter.

Prem Khurana: Okay, but it I mean closings stock has not increased on sequential basis so I was hope might during this last quarter and again it is around 4.41 so it is not move much but area not offered for sale as come up by 1 odd mn square feet?



Sobha Developers Limited
January 31, 2013

- S. Baaskaran:** I will take this call offline.
- Prem Khurana:** Yes, sure sir I will take it off line.
- Moderator:** Thank you. The next question is from the line of Abhinav Sinha from CLSA. Please go ahead.
- Abhinav Sinha:** Good evening sir. My question is first on the new cities that you are looking to expand. Will you do your own construction here or even now looking to appoint outside contractors?
- J. C. Sharma:** Wherever we are going we will only be doing our own construction. We will never for appoint any outside contractors to do our building.
- Abhinav Sinha:** Okay, and for the new deals these are likely to be all JDAs or still in looking for some private equity deals here?
- J. C. Sharma:** Currently what we are looking at is all JDA.
- Abhinav Sinha:** Okay. Sir on the Gurgaon project do you have an idea of what was the revenue recognized this quarter can you share that with us?
- J. C. Sharma:** Yes, about 40 Crores of revenue was recognized in this last quarter against the row houses, which were sold.
- Abhinav Sinha:** Okay, and what is the contribution to Gurgaon to the order book right now?
- J. C. Sharma:** Gurgaon.
- Abhinav Sinha:** To the order book 1600 Crores that you have unbilled?
- S. Baaskaran:** It is about 530 Crores.
- Abhinav Sinha:** That is at the end of Q3?
- S. Baaskaran:** Yes.
- Abhinav Sinha:** Okay, Sir on the guidance that you have given 275 Crores roughly will be recognized in next quarter from unbilled revenues. Last quarter if I remember that figure was about 370 Crores right?
- S. Baaskaran:** Yes.
- Abhinav Sinha:** So how has that number moved, so you are saying that 100 Crores of that quarter revenue of this quarter and the incremental 200 Crores of revenue that we saw they came from new sales?

- S. Baaskaran:** No it is other than that 116 came from the new sales 200 Crores came from the old sales.
- Abhinav Sinha:** Okay, and so for fourth quarter so this 275 will come and suppose 200 Crores additional can come from new sales that is what we are looking at.
- S. Baaskaran:** If the sales happen the pattern there we have already started recognition revenue it can sell, but it all depends upon which product is selling now. That is the challenge which will be able to only bill up in the fourth quarter.
- J. C. Sharma:** So primarily there is a broad guideline remains that given your topline and bottomline should be higher than the preceding financial year and then there is a scope to recognize more revenue and more stock, but the remaining two months sale will determine the total direction because as the sales happen of both projects the revenue will start getting recognized or not I cannot comment.
- Abhinav Sinha:** Okay, still lastly are you sticking to the volume sales guidance?
- J. C. Sharma:** Yes we are sticking to the volume sales guidance also very much.
- Abhinav Sinha:** Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Rakshit Ranjan from Ambit Capital. Please go ahead.
- Rakshit Ranjan:** Good evening Sir. Sir just one question on your current delivery runrate versus where you are seeing that going in FY'14 can you throw some numbers on the current FY'13 run rate for delivers and FY'14 please?
- S. Baaskaran:** For the coming fourth quarter we are targeting 2.3 mn of deliveries both in real estate and contract put together of this 0.78 is in Real estate and 1.52 mn to the contracts.
- Rakshit Ranjan:** Right if you can give just the real estate number Sir?
- S. Baaskaran:** Real estate number 0.78 mn.
- Rakshit Ranjan:** Okay and FY'14 expected runrate would be roughly?
- S. Baaskaran:** FY'14 we will take this offline. I will give it to you.
- Rakshit Ranjan:** But from a medium per term from a three, to four year perspective where do you see the, you expect for a 7, 8 mn square feet of delivers happening on an annual basis?
- J. C. Sharma:** It should happen, we feel that with currently we have been executing 6 mn square feet or so and it can be expanded to above 10 mn square feet. That kind of a comfort we have. So maybe at some point of time when you have three to four years horizon this kind was 50 (ph) looks possible.



