

“Sobha Developers Conference Call”

January 23, 2012



**MODERATORS: MR. JC SHARMA
MR. S. BAASKARAN
MR. KISHORE.
MR. SHALEEN SILORI – ANALYST, ICICI SECURITIES**

Moderator Ladies and gentlemen good morning and welcome to the Sobha Developers conference call hosted by ICICI Securities Limited. As a remainder for the duration of the conference, all participant 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 telephone. Please note that this conference is being recorded. Joining us on the call today are members of the senior management team at Sobha Developers. At this time, I would like to hand the conference over to Mr. Shaleen Silori. Thank you and over to you sir.

Shaleen Silori Thanks Lavina. Hello everyone and I welcome you all to the third quarter results conference call of Sobha Developers. We have with us the senior management of the company Mr. JC Sharma, Mr. S. Baaskaran and Mr. Kishore. We will start with the brief presentation and then move on to the Q&A session. Over to you sir.

JC Sharma Good morning everybody. Mr. Baaskaran first will give a brief presentation and then we will have a question and answer session and then we will conclude this with our views.

S. Baaskaran Good morning ladies and gentlemen. We are happy to be with you for this con call hosted by ICICI Securities post declaring our limited review of third quarter results for this current financial year.

At the outset, we are happy to inform that we have moved to our own Corporate and registered Office – 'SOBHA' at Sarjapur Outer Ring Road. It is a State of art building of 207,195 sft consisting of double basement, Ground & 6 storied structure. We are happy to invite you all to meet us in the new office henceforth.

As communicated earlier, during the current quarter we have sold 818,835 sqft of real estate space compared to 705,031 sqft during the corresponding period of the last year. The growth rate is 16% yr on yr. Also during this quarter we have seen an improved price realization of Rs.5,475 / sft compared to Rs.4,327/sft during the corresponding period of the last year. The improvement in price realization is 27% yr on yr. This has resulted in achieving a sale value of Rs.4.48 bn during the 3rd qtr compared to Rs.3.05 bn during the corresponding period of the last year resulting in a growth in sales value by 47% Yr on Yr. This performance was achieved without having any new launches during this quarter. With this, we have achieved a cumulative fresh sales of 2.42 mn.sft valued at Rs.12.37 bn and we are well within achieving our sales guidance of 3 mn.sft valued at Rs.15 bn.

We are also happy to share that during the current month we have launched two projects namely 'Sobha Meritta' and 'Sobha Serene' in Chennai totaling area of approx. 1 mn.sft and have planned one project each in Bangalore and Coimbatore in the fourth quarter.

During the 3rd quarter, the company recorded top line of Rs. 3.16 bn on a stand alone basis, out of this Rs.2.19 bn has come from Real estate operations and Rs.948 mn from contracting and manufacturing activity and Rs.26 mn from other sources. The real estate operations contributed 69% and balance from Contracts and manufacturing business.

During the third quarter on a stand alone basis the real estate topline was Rs. 2.19 bn compared to Rs.2.50 bn during the preceding quarter and Rs.2.59 bn compared to the corresponding quarter of the last year, (excluding monetization of land/development rights to the tune of Rs.342 mn).

The profit before tax on stand alone basis stood at Rs. 576 mn compared to Rs.592 mn in the preceding quarter and Rs.562 mn during the corresponding quarter of the last year (excluding monetization of land /development rights). The profit before tax has grown by 2% (excluding monetization of land /development rights) yr on yr and declined marginally by 3% from the preceding quarter.

The Profit after tax on stand alone basis stood at Rs.401 mn compared to Rs.409 mn in the preceding quarter and Rs.414 mn during the corresponding quarter of the last year (excluding monetization of land /development rights).

During the current quarter, the company has made investment of Rs.415 mn in SDPPL by way of purchase of equity shares from PAN Atlantic (Investor), thereby increasing the stake of the company from 67.60% to 100%. We are pleased to inform that this wholly owned subsidiary, where the project Sobha Forest view is being executed has recorded the top line revenue of Rs.300 mn for the current quarter, and the profit

before tax of Rs.80 mn and the profit after tax stood at Rs.55 mn. Do note that the current results do not reflect the same and we shall publish the consolidated result from the next quarter onwards.

Please note that we have not yet booked construction income 1.41 mn sq.ft already sold during the last few quarters, where the construction activity is happening but has not reached the threshold limit of 25% which is expected from the 4th quarter onwards. With an unbilled revenue of Rs. 9.68 bn on the sold units becoming eligible for revenue recognition, the benefit of both top line and PAT will start flowing in from next onwards.

In-spite of challenges and cost pressures, we were able to show our operating margins on Real Estate at 40% and on Contracts at 20%. The combined EBIDTA margins were 25 % in the current quarter compared to 24 % in the preceding quarter.

We are also pleased to inform you that, the company during the third quarter has generated Rs.2 bn of cash from operating activities. The same was used to acquire balance equity in subsidiary, invested in fixed assets, servicing of interest and repayment of loans.

The net debt as on 31st December-11 stands at Rs.12.74 bn which was Rs.13.62 bn in the preceding quarter. We reduce the debt by Rs.879 mn and the D/E ratio stands at 0.65. The average cost of borrowing is about 13.98%. We also plan to bring down the interest cost in the coming quarters. We remain confident that in the next couple of quarters we will be able to bring D/E ratio to 0.5 from the present level of 0.65.

As on date, we have 37 ongoing projects consisting of 14.98 million sq.ft. Out of this 12.79 mn.sft is to our account as saleable area. On our share we have already sold about 4.07 million sq. ft. and 8.72 million sq. ft remains to be sold. In addition to this,0.15 mn.sft of area is to be sold on completed projects. We expect to realize from the existing customers Rs.12.11 bn and further Rs. 59.78 bn from unsold apartments based on current selling price. We also expect to incur Rs.36.41 bn based on current estimates to be spent for the entire ongoing development. This will leave a healthy cash flow to the tune of Rs. 35.48 bn.

During the 3rd quarter we have completed and handed over 4 Real Estate project, measuring 1.19 mn.sft

On the contractual front we have 8.5 mn.sft of contractual projects on hand to be delivered over a period of next 2-1/2 years. Apart from this Sobha has confirmed contractual orders of 3.13 mn. sft, totaling of 11.63 mn. sft, valued at about Rs.8.21 bn. to be executed. We see a significant opportunity for growth coming from our Contracts / manufacturing divisions in coming quarters.

During the 3rd quarter we have completed and handed over 4 contractual projects measuring 0.28 mn. sft.

As things stand today, Sobha has completed 44.81 mn sqft of built-up area and consisting of 19.95 mn sqft on real estate and 24.86 mn sqft in contracts. We are executing 14.98 mn sqft in real estate and 8.50 mn sqft in contracts.

The Company has met all its obligations in servicing the interest and principal repayment during the 3rd quarter as well on time. It is confident of meeting its balance repayment obligations approximately Rs.1.40 bn through its improved operational cash flows and from the sanctioned credit limits.

Once again we thank you all for your participation and now leave the floor for discussion.

- Moderator** Thank you very much sir. We will now begin the question and answer session. Our first question is from the line of Mr. Adhidev Chattopadhyay from Edelweiss. Please go ahead.
- Adhidev Chattopadhyay** Thanks for taking my question. Question specifically pertains to the Gurgaon project. Could you give us some sense of the total sales achieved, how much of the cash would have been collected till date and what would be the total construction spend on the project? Thank you. Hello?
- S. Baaskaran** At the end of the third quarter we have sold 2.13 lakh square feet of space in this Delhi project and we have collected 263 million so far.
- Adhidev Chattopadhyay** Okay and what is the total construction cost spent so far on the project totally?
- S. Baaskaran** So far 668 million.

- Adhidev Chattopadhyay** Okay and the second question was pertaining to Forest View project. Is this the first quarter the project has seen the POCM threshold or has there been more bookings during the year for the project till date?
- S. Baaskaran** This is the first quarter where the one project has reached a threshold limit and there are still 2 more projects under this Forest View which will reach the threshold limit in the coming quarter onwards.
- Adhidev Chattopadhyay** Okay. And sir last question pertains as per to the quarter. We have seen a bump up in the overall operating cash flow. So is this more attributable to lot of projects getting completed and getting the balance money coming for customers or is it more an overall thing like across projects. You are seeing cash flows, seeing an overall improvement.
- S. Baaskaran** It is a normal thing that overall we are seeing the sales happening followed by the cash flows in the customers which we normally credit period on the new projects. And also in existing projects where we reach the percentage completion we are able receive the next raising demand money as well.
- Adhidev Chattopadhyay** Okay thank you. I'll come back later.
- Moderator** Our next question is from the line of Mr. Anand Agarwal from Jeffrey's. Please go ahead.
- Anand Agarwal** Good morning sir.
- S. Baaskaran** Good morning.
- Anand Agarwal** I have 2 or 3 questions more on the strategic level. If I look at your launch plan, you have now 4 commercial projects which are expected to be launched, I think 3 in Bangalore and one more in Trisur, so just wanted to get your sense in terms of do you want to sell the commercial space that you built here or lease it out and also what is the construction spent that will be there in commercial projects in FY13 and FY14?
- JC Sharma** Anand, this is JC Sharma, good morning.
- Anand Agarwal** Good morning sir.
- JC Sharma** Basically so far consciously we have avoided getting into the commercial space. Because we felt that we need to improve our debt equity ratio and we need to improve our volumes, margins and get a sense of the real estate business properly. Now going forward I do believe that Sobha once it attains its 0.5 debt equity level and with increase construction activity resulting into higher cash flows even from the new sales, we hope that we should be able to fund our ongoing new commercial projects without impacting the debt equity and at the same time realize certain benefits from the commercial development as well. The first project Sobha Global mall as such, it is a joint development project where we should be only doing the residential part and we will be building the commercial space for the joint development partner. The other development on St. Marks road will be leased out option because we have got the land as well on the lease basis. For the other projects as far as Trichur is concerned, we are selling it outright to the customers. The other one is a club house, and other things where it may be managed by us. It may be handed over to the association.
- Anand Agarwal** Okay but is there as estimate on how much you intend to spend on construction in FY13 in these projects?

- JC Sharma** Once we have the plan approvals because from thereafter only things happen but then the setting out, marking, excavation and other things initial 3 – 4 months to 2-3 quarters, the construction cost will not be significant. So we do not hope to spend significant amount on construction cost in the commercial development in the coming financial year.
- Anand Agarwal** Just a follow up to it, the debt equity should reach 0.5 hopefully in the next or the subsequent quarter after that. Is there any intention to again start acquiring some bit of land parcels or is there any plan to acquire anymore, I mean you have done a lot of land sale, so is there any plan to just as you bought back the stake from Pan Atlantic, Is there any plan to buy any more stake back?
- JC Sharma** As things stand today, we remain clear that real estate industry as it stands today is poised for better period ahead from this coming financial year onwards. If a good opportunity comes where you have immediately developable projects which do not compete with existing projects, may be looked at. but currently not pursuing any such things. But we are obvious of the fact that the increased improvement in the balance sheet should also get converted in to increased operational performance as well. And we will be doing whatever we can do in that direction.
- Anand Agarwal** Okay just on that, other question is pertaining to the revenue recognition. If I have understood correctly, the other 2 towers or other 2 projects in Forest View will cross the revenue recognition in the 4th quarter?
- JC Sharma** In this quarter onwards and Sobha City we are trying that whether we can achieve this 25% completion in this quarter or not and then in the next quarter we hope to start recognizing the revenues from our Delhi project as well. That is the plan we have worked out for ourselves.
- Anand Agarwal** Okay and I think there is one more Sobha Ivory that should hopefully start from this quarter, fourth quarter?
- JC Sharma** Sobha Ivory I think it has already started getting recognized.
- Anand Agarwal** Okay got it. That's it. Thank you.
- JC Sharma** Thank you.
- Moderator** Our next question is from the line of Mr. Gagan Agarwal from Merrill Lynch. Please go ahead.
- Gagan Agarwal** Good morning sir. Firstly if you can provide me with the numbers for customer advances for the third quarter?
- S. Baaskaran** For the third quarter customer advances 237 crores.
- Gagan Agarwal** Okay and secondly there was a drop in your loans and advances this quarter even though there were no new launch so any particular reason for that?
- S. Baaskaran** If you have seen the Delhi project in the second quarter where we have 19.76 acres of land we have surrendered back the rights to the land owners and we have taken back the money. That is why you are seeing the drop in the loans and advances.
- Gagan Agarwal** So what was the inflow in that because of that?

- S. Baaskaran** 76 crores.
- Gagan Agarwal** Sir how much more is expected?
- S. Baaskaran** There is only 76 crores we have paid for that whereas the commitment on your part is further 30 crores towards the land owner which we are not paying now and for launching the project we have to spent another 12 crores for EDC & IDC which we are not paying today. So the inflow is already fully 100% received.
- Gagan Agarwal** Okay so that project is no longer now in.....
- S. Baaskaran** For the time being we are not launching the project. We don't have the rights on the project for the time being.
- Gagan Agarwal** Okay sir. Secondly is there some reclassification on your contractual and manufacturing income because up till first half it was showing 238 crores, for 9 months I see 257 crores. So is there some change in.....
- S. Baaskaran** There have been some reclassification in this because at this quarter, Sobha Forest view has become fully owned subsidiary, so the income whatever the contracts income has been reclassified as the real estate income. To bring in some parity we have dropped the last quarter also to show you parity that is the only reason.
- Gagan Agarwal** Okay. Thank you sir?
- Moderator** Our next question from the line of Abhishek Singh from Emkay Securities.
- Abhishek Singh** Good morning everybody. I just have a couple of queries. In our contractual business we have actually seen a decline of 0.53 million square feet in our on-going projects, so basically that's the total amount of delivery that is supposed to be done. But actually in the presentation it's shown as 0.28 million square feet as the actual delivery. So can you just clarify on that? How much is the actual delivery of contractual projects in this quarter?
- S. Baaskaran** If you see on the existing projects there is some revision which has gone from the forthcoming to the ongoing projects. Whatever was expected in the forthcoming projects as we got the orders that has come in as ongoing projects. That's why we are seeing the difference.
- Abhishek Singh** Right, so our ongoing project at this point in time is 8.5 million square feet.
- S. Baaskaran** Yes you are right.
- Abhishek Singh** Okay and the same thing goes for the unbilled revenue from this also. I mean 8.2 billion is what have been showed in slide 15. But in the 2nd slide I believe it is 9.7 billion.
- S. Baaskaran** But 9.7 billion is only on real estate.
- Abhishek Singh** Okay that's the real estate part of your completed project. Okay.
- S. Baaskaran** Apart from the 9.7 billion of the real estate we have this also to be billed, contracts.

Abhishek Singh Sorry can you just repeat that?

S. Baaskaran Apart from the 9.7 billion what we have the unbilled revenue on real estate, we have contractual unbilled of 8 billion actually.

Abhishek Singh Okay so this is in addition to that. And in the proposed launches what you have mentioned, can you just, apart from the 2 launches what we have seen in Chennai, what can come immediately for another launches in might be the fourth quarter or might be the first quarter of next fiscal?

S. Baaskaran As I mentioned in the introduction call, one project is in Bangalore which I showed in the presentation first project Sobha Habitat Whitefield about 575,000 square feet will come in Bangalore. And in Coimbatore the Sobha Hillview which is about 2.56 lakhs that is also expected in this fourth quarter.

Abhishek Singh Okay. Sure. And can you just help me along with the kind of margins you are expecting in the Chennai projects?

S. Baaskaran We are expecting operating margin of about 35% in this project as well.

Abhishek Singh Both the projects, 35%.

S. Baaskaran Yes.

Abhishek Singh Okay. Sure. That will be all from my side. Thank you.

Moderator Our next question is from the line of Mr.Vineet Chandak from IDFC Securities, please go ahead

Vineet Chandak Thanks for taking my question. My first question is on the SG&A (Admin) cost for the quarter. Sir it has come down from almost 51 crores to 42 crores. Can you have specific reasons for that?

S. Baaskaran Come again?

Vineet Chandak The SG&A cost, Admin expenses. It has come down from 51 crores last quarter to 42 crores this quarter.

S. Baaskaran Last quarter it was only 41 crores. Last quarter we had one-time bonus which is not there in this quarter.

Vineet Chandak Yeah so 42 crores to 35 crores. So 35 crores is the run rate that we can look at going forward?

S. Baaskaran On this rate, you can look yes you are right.

Vineet Chandak Sir secondly in terms of our cash flows we have generated around 200 crores of operational cash flows plus another 70 crores you said has come from Gurgaon. But our debt reduction has only been to the tune of 70 – 80 crores. So can you give us where has the balance cash been used towards?

S. Baaskaran Okay. The net 200 crores worth of cash flows generated in to the 76 crores of Delhi as well, that is number one. I reduced it about 89 crores. Apart from this I invested close to 42 crores on buying back the residual value plus 25 crores on the fixed asset investment, plus I paid about 45 crores towards interest leaving the balance of 88 crores of which has gone reduce the debt.

Vineet Chandak Okay got it. Thank you sir.

Moderator Our next question is from the line of Tejas Sheth from Emkay Global. Please go ahead.

Tejas Sheth Sir just one question on the construction cost run rate this quarter has been around 1.1 billion. Isn't it lower over last quarter?

S. Baaskaran No it is more or less similar and if you should notice that the Sobha Forest View as our MD is touched that construction in the coming quarter we will ramp up this. Otherwise overall the spent on the real estate extra business more or less the same number only.

Tejas Seth So usually we have around 1.5 to 1.7 million construction run rate every quarter.

S. Baaskaran In the quarter it may be same but on an average we are selling the equal amount only.

Tejas Sheth Okay so the sales traction you are looking good and with this interest rate scenario going downwards, are we planning to increase our prices across the projects in Bangalore?

S. Baaskaran We are not looking to increasing the prices, we are not looking at that.

Tejas Sheth Okay fine sir. Thank you.

Moderator Thank you. The next question is from the line of Sameer from Morgan Stanley, kindly go ahead.

Sameer D Bhaskar just to be sure how much interest cost have you capitalized?

S. Baaskaran For this quarter or overall?

Sameer D For the quarter.

S. Baaskaran For this quarter about 70% have been capitalized.

Sameer D Okay so 9 crores represents the 30%?

S. Baaskaran Yes.

Sameer D The second question is now with this Chennai launch I guess the only 2 markets where you have the land bank but you have not launched is Kochi and Hosur, what's the outlook for the launch in these 2 city markets?

S. Baaskaran For the time being we are looking at any plans for launching either Kochi or Hosur.

Sameer D For the next 1 year – 2 year, what's the timeframe?

S. Baaskaran For about a year.

Sameer D And the other question is regarding the proposed future launches. I am looking at your presentation slide 10, item numbers 6, the Minerva Mills, if I am not wrong I think JC Sharma sir mentioned it's a global mall or commercial?

S. Baaskaran You are right.

Sameer D So what do we see here as commercial is actually the global mall?

S. Baaskaran Yes.

Sameer D Okay and of the 1.5 million square feet, how much is residential and how much is mall?

JC Sharma About 900,000 square feet, 55% of that is residential and 45% will be commercial.

Sameer D Okay and what's the arrangement with the land owner?

JC Sharma We will hand over the constructed area. He has to lease out and sell it. As far as we are concerned, we are permitted to sell our residential 100% from the day 1.

Sameer D Okay and just on the Gurgaon township project, can you refresh what's the size if the township project over there?

JC Sharma 4.32 million square feet of constructed saleable space, we should have, Sobha will have about 64% of the economic interest and the balance 36% will be shared by the 2 partners, landlords.

Sameer D On this project, now the size of the project is 4.3 million square feet is 43 lakhs square feet and what you have sold so far in I think almost 3 quarters is 2 lakhs square feet. Are you happy with the sales velocity and what's the outlook for this project?

JC Sharma We are selling our share. So out of this 1 million square feet what has been offered for sale in the 1st Phase, our share is only 671,000 square feet. We have already done more than one-third of that in 2 quarters. We have to complete this project in 5 years and we are happy with the response because we have been able to maintain the growth rate without compromising on our margin and also with the pace of the development activities.

Sameer D Okay. That's all from my side. Thanks.

J C Sharma Thank you sir.

Moderator Thank you. The next question is from the line of Abhey S from Deutsche Bank. Please go ahead.

Abhey S. Hello?

S. Baaskaran Yes Mr. Abhey. Please go ahead.

Abhey S. Sorry. Couple of questions. Number 1 is this in terms of margins, we don't really get a break up of what are the projects coming in the revenue scheme because the presales mix for city wise is only for presales and not more goes to revenues. But if I look at margins from last 4 – 5 quarters we have seen a big jump. Do we see

24% continuing with the product mix now shifting towards Gurgaon going forward or how do you see this from 24 – 25% going forward?

J C Sharma As far as the margins are concerned, based on the current selling price rate as well as on the current construction cost whatever we have been able to estimate. We feel that margins should remain at these higher levels which we have been talking to the investors. But since inflationary pressures especially on the labor front on the approval front and somewhat on couple of the key input material cost it remains. We cannot have 100% predictability about that but reasonably we feel that going forward, we have entered in to stable and superior margins in our real estate business.

Abhey S. Okay so we could take the margins to be in the region of 24 – 25% for the next 1 or 2 years going forward?

S. Baaskaran I presume so.

Abhey S. Okay the other one what's in terms of debtors, debtors seem to have come down but that's probably because Gurgaon has not come in. So once Gurgaon comes in, do we see debtors remaining at current levels or do we see debtors going up looking at the way the market is?

JC Sharma With the increased operations, increased space and with normal 2 months plus credit period being permitted and wherever some customers wish to take time for making the initial payment, for entering into agreement, which is normally allowed, these debtors levels will be reflecting the same numbers only. The debtors also to an extent it should be going up but well within the control. Our debtors are normally debtors, which gets realized around the time when the project gets completed and whatever you are seeing, they are the normal debtors in the course of the billing cycle.

Abhey S. Okay. Now going forward in the fourth quarter with Gurgaon coming in with consolidated accounts, do you really see a big spurt in P&L in the fourth quarter and going forward?

JC Sharma Okay I did mention that we hope to have the Forest View income to be incorporated in our this quarter. We are also trying for Sobha City Bangalore. The Gurgaon project is known as International City where the first revenue should be recognized in the first quarter of the next financial year.

Abhey S. Okay fine. So in the current quarter we would see the consolidated numbers driving and from next year onwards we would see the International city of Gurgaon coming and for driving numbers.

JC Sharma Yes Abheyji.

Abhey S. Okay sir. One last question which some of the speakers had asked, now with your operating cash flow having over reasonable spurts and with gearing coming down how do we see, I mean we see less of land monetization. How do you see the company looking to buy more land bank or a bit of shift towards commercial as you did indicate, how do you see that cash being utilized.

J C Sharma See since last one year, we have made a very clear intention that our business is to launch projects and repeat the cycle. This monetization we have been doing as part of the opportunity cost. So at somewhere you get certain benefits and somewhere you feel that you can do certain things in this larger perspective at this part of real estate companies. Similarly going forward getting into new opportunities of getting into commercial space also should be considered as a normal activity of a growing real estate company in the larger

perspective. Whatever we did during 08 – 09 - 10 it was primarily to ensure that when the market was challenging and it still continues to remain otherwise overall challenging we should not be impacting our growth plans because of this liquidity as well as higher debt issues. So we resorted in to those things at a specific intervention. Now as far as these things happen, it will happen in the normal course of our business. I hope I have been able to make my points clear.

Abhey S.

Yes sir. Thank a lot.

Moderator

Thank you. The next question is from the line of Mr. Unmesh Sharma from Macquarie Capital. Please go ahead.

Unmesh Sharma

Thank you very much for taking my questions. Most of my questions have been answered. I have just one regarding your outlook for FY13, by now you must have started thinking about the next 12 months, what do you think your expected sales run rate will be. Is it likely to be in line with this year? And in terms of pricing this year definitely one of the positives have been the inclusion of the Delhi project. So next year average pricing should it, do you think will continue to remain at these levels due to this mix. And my third question is regarding Bangalore specifically. By looking at what your team must be telling you on the contracting side, are there any signals that we can draw in terms of the outlook for commercial leasing in the coming year. Thank you.

JC Sharma

We hope to have in the coming financial year as well, the volume growth and the realization improvement. How much I hope that we should be able to provide clarity at the time of our 4th quarter results. But we are reasonably confident that with the new project launches and the current on going projects doing well, we should be able to do better in the coming financial year also. As far as our contracting activity is concerned, we get the feeling that coming financial year also should be better year for us from the revenues perspective. This quarter there had been a small dip but we hope to make up in this current quarter. Normal operations have reached that kind of threshold where we hope to start pursuing the growth once again.

Unmesh Sharma

Okay. Thank you very much sir.

Moderator

Thank you. The next question is from the line of Abhinav Sinha from CLSA. Please go ahead.

Abhinav Sinha

Good morning sir. My question is on your debt reduction target of 0.5x that you have given. So when do we achieve that and do we need more land sales to achieve that target?

JC Sharma

Let us say 0.5, right you are working very hard, sometimes these things we have given a guidance that it should happen in this quarter but at the most when we come before you, we hope to achieve these numbers also. The exact timing we cannot predict right away.

Unmesh Sharma

You are saying it might happen in the next 2 quarters or so?

JC Sharma

See it may not take that much time but yes it should happen.

Unmesh Sharma

And anymore land sales?

JC Sharma

I do not know. As I said land sale is not our priority. If it happens it happens but not as such it is in a strategic scheme of things.

- Unmesh Sharma** So probably 100 odd crores will come from operational surplus itself.
- JC Sharma** Let us hope.
- Unmesh Sharma** And sir on contractual income we have made around 260 crores in 9 months. This is again the guidance of 500 crores. So after particularly restructuring of Sobha Forest View how do we see it going forward?
- JC Sharma** That also there also is a good visibility and the good progress is being made, there was a small slow down which you recognized but we hope to make it up from this quarter onwards. And it should show continuous improvement from now onwards.
- Unmesh Sharma** So where should FY12 end around for contractual?
- JC Sharma** We should be doing this quarter more than 100 – 150 crores of the billing about 150 crores and then the next year onwards 500 crores kind of target we should be able to achieve.
- Unmesh Sharma** And this one last question what is the difference between consolidated and standalone profits now after Forest View has shifted?
- JC Sharma** I think in our initial statement we have communicated had the accounts been consolidated the top-line would have been higher by 30 crores. And the bottom-line would have been higher by 5.5 crores.
- Unmesh Sharma** Okay traditionