



“Sobha Developers 2QFY13 Earnings Conference Call”
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MANAGEMENT: **MR. J.C. SHARMA – VICE CHAIRMAN & MD, SOBHA DEVELOPERS**
MR. S. BHASKARAN – CFO, SOBHA DEVELOPERS
MR. KISHORE KAYARAT – CS & COMPLIANCE OFFICER

MODERATOR: **MR. RAKSHIT RANJAN – ANALYST, AMBIT CAPITAL**



Moderator: Ladies and gentlemen, good day and welcome to the 2QFY13 earnings conference call of Sobha Developers hosted by Ambit Capital Private Limited. As a reminder for the duration of this conference, all participants' lines are in the 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 the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. At this time, I would now like to hand the conference over to Mr. Rakshit Ranjan. Thank you and over to you sir.

Rakshit Ranjan: On behalf of Ambit Capital, I welcome you all to the second quarter earnings call of Sobha Developers. With us on the call is Sobha's senior management including Mr. J.C Sharma – Vice Chairman & Managing Director, Mr. Bhaskaran – Chief Financial Officer, and Mr. Kishore Kayarat – Company Secretary & Compliance Officer. I will hand over the call to Mr. J.C. Sharma for his opening remarks. Over to you sir.

J.C. Sharma: It gives us immense pleasure to communicate with you through this con-call hosted by Ambit Capital to declare our limited review results for 2Q and 1H for FY12-13. The real estate sector seems to coming out of difficult times. We are clearly seeing some positive developments taking place. For instance, there are reductions in the interest rates for home buyers, banks are willing to fund more to real estate companies again, and the volumes in cities like Bangalore and Gurgaon have started improving. The proactive monetary policies of the government like encouraging FDI in the retail and aviation will have a positive impact on our industry as well. The RBI's recent CRR cut of 25 basis points should also benefit the industry, and we believe that the worst for the real estate sector seems to be over for now. We also know that we are a few quarters away from a steady growth path, as headwinds continue to impact the macro environment. We are facing challenges like high input cost including labour, increase in land prices, and non-availability of quality manpower. Interest rates remain high. The overall environment globally and in India remains worrisome and difficult.

In this backdrop, the company, during 2Q for FY2012-13, has sold new space of 0.95 million square feet worth Rs.527 crores at an average realisation of Rs.5,575 per square feet. The sales value during the quarter has gone up by 8.6% on a YoY basis and 10% on a sequential basis. We have grown marginally by 1% year-on-year and 13% on a sequential basis. At the end of 1HFY13, we have achieved cumulative new sales of 1.78 million square feet, valued at Rs.10.07 billion against the guidance of 3.75 million square feet estimated at Rs.20 billion for the whole of the financial year. The sales value achieved during 1HFY13 is up by 28% year-on-year and fresh sales in area have gone by about 11%. We are confident of achieving this guidance of Rs20 billion of sale value during FY12-13.

During this quarter, we launched two projects, one was in Bangalore, Sobha Morzaria Grandeur, and the other was at Thrissur, Sobha Jade, totaling about 8,69,000 square feet. In the first half, we have launched projects to the extent of 1.14 million square feet.



During 2QFY12-13, the company has recorded a top-line of Rs.4.16 billion, out of which Rs.3.16 billion has come from real estate operations and Rs.984 million from the contracting and manufacturing division and Rs.14 million from other sources. The real estate operations contributed 76% and the balance 24% was contributed by the contract and manufacturing division. We also monetised one of our small land parcel at Coimbatore for Rs.64 million and have received the full consideration.

The revenue has grown up by 40% year-on-year, but it has declined marginally by 4% sequentially. It was mainly on account of a much higher land monetisation of about Rs.96 crores in the preceding quarter. However, please note that the core income that was from the property development has grown both year-on-year and sequential basis by 35% and 29%, respectively. Also, income from real estate represents 59% of the new sales value when compared to 50% of the new sales in the preceding quarter. For the second quarter ended 30 September 2012, our EBITDA stood at Rs.1.30 billion and profit before tax stood at Rs.714 million compared to Rs.987 million and Rs.552 million respectively for the corresponding period of last year. The growth is up by 31% and 29%, respectively. The profit after tax stood at Rs.500 million compared to Rs.340 million for the corresponding period last year, which is up by 47%. The EBITDA margin for the quarter ended was at 31% as against 28% in the preceding quarter. Also, the PAT margin has increased to 12% during this quarter from 10% as compared to the preceding quarter.

When we talk about the half yearly performance, recorded top-line of Rs.8.51 billion for the half year ended 30th sept-12. Out of this, Rs.6.54 billion has come from real estate operations and Rs.1.94 billion comes from contracting and manufacturing activities. Real estate operations contributed 77% and the balance 23% was contributed by contracts and manufacturing. Our EBITDA stood at Rs.2.51 billion and profit before tax stood at Rs.1.41 billion compared to Rs.1.64 billion and Rs.970 million for the corresponding period of last year. This is up by 53% and 45%, respectively. The profit after tax stood at Rs.949 million compared to Rs.600 million for the corresponding period of last year. This is up by 58%.

The company continues to maintain an operating margin of about 40% on real estate and about 20% on contract and manufacturing. The EBITDA margin for the half year stood at 30% against 29% for the corresponding period last year. As on 30 September 12, we have unbilled revenue of Rs.14.72 billion on the sales achieved so far. We expect that some of this unbilled revenue will start hitting our top-line from the third quarter onwards. We are also confident that the income from core operations will increase and it will also help us in growing our bottom-line in the coming quarters. As we reach the threshold limit of 25% of the construction income in the next two quarters from projects at NCR and Bangalore.

As informed earlier, due to the new income recognition policy, there has been lower income recognition to the tune of Rs.480 million and the lower profit before tax of Rs.244 million in the first half. The company during the second quarter had collected Rs.4.55 billion and had spent Rs.3.17 billion in our operations leaving cash balance Rs1.38 billion. Out of this cash surplus, we have spent Rs.420 million on our overheads and marketing activities. We have also



spent Rs.570 million towards dividend and Rs.410 million towards interest and also have invested about Rs160 million on our fixed assets.

The expected cash flows from ongoing real estate and the surplus operation cash flows from the projects to be launched should give us enough space to maintain our targeted debt-equity ratio between 0.5 to 0.6 as we move forward. We have repaid loan of Rs.695 million during the second quarter and the sum of Rs1.32 billion is further payable in the remaining two quarters. The net debt as on 30 September 2012 stood at Rs12.92 billion. It is higher as compared to the net debt of Rs11.81 billion during the end of the first quarter. The net debt-equity currently stands at 0.62. This increase in the net debt is mainly due to investments in the land, which we have started doing from this quarter onwards. The current cost of borrowing as on 30 September 2012 stands at 13.56%.

As you are aware, our operational performance in the last four quarters has improved significantly. We are generating sufficient cash flows and maintaining our margins in a tough environment. We have reinvested these surplus cash flows opportunistically to improve our business prospects further. We have taken steps in the larger interest of our stake holders to improve their returns such as buying back the equity from our partners in Sobha City, Thrissur, as well as buying back the residual 81% of interest from the Pan-Atlantic in the last year. We have also invested in a FDI compliant project in the last quarter. We feel that all such steps will help us in improving our performance further as the projects starts getting reflected in our top-line and bottom-line. We have also entered into an MoU for a 19-acre land in Chennai and also signed a public-private partnership agreement to develop a 30-acre spacious land parcel owned by APMC on Bellary Road in Bangalore with the Government of Karnataka. Work on all these projects are expected to begin from next quarter onwards.

We are currently developing about 24.54 million square feet of area across seven cities in India. As on date, we have 39 ongoing projects consisting of total super built-up area of 17.35 million square feet. Sobha has an economic interest in 15.20 million square feet and of this, 17.35 million square feet is under development. We have already sold about 6.06 million square feet and have 9.14 square feet of unsold inventory to be sold in the coming year. In addition to this, we believe that we will be able to launch projects in the next four quarters of about 8.6 million square feet which will further get added to these numbers. We expect to realise from our existing customers about Rs17.20 billion and we believe that we should be able to sell equivalent to Rs.61.63 billion from this unsold inventory, which we have on current selling prices. We also expect to incur Rs43 billion on completing our current projects which should leave us with an operational cash flow surplus of Rs.35.6 billion. In this quarter, we have completed one real estate project measuring 56,000 square feet at Thrissur. On the construction front, we currently have 9.93 million square feet of visibility with unbilled revenue of about Rs5.93 billion. We hope to deliver these projects over the next two years. We also see stability of income from this construction division as lots of BOQ is likely to get converted into purchase orders as we move forward and complete these ongoing contracting projects. In this quarter, we handed over 0.71 million square feet of contractual projects. Once



again I would like to thank you for your participation and I now leave the floor for your questions.

Moderator: We will now begin the question and answer session. We are going to take our first question from the line of Anubhav Gupta from May Bank. Please go ahead.

Anubhav Gupta: If you look at your 1H sales performance, you already have 50% of the full-year guidance of Rs.20 billion, so don't you feel at this time that you should increase the guidance for H2 as it is supposed to be quite strong compared to 1H given festival season coming up in November and December?

J.C. Sharma: This time in October, the first half was inauspicious because of the shradh month and there have been lots of holidays as well. So October had not been as good as what we had anticipated, but nevertheless not bad at all. We believe that with the guidance what we have given of achieving another 2 million square feet of new sales and achieving 20 billion of new sales in itself was a good guidance given the situation in which we had hoped to achieve it. Simultaneously we have started investing money in our projects and believe that there will be a significant improvement in our top-line in the coming two quarters, which should help us in showing higher income than what we are showing currently from our real estate operations.

Anubhav Gupta: In 1H, you have launched projects with an area of 1.14 million square feet, so this leaves us at 3H with new launches of 3.16 million square feet. Do you think this is achievable?

J.C. Sharma: Yes, it is achievable.

Anubhav Gupta: On the land parcel sale of Rs.64 crores approximately, how much profit did you make?

J.C. Sharma: It is Rs.64 million or Rs6.4 crores. We might have made a margin of about 35% on the same.

Moderator: Next question from the line of Punit Jain from Goldman Sachs. Please go ahead.

Punit Jain: How do feel about this land buying strategy going forward given the fact that you have some existing land bank as well. How do you plan to balance new land acquisition as well as trying to monetise existing land banks?

J.C. Sharma: When we are looking at the new land buying or certain opportunities like that, these are quite opportunistic in a sense where we can start the project and ensure that we can improve further from our existing sales to get into some higher sales because both sales would have been incremental. As far as land monetisation is concerned, we have done land monetisation of those lands which we have not planned to develop at least in the coming 2 to 3 years. Otherwise, the land bank is concerned of total 2,600 acres. Some of this land, we will be developing from next year onwards. These are large-sized development of 30 acres, 100 acres, or 50 acres, which we feel that the time is not ripe currently where these projects can be



launched. Whereas we would like to use land parcels generally to develop like Sobha City, Thrissur or Sobha City, Bangalore, not like international city Gurgaon.

Punit Jain: What you arrived this quarter with respect to APMC project is actually a commercial property. Can you talk about some development plans on that and it seems to be more like JDA projects?

J.C. Sharma: It is exactly a JDA project. It is a 30-acre land owned by APMC, the Ministry of Horticulture, the Government of Karnataka, who have given us about 10 acres of land for commercial exploitation against our responsibility of constructing about 800,000 square feet of APMC market in the same land. We hope to construct more than 2 million square feet of development on a 60-year lease basis where we believe that the projects should start hopefully in the next quarter itself.

Punit Jain: Will this be more like a commercial project?

J.C. Sharma: This will be more like a commercial project where we hope to develop a shopping mall, office space, multiplexes and a small 250,000 square feet hotel.

Punit Jain: What is the exact location?

J.C. Sharma: If someone is coming from the new airport, then it is after the Jakkur Flying Club, may be half a kilometre from the Jakkur Flying Club. It is going to be 2.5 km from the Hebbal flyover, on the main road.

Moderator: Next question from the line of Abhishek Bhandari from Macquarie Securities. Please go ahead.

Abhishek Bhandari: Continuing on this land acquisition strategy, have you fixed any specific amount up to which you will spend and not exceed in a particular year?

J.C. Sharma: The strategy is linked to our cash flows and the debt equity. Our plan is to keep our debt between 0.5 to 0.6, which we believe is the right mix and at the same time to use judiciously the cash flows what we generate to ensure that we do not lose a certain opportunity because of remaining conservative. We have not invested in any land since the last four years. We believe that since last year or so, our cash flows have improved which gives us that confidence that this is the time we will opportunistically keep the debt:equity in mind, and we can selectively start investing in these opportunities.

Abhishek Bhandari: So the bulk of the money what you have spent this year, which is Rs110 crores in this quarter, is towards the Chennai land because Bangalore would more or less....

J.C. Sharma: No, it is primarily to acquire a 10-acre of land in Devanahalli. It is primarily to give our share in some area and we have joined hands in Bangalore plus some advances we have paid towards entering into an MoU or getting into this lease agreements, etc.

Abhishek Bhandari: So for the Chennai land, will there be any more money to be paid?



- J.C. Sharma:** There will be some money required, but it will be insignificant.
- Abhishek Bhandari:** Secondly, coming to your commercial project, you have one project on St. Mark's road. When are you going to launch it and would it be for sale or a lease?
- J.C. Sharma:** We have not yet decided, but most of the approvals are in place and hopefully in the next quarter, this project will get started.
- Abhishek Bhandari:** It will be outright sale?
- J.C. Sharma:** We have not yet decided whether it will be outright sale or whether it will be on a lease basis.
- Moderator:** Next question from the line of Shashikiran Rao from Standard Chartered Securities. Please go ahead.
- Shashikiran Rao:** My question is based a bit on your monetisation. You mentioned that you have earned about Rs.64 million in monetisation in this quarter? Is that right?
- J.C. Sharma:** Yes, Rs.64 million, Rs6.4 crores through the sale of small land portion of about 7 acre in Coimbatore.
- Shashikiran Rao:** So the balance around Rs310 crores would be from your operations?
- J.C. Sharma:** It is from the real estate.
- Shashikiran Rao:** In terms of your sale, this has been your best quarter so far, if I might notice? Which of these projects are driving the sales right now? Across all other geographies, the sales are slowing down. It seems Bangalore is now the main place where you are selling your properties. Which of the projects are really doing that well?
- J.C. Sharma:** It is in Bangalore and especially in Sobha City. Similarly the Gurgaon project also has got a good traction. Our Thrissur project is also doing well. These are the three projects which have done well in the last quarter.
- Shashikiran Rao:** In terms of your investments, you made some Rs.55 crores for space lending purchase of stake?
- J.C. Sharma:** In the last quarter, we had 30% stake given to our partners in Tree Hills in the Thrissur projects. We bought back that 30% stake in the last quarter by paying Rs55 crores to them.
- Shashikiran Rao:** Are there any other subsidiaries which you are planning to consolidate?
- J.C. Sharma:** Currently this consolidated income consists of revenue coming from Sobha Developers and 100% interest in Sobha Developers Pune Private Limited, which has a project called Sobha Forest View in Bangalore on Kanakapura Road and this partnership from Tree Hills where the



other partner has 30% interest, where we also become 100% beneficial owners. The Thrissur project also is getting consolidated in Sobha Developers' standalone results.

- Shashikiran Rao:** Can you throw some light on the recent JV you have done with Sun-Area?
- J.C. Sharma:** It is a Rs.100-crore investment where we have purchased about 6-acre of land in Bangalore near the old Airport on Marathahalli where we are 50:50 partners. There are no IRRs and we are getting the management benefit of managing this SPV, where Sobha will have incremental extra revenue from marketing, from contracts as well as from managing the project without committing any IRR.
- Shashikiran Rao:** On the commercial foray basically there is one on St. Mark's Road and the other one is APMC; these are the ones that are there on the radar right now?
- J.C. Sharma:** You are right.
- Moderator:** Next question from the line of Anand Agarwal from Jefferies. Please go ahead.
- Anand Agarwal:** What is the unbilled receivable in this quarter on the balance sheet? I think it has gone up quite sharply on a QoQ basis or on a 6-monthly basis?
- J.C. Sharma:** It is currently Rs.14.7 billion.
- Anand Agarwal:** I mean the unbilled receivable on the balance sheet?
- S. Bhaskaran:** It is Rs.404.53 crores.
- Anand Agarwal:** It is almost gone up by 190 crores during six months. Any particular reason for that, because you follow fairly conservative accounting policy, so why should this happen?
- S. Bhaskaran:** We used to follow the land income to be recognised, but under the new guidance, we cannot recognise the land income as well and the Delhi sales also are not being counting for the land income. So any sale what we do in Delhi will go to our unbilled revenue only and they are not accounting any revenue there.
- Anand Agarwal:** Any new projects cost revenue recognitions threshold this quarter?
- S. Bhaskaran:** Yes, Sobha Garnet in Pune has revenue recognition this quarter.
- Anand Agarwal:** Why should this go up? I am still not getting it, because you have not started recognising revenues in Gurgaon yet? So why should unbilled receivables go up?
- S. Bhaskaran:** What are unbilled project debtors will be the unbilled revenue and what are finished project debtors will go into regular debtors, so unbilled revenues increase, ongoing projects revenue increases. As far as the accounting is concerned, only on the completed projects we transfer



into the debtors. As far as the ongoing projects are concerned, the balance portion will go into the unbilled revenue.

Anand Agarwal: Anyways, I will take that offline. Secondly if I look at your liability side also, if I take off the gross debt, now that the numbers are not available separately in the balance sheet, if I take off the gross debt that you are showing separately, even that seems to have gone up almost Rs.200 crores on a QoQ basis or little more than that Rs230 crores on QoQ basis. So any particular reason why the liabilities are up so sharply?

S. Bhaskaran: I will revert this question separately.

Anand Agarwal: We have talked about keeping net debt to equity close to 0.5 levels. Now we have seen a minor blip now going back up to 0.62, but with the APMC project, with the St. Mark's Road project and with one more commercial project we have Minerva Mills project, they will be a lot of outflow on these commercial projects where they will not be any interim or any immediate inflow. So if we continue acquiring land during this time and especially given where RoE levels are currently, how do you look at that? Because then the debt numbers can also keep going up and the RoE does not improve?

J.C. Sharma: We are conscious of these things. As far as Minerva Mills is concerned, it will be supported by our share of 55% of residential space, so that we do not share with the partner, so it is purely a construction of commercial space for the partner and the residential development in favour of the developer. We hope to do this project on that basis without having our cash flow impacted. As far as this project of St. Mark's Road is concerned, it is a small relatively 200,000 square feet project on probably the best location in Bangalore; we will take over a period of three years and can be serviced through our internal accruals. As far as APMC is concerned, it is a larger project, which will require a much larger capital commitment, but if we look at our cash flows, we have currently an unsold inventory of 9 million square feet or so, with the revenue to be collected against that of close to 6100 crores. If we take into account all the construction cost to be incurred on all our ongoing projects at the current size, more than Rs3500 crores should accrue to us over the next three to four years' time at operating cash flows without considering the revenue to come from our new launches which we will continuously keep doing and looking at that we enjoy 40% margins and looking at that about 10% or so is the land value in the current composition. The cash inflow is about 50% extra than the cash outflow on the project cost. We do believe that the time has come where gradually and slowly we can get into certain good developable opportunities. Keeping that in mind, we joined hands with Sun-Area to ensure that if in future certain things happen, we have the flexibility of taking advantage of the opportunity and still keep the debt level between 0.5 and 0.6. We know that it is a target which is relatively tough because there will be somewhere the greed to get the opportunity and at the same time that debt portion also needs to be taken into account. Hope that the kind of discipline what we have shown in the last four years will continue and we should be able to manage between 0.5 and 0.6, with the cash flows and the construction activity uninterrupted.



- Anand Agarwal:** What are the customer advances number as of this quarter?
- S. Bhaskaran:** It is Rs.3,940 million.
- Anand Agarwal:** On the margins in this quarter, I remember last quarter you mentioned that the land sale was at lower margins and that is why the overall margins were lower. Commensurately the margins have recovered, but do not seem to have recovered sufficiently. I mean it is still lower than what we used to see a year ago?
- J.C. Sharma:** No, I think a year ago also, the 40% margin was on the higher side. We had historically enjoyed about 35% of margins. With the judicious price increase to pass on the construction cost and taking the benefit of the land benefits, we believe that the margins have gone to about 40%. If the construction cost comes down, maybe it may go up, but looking at the inflationary trend, we believe that 40% is a sale margin, because otherwise we need to take care of the volumes as well. We are targeting both higher volumes, higher realisations and trying to sustain the margins by passing on the inflationary cost. This exercise we hope that we should be able to keep doing even in the coming quarters.
- Anand Agarwal:** Going back to the land acquisition strategy, you have done this time around one JD which is the APMC one, but you still seem to be favouring the land acquisition route more than the outright land purchase route, more than the JD model. Any particular thoughts on that?
- J.C. Sharma:** Sometimes you get an opportunity then you feel you can encash it faster and you may not like to share with the JD partner. Sometimes you believe that OK, the JD partner is willing to come also and you are ready to share, and you go ahead with the JD partner. The APMC deal, generally you call it JD, it is a public-private partnership. We had won in an open bid where three to four people participated and we believe that it will be a good entry for us to have a large commercial development happening in the city where we have otherwise large number of real estate projects. Going forward, the focus on real estate residential side will be predominantly far higher. The opportunity will be looked at as I repeat taking into account 0.5 to 0.6 debt:equity and you will see that by 31 March 2013, this kind of a debt:equity will be there based on the kind of cash flows we do expect from our current operation.
- Moderator:** Thank you. Next question from the line of Abhinav Sinha from CLSA. Please go ahead.
- Abhinav Sinha:** First of all on the private equity deal, have you actually invested some money here currently?
- J.C. Sharma:** Yes, first we invested actually and then we got the reimbursement.
- Abhinav Sinha:** So the land was originally belonging to you is it?
- J.C. Sharma:** No, the land was belonging to somebody else. First we invested and then we got the partner.
- Abhinav Sinha:** What is the quantum of investment?



- J.C. Sharma:** Total investment for this transaction was Rs100 crores, Rs50 crores is coming from Sun-Area, Rs50 crores is our investment.
- Abhinav Sinha:** Rs.50 crores has been invested already or it is yet to come?
- J.C. Sharma:** Yes.
- Abhinav Sinha:** This will reflect in 3Q not in 2Q?
- J.C. Sharma:** No, it was invested in 2Q only. Our money had gone in 2Q, the partner's money had come in 3Q.
- Abhinav Sinha:** So, this part of the Rs110 crores?
- J.C. Sharma:** Yes absolutely right.
- Abhinav Sinha:** And this will also include the construction cost or that is on top of this.
- J.C. Sharma:** No, for the construction cost we are having base funding to the extent needed.
- Abhinav Sinha:** Then how much will that be roughly?
- J.C. Sharma:** Rs100 crore. So, the limit in-principal has been granted by your bank.
- Abhinav Sinha:** Secondly, you have given a cash flow of your contractual business on slide 22 of your presentation. Yeah. So just for both you know first half of '13, first half of '12 and FY12 contractual inflows are lower than the outflows, contractual project expenses. So is this business consistently loss making?
- J.C. Sharma:** The business continues to enjoy the 20% margin. Somewhere there is a billing lag, which happens by 31st of March we collect most of the money and we get certain advances also. Then the billing cycle takes a bit of a time. So some of the billing, which has happened has not resulted into the cash inflow. Going forward it will be collected.
- Abhinav Sinha:** Over an 18-month period, I mean it is still a negative cash flow, right?
- J.C. Sharma:** No, I do not think so.
- Abhinav Sinha:** If I include FY11 and the first half of FY12 and FY13, do you think this will reverse?
- S. Bhaskaran:** It will of course. Second half, it will get reversed.
- Moderator:** Thank you. Next question is from the line of Tejas Sheth from Emkay Global. Please go ahead.



- Tejas Sheth:** If I see your presentation this 1H, there are huge sales done to NRIs, so if I extrapolate 2Q to sales to NRI, it is nearly 30% of your total sales booking. I just wanted to know is there any scheme, which you have run for NRIs and which are the projects?
- J.C. Sharma:** The NRIs are buying in all the places including Kerala, Tamil Nadu, Bangalore, as well as NCR. We were hopeful that when the rupee was depreciating, this kind of improvement should have taken place, but surprisingly we find that in the last quarter, NRI sales had been better than what we expected and even now with the inquiries and the likely culmination of this, NRI sales seems quite promising.
- Tejas Sheth:** The payment terms are very similar to the Indian buyer?
- J.C. Sharma:** Not only payment terms, they have to give money on rupee basis only. We do not take any foreign exchange.
- Moderator:** Thank you. Next question is from the line of Gunjan Prithyani from JP Morgan. Please go ahead.
- Gunjan Prithyani:** I just need a bit of clarity on the land part only. What Rs100 crores is invested in this quarter is gone towards the 10-acre parcel that was bought in Devanahalli as well as the 5-acre land in Bangalore that was tied up with the Sun Area. Is that correct?
- J.C. Sharma:** Absolutely correct. Predominantly it has gone towards these two and also we have entered into some MoU. We have done certain lease transactions, which had been registered with the Government of Karnataka for the 60 years lease for the APMC land and some small payments here and there, including one balance payment for one Coimbatore land. All put together this money has been invested in the last quarter.
- Gunjan Prithyani:** On the deals that have already been entered into and large payment is already gone, is there any amount, which is outstanding for these deals?
- J.C. Sharma:** As far as APMC is concerned no further payment is required. It will be all construction cost.
- Gunjan Prithyani:** And for Chennai MoU?
- J.C. Sharma:** For the Chennai MoU something may be required to be paid.
- Gunjan Prithyani:** Nothing for Devanahalli and the other land in Bangalore?
- J.C. Sharma:** The Bangalore transaction is also complete in MoU.
- Gunjan Prithyani:** In terms of your revenue recognition this quarter we had Sobha Garnet, which was the new project, which came into recognition. Which are the other key projects, which we see coming into recognition in the next two quarters? One is the NCR, but which are the other ones in Bangalore?



- S. Bhaskaran:** In Bangalore we have Sobha City's two projects to hit the revenue recognition in the coming quarter and Sobha Habitech in Bangalore should get revenue recognition in the fourth quarter and then we have the Chennai project likely to hit in the third and fourth quarter.
- Gunjan Prithyani:** How have the customer advances moved on a sequential basis. I cannot get it from the current balance sheet, but if you could just give me that number?
- S. Bhaskaran:** Customer advance for the last quarter was Rs.2499 million, it has now become Rs.3940 million.
- Gunjan Prithyani:** So your last quarter was?
- S. Bhaskaran:** 2499. Now it has become 3940.
- Moderator:** Thank you, next question from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.
- Sameer Baisiwala:** For the two launches that you have done in the previous quarter, which is Grandeur and Jade, how much has been sold of the 0.86 million square feet there.
- J.C. Sharma:** The Grandeur had got a much better response than the Sobha Jade, but the Thrissur Project also is moving. We have some stocks of Sapphire, but while the Sapphire stock is there, Sobha Jade has been launched, but Grandeur has met with much better response.
- Sameer Baisiwala:** How much has been sold—30%, 40%?
- J.C. Sharma:** About I think it is nearly 63,000 square feet of the development and we might have sold more than 25%.
- Sameer Baisiwala:** This is Grandeur. And Jade is naturally less than 25% that you have sold.
- J.C. Sharma:** Yes.
- Sameer Baisiwala:** If you sold 1 million in that quarter, so bulk of the sales is actually coming from the project.
- J.C. Sharma:** Coming from Sobha City – Bangalore, Sobha Forest View, Sobha Habitech, Ruby, Ruby Platinum, Sobha Elite, and Aspire and from Gurgaon and from the old Thrissur projects.
- Sameer Baisiwala:** Just trying to relate your comfort on your cash flows in the debt-equity and also the fact that the promoters pledge, which is about 18% of their stake, that continues to be in place. Are these two facts at loggerheads?
- J.C. Sharma:** As far as the promoters pledge is concerned that is totally disconnected with our cash flows. They have not given us the money or we have not taken promoters pledge for our working capital requirement. That transaction they have done outside India at a significantly lower rate



of interest. As far as our own cash flows are concerned we believe that going forward the cash flows should continue to give us that leverage of keeping the debt-equity between the 0.5 to 0.6 level as well as looking for newer opportunity.

Sameer Baisiwala: On Minerva Mills. I can see that you have pending new launches. When exactly are you planning to launch this and would you be launching residential and start the commercial at the same time or how do you plan to sequence the two?

J.C. Sharma: Both will be started at the same time. We have got the development plan already approved and we have paid for that to the BDA. Now it is more than 5 acres so there have two approvals. Now this application has been sent to the BBMP. Once BBMP gives an approval, which we hope that should happen in the coming two months in the calendar year, we should be able to start the project.

Moderator: Thank you. Next question from the line of Prem Khurana from Batlivala & Karani Securities. Please go ahead.

Prem Khurana: If I look at your slide number 8 and your presentation, there you have this area not offered for sale of around 3.82 million square feet. So would you be putting in any money in terms of construction outflow for this area which has not been offered for sale?

J.C. Sharma: No, that is where we are trying to conserve our working capital as well. Whatever projects we are offering for launch only those projects we take up for construction.

Prem Khurana: If I would compare this slide with your launch guidance you will launch around 6 million square feet of area over the next four quarters, but we are sitting on sold inventory of around 9 million square feet. If I would look at Bangalore, there you have around 4.5 million square feet of unsold inventory. Just want to understand the rationale behind doing incremental launches because you are already selling around 4 million square feet of unsold inventory in Bangalore and planning to launch some more. So will it be a drag on our cash flows and you would be try to put in money for construction, but since your area is not sold out completely then receivables would be somewhat lower than your construction outflow, if you do not now manage healthy presales more than 40-50% of the total area offered.

J.C. Sharma: What you need to bear in mind is that in India these approvals have an uncertain time. At any given point of time, we do wish that we should have an inventory and yes for us to give visibility of our cash flows and revenue growth. Keeping that thing in mind, we start planning for approvals and put that under our upcoming projects or forthcoming projects detail. We are not spending much of the money except some approval cost on certain deposits, which have to make to the multiple authorities. As far as the drag on the cash flow is concerned it is limited to that small money only and in any case with the land in these cases has already been paid for and theoretically that continues. So it is always advisable that looking at your future cash flows, your future volumes you need to plan at least 1 to 2 years in advance and accordingly give clarity to new investors. I hope I have been able to address your question?



- Prem Khurana:** Slide 7, if I look at the balance construction cost to be spent to complete the entire development, it stands at around Rs.4300 crores for Sobha's share of saleable area of around 1.5 crores square feet, which gives me a figure of around Rs2800 per square feet of construction cost. But given the fact that these projects have already been under construction and you are already recognising numbers from these projects, you would have already spent some money. So does that mean your construction cost is in excess of Rs3000 per square feet because Rs2800 per square feet is still pending to be spent?
- J.C. Sharma:** You are right. As far as the villa projects are concerned the construction cost is about Rs3000. Even as the new launches like Sobha Grandeur and others also, the new projects, which have been launched recently, the construction cost is coming to around Rs3000 only. So the blended cost comes to what you have said. But in our construction cost we include everything. All the deposits, all the other concurrent expenditures from the plan approval, to the preliminary cost, to the incidental cost and one year's warranty also gets included.
- Prem Khurana:** Even your interest during construction would also be considered as a part of this cost or your interest during construction would be over and above this?
- S. Bhaskaran:** No. That interest during construction is over and above that. That is being capitalised as a part of the WIP or sold item, which is reflecting in the P&L account.
- Prem Khurana:** This quarter you have seen significant growth in terms of revenue recognition, but do you see this as a sustainable number? This quarter you have seen lumpy numbers from Sobha Garnet, so do you believe that every quarter you will have some kind of lumpy income from some projects to sustain this growth number or this revenue recognition number?
- J.C. Sharma:** We cannot categorise it as lumpy. We follow that accounting principle now of the 25% of the construction cost to be incurred before we start realising and we have already communicated in our presentation or otherwise that out of this Rs1470 crore of unbilled revenue, close to Rs400 crore of revenue should get recognised even in the coming next two quarters alone and thereafter once this project reach 25% threshold even for the new sales as well as for the existing sales, the consistency of revenue recognition should continue. So hopefully this kind of momentum should continue this quarter versus the preceding quarter.
- Prem Khurana:** In the APMC project, how would the construction phase be done; as in the area that you need to construct for the landowner you would require to do that upfront or I mean your self-consumption area and the area that you need to give to the landowner, both could be under construction simultaneously?
- J.C. Sharma:** Both will start simultaneously.
- Prem Khurana:** To give any extension clause over here, it is for 60 years of lease. So do you have any extension clause? After 60 years, would you be required to give it back?



- J.C. Sharma:** No, as things stand today, but we do not know.
- Prem Khurana:** Could you please give me current maturities number as on 30 September 2012.
- S. Bhaskaran:** Advance number?
- Prem Khurana:** Current maturity, which would form a part of your current liabilities, long-term loan, which is repayable over the next 12 months.
- S. Bhaskaran:** The amount I have to repay is about Rs131 crores in the next six months.
- Moderator:** Thank you. Next question from the line of Samar Sarda from Kotak Securities. Please go ahead.
- Samar Sarda:** Few questions with regards to your land acquisitions and contracting, specifically with regards to the APMC Project. I understand this was a tender bid?
- J.C. Sharma:** Yes. It was a tender bid.
- Samar Sarda:** And since it a long-term lease, would you be allowed to create third-party rights and sell it or you would like to keep it on your books and lease it?
- J.C. Sharma:** We have the right to sell, and also that third party interest can be created as well as we can keep in our lease depending on how the situation pans out.
- Samar Sarda:** What is the current selling price of a commercial property in that area or lease rentals?
- J.C. Sharma:** It will be bit premature as things stand today. There has been couple of launches of residential projects in the recent past or some of the existing ones. Godrej is there and Embassy is there, Rahejas are there and they are selling their products between Rs8000 to 9000 per square feet as far residential is concerned.
- J.C. Sharma:** With Manyata Technology Park, which is about 4 km away from this property on the outer ring road where I am told the new leases are happening at around Rs55 per square feet.
- Samar Sarda:** 3 million square feet at your construction cost would roughly cost you about Rs900 crores. Now even with the current rentals or the capital value of say about Rs6000 and your stake, your gross margins over a period, if you even sell, it would be around about 28-29%. So just wanted to have a sense on what is your sense on doing this deal?
- J.C. Sharma:** We have done our maths. As far as the APMC thing is concerned, it is ground plus one storey structure only.
- Samar Sarda:** Costing there would not be much.



- J.C Sharma:** At the same time, as far as our project is concerned, the location we have got versus the prices what we have got, it is too premature as things stand today to compare, but we hope to insure that it will be industry-leading because of the superior location.
- Samar Sarda:** This is a large commercial project. What could be your gross debt number heading towards March 2013?
- J.C. Sharma:** March '13 as I have said net debt should be between 0.5 to 0.6 only.
- Samar Sarda:** This PE deal, which was done with Sun-Area, have you taken any cash out there?
- J.C. Sharma:** No it is a land, which belongs to a third party. Both of us had invested at the same site. We first invested and then they came there thereafter.
- Samar Sarda:** You have not taken any cash out there?
- J.C. Sharma:** Yes.
- Samar Sarda:** In regards to the contracting business you have also bid, hoping to get a lot of additional contracts. So like any guidance on what is the amount of BOQs bid for?
- Bhaskaran:** No. When Sharmaji talked about BOQs he was answering the question on why the cash flow is not coming, where he said the work has been done but BOQ purchases, which will be converted into purchase order, will enable us to collect the money. He was talking about this point and not on the order.
- J.C. Sharma:** For example, only two days back you were awarded one contract of Rs32 crore from Huawei. This is not on this list.
- Samar Sarda:** This is a 10-acre land parcel we have acquired in North Bangalore. I suppose you have bought over the JDA, right?
- J.C. Sharma:** Yes, you are right.
- Moderator:** Thank you. Next question from the line of Arun Agarwal from Religare Capital Markets. Please go ahead.
- Arun Agarwal:** Considering that the Bangalore market has done pretty well and most of the players have actually benefited out of it, there will be a lot of players looking for land buying at this point in time. How easy or tough is it to get good deals in that market at this point in time?
- J.C. Sharma:** You have to look at it holistically, the Bangalore market vis-à-vis Gurgaon or NCR as well as the Mumbai market. Because these are three difficult markets than what we feel the other markets are. So today with the availability of land and the price per square feet, it is far superior in Bangalore than the other two markets. We do not have that density problem, we do



not have fixed FSI problems. We have 4 or 5 planning authorities. You can develop a line today under the BBMP, under BDA, under BMRDA, and under BIAAPA also. So, huge catchment area is available for the developer. I presume that every single developer who wants to get into another city after the home city, they think of coming to Bangalore because the land availability is better. The land prices if we compare it with the last 2 or 3 years in our view it is rising much faster. So, to that extent a new comer will have to pay current prices and compete with the existing landlord. But still when you compare our selling prices of the product vis-à-vis the other two cities, it is still much less than what the other two cities or even what Chennai commands apple-to-apple or even what Pune commands. Since Bangalore has been historically consuming 10 million square feet of a commercial space on yearly basis for the last 10 years, the residential demand in my view should continue to remain strong for at least the next few years. Because the people who got jobs about a decade back, they will continue to buy homes in larger numbers in the coming decade. So under such circumstances we can draw a conclusion that the land availability, the price per square feet, and the volume, all such things should be maintained.

Arun Agarwal: You mean to say that there is a lot of land, which is available and whosoever is willing to buy is getting a good deal.

J.C. Sharma: Yes.

Arun Agarwal: Just want to understand about the JV with Sun-Area. For the land, it seems that you would have paid an FSI cost of around Rs2000 per square feet on a ballpark basis.

J.C. Sharma: We have invested Rs50 crore. We hope to launch the project, so the FSI cost will be less than Rs2000.

Arun Agarwal: What could be the indicative pricing in that location for you?

J.C. Sharma: Only at the time of launching the project we believe that we should be communicating that part. But to be believed that ours is 40% margin and what we talking about blended and from which project we should be able to manage also operating margin.

Arun Agarwal: The area not offered for sale, you mentioned that you will not be spending money on the construction of that, but considering that most of the space would be a part of a big integrated development. What in your view would be the timeframe when you will go out and offer this for sale—may be 2 years or more?

J.C. Sharma: No. It is not like this. There is a continuous release of these newer areas or this newer block every month. What we say is that today in Sobha City we will have about 2000 apartments also coming up there. So instead of launching all the 2000 apartments at a time, it is advisable that you launch the whole project to get the plan approval and then lease on a block-wise basis, construct on a block-wise basis. This philosophy is successful everywhere where we have a large project. Currently also when we are selling Elite and Aspire, at least 500 families are



living in Tumkur Road Project in the Ruby and Ruby Platinum without any inconvenience to the existing residents. The Sobha Garrison is likely to be completed and Elite and Aspire is likely to be completed next year.

- Moderator:** We have a next question from the line of Mohit Agarwal from IIFL. Please go ahead.
- Bhaskar:** Just wanted to know what is the unbilled receivables outstanding number as of September 30?
- J.C. Sharma:** An unbilled revenue to be recognised is Rs1470 crores from the existing customers. When we collect 100% we should be collecting about Rs1720 crores from them.
- Bhaskar:** I want the balance sheet number.
- S. Bhaskaran:** You mean to say net receivables.
- Bhaskar:** I want what you term as unbilled revenue.
- S. Bhaskaran:** It is Rs404.53 crores.
- Bhaskar:** That has moved up by almost 150 crores in the last six months.
- J.C. Sharma:** Correct. As the revenue we start recognising in some of the projects, the balance revenue what you mean will be quite significant because when you recognise the land revenue or only the construction revenue of 25%, the 75% will come under unbilled revenue, which is Rs400 crores.
- Bhaskar:** But you follow at 20% amount collected as the point of starting to recognise revenues, right, 20% of the value of the purchase?
- S. Bhaskaran:** We give normally 60 days credit from the day they have booked to make payment due. During the last quarter wherever we have sold on those sales it has happened in August and September, the money will be collected only during this quarter and you have predominantly sold in this project, where the income recognition is more than 50% also like Sobha City Bangalore, Forest View, and Aspire. So hence the unbilled revenue has gone up this quarter. Now when we collect the money, this number will change.
- Bhaskar:** This build up is more related to Bangalore projects.
- S. Bhaskaran:** You are absolutely right.
- Moderator:** Thank you. We have got the next follow-up question from the line of Tejas Sheth from the line of Emkay Global. Please go ahead.



- Tejas Sheth:** In the last quarter, we had mentioned that you have nearly Rs620 crores as the amount to be spent on the construction at the end of the last quarter. You spent nearly 191. So has this number changed after spending this Rs620 crores?
- S. Bhaskaran:** No, this will remain. We need to spend another Rs400 crores in the next 6 months.
- Moderator:** Thank you. As there are no further questions, I would like to hand over the conference to Mr. J.C Sharma.
- J.C. Sharma:** Thank you gentlemen for your patience. We again would like to welcome you in our next quarter as well and hear from us.
- Moderator:** Thank you. On behalf of Ambit Capital Private Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.