Sobha Developers Limited
January 31, 2013

Rakshit Ranjan: Thank you that is it from my side.

Moderator: Thank you. The next question is from the line of Vineet Chandak from IDFC Securities. Please go ahead.

Vineet Chandak: Sir, on your plans to enter new cities on a conventionally understanding incremental understanding over the last three years was the real estate is increasingly becoming a more of a regional play and you seem to be sort of defying that growing understanding a little bit. So how do you react to that because most we have seen most of the players typically withdrawing from the geographical diversification and trying to focus more on their home territories?

J. C. Sharma: It is a good question. See what we must have also been observing is that the company which are generally professionally run, they are expanding their foot print. We as a contractor we have executed projects in 22 cities with the only gap in construct versus your real estate is that you need to have a land in your book or in your partners book that you can do JDA, otherwise rest of the marketability of our product so the demand of our projects or the execution capability had always remained intact. That is what also we have certain hit primarily with the southern based city where we understand the laws. As far as NCR is also concerned our experience had been so far a quite good and we believe that since we have only one product by the way of villas, which should have some diversification so that we are looking for these opportunities to see that we can complement that the band what we have been able to establish in NCR also by having certain roof housing projects where I can start selling apartments also. Incase of Hyderabad we believe that the volumes have started picking up and they have good parcels otherwise available which may not be available after few quarters. So real estate when you get in you take, four years to get out minimum. So it is maybe a good entry point for us to take advantage of the situation.

Vineet Chandak: But sir in terms of whenever you are going to enter new geographies the management of the local environment in terms of getting approvals and all will you always leave it to the partner or you will at some stage I mean is there a understanding that you are starting with?

J. C. Sharma: It all depends who is your partner. We have already identified the leaders for these regions so these project managers and the regional heads have been identified and then they will work with the approvals process. So we do not foresee much of a problem in that front as well.

Vineet Chandak: Sir especially also we are right now for us apart from Gurgaon, Bangalore essentially is a high realization market and when we are trying to get out of Bangalore I am not sure there are too many markets outside of NCR, in Mumbai and Bangalore where you will probably get the kind of realizations you get in these three sort of cities. So why are you trying to go I mean is there a saturation in Bangalore in the kind of market that you cater to even this side that we sell almost about only 2 odd mn square feet what is the size of the market which we catering to in Bangalore?

J. C. Sharma: See there is no as such saturation. What we believe that our current execution capability right which would be able to utilize it appropriately. We believe that is the kind of product we are capable of delivering currently 6 mn square feet gradually it can go up to 10 mn square feet and this we hope and we want that

let it be used to maximize our revenue and for that we are not differentiating the geographies where we understand that the geographies have the customers what we are looking for. Maybe at some point of time with the kind of land parcels I have in Bangalore or in Chennai or in Cochin when we go for the largest formats and we felt that yes there is going to be a demand for our kind of a product or we develop some kind of a market over they so called a affordable segment maybe then some kind of jumps will come but at since today we understand what we produced currently much better and we believe that this kind of a product offerings in this city what we have mentioned kindly given.

Vineet Chandak: But Sir how much you are doing about say about 2.5 mn square feet in Bangalore now how do you see this I mean how much growth can you really do in Bangalore say over next three to five years can it be a five mn square feet market for you or 10 mn square feet potentially at some stage I mean or it is a certain fine I would limit to the sale you can get in Bangalore for say?

J. C. Sharma: There has always be certain finance limits on sales as well as on execution also but the point what I am trying to say is currently we believe that with kind of capacities what we have to produce we are using it optimally. We are in the three bedroom flat market and this is what we know the best, we know the customers, we know the product, we know the specification, somewhere if need we have to get into the other markets we need to develop those skill sets we do not have to do.

Vineet Chandak: Thanks very much.

Moderator: Thank you. The next question is from the line of Prakash Agarwal from CIMB. Please go ahead.

Prakash Agarwal: Good evening Sir. Sir I just wanted to understand in terms of we have all seeing some macros turning positive interest rate in regulatory environment getting little better but what is the challenge ahead that you see in the sector as a whole and maybe for your company?

J. C. Sharma: See primarily it is the regulatory challenges which impact us the most in fact it locks in your capital, and it takes inordinately longer time than what you invest in. So this is one thing which we have been trying our level best to see that how do we minimize more or less all other things we feel like they are manageable and memorable sort of the thing we do not worry too much. The macroenvironment as you correctly said this is becoming better in Indian context because this is the acceptance of the kind of price points at which we are selling it is a very, very welcome sign wherever whatever we are selling, which gives us the confident that the going forward, we can improve the volumes also and we can also ensure that if there are inflationary pressures that can also be passed on.

Prakash Agarwal: But what I am trying to understand here is from a demand perspective is the customers pocket allowing you a 10% kind of price realization hike which we are seeing in most of the projects so going with this sustainable going forward because at one end we are seeing macros little getting better but from an individual perspective salaries are flat to little better year-on-year and cost have increased too much?



Sobha Developers Limited
January 31, 2013

J. C. Sharma: If you look at our buyers profile site they pay 15 we will realize the 10% of our customers today are in the category of 21 to 30 another 38% of our customer age, which have been an age group of 31 to 40.

Prakash Agarwal: I understand that, what I am trying to understand is our new?

J. C. Sharma: 53% of the customers they do not borrow 25% of these customers they are an NRI customers. I do not feel that they have any problem and then we talk to the bankers they say that most of the customers they clear their loan over a period of six to seven years. So from the pricing point of view we still believe that the pricing is right. It is rather the customers who want after they buy that the price substitution should be faster than what we desire.

Prakash Agarwal: Okay and second question from I know your customers which belong to IT services and all theirs view it is not your sales are not dependent on that but have you seen any change post say November, December in terms of more customers from the IT background or something like that?

J. C. Sharma: Yes if you look at our preceding quarter's presentation the IT professionals used to constitute 37% of our total sales. Now it has become 41% so the IT sectors as far as we are concerned it is continues to remain effective and almost all my conference calls, I used to maintain that while access to the IT companies may have some kind of head wins but the people who had joined IT sector about 10 years, 12 years back now those numbers of people are much bigger than the one year therefore two years back or three year back kind of a thing and they are coming and buying the product in large numbers.

Prakash Agarwal: Okay, and is it true for your contractual business also you are see more I mean unfortunately I have not received your presentation but?

J. C. Sharma: It is uploaded but the visibility on the contracting side is also reasonably good about 10 mn square feet of contracting activity we have on hand, which will take next four to five quarters for us to execute and we do not foresee much of a problem in that front.

Prakash Agarwal: My question is have you seen any change in the last two months post more visibility to the IT sector in your contractual business?

J. C. Sharma: I am not that way a master on this front if you people know better.

Prakash Agarwal: Thanks.

Moderator: Thank you. As there are no further questions I would now like to hand the floor over to the management for closing comments.

J. C. Sharma: Thank you all of you for taking your time out and listening to us. We do believe that the real estate with the declining interest rates and somewhere inflation getting calibrated as well as the kind of indications whatever we have got from Ajay Maken and from the other central ministers this time this budget may



Sobha Developers Limited
January 31, 2013

provide some kind of a short-term kind of incentives to our sector and a God willing if that kind of a thing happens it will definitely give a lot of comfort to the industry the liquidity of the industry improves if the benefit is given on the services sect side, on the taxation side, on the availability of loan at a lower rate of interest that kind of a thing hopefully this year onwards real estate should be seeing better days. One second Baaskaran also wants to say something.

S. Baaskaran: Thank you all of you for giving me the support during the stint and I am sure that you will continue to give the same support and warmth to Mr. Ganesh as well and I wish to be in touch with you on my new assignment we move forward. Once again thank you for all of you for all your support. Thank you very much.

Moderator: Thank you. On behalf of Axis Capital that concludes this conference. Thank you for joining us. You may now disconnect your lines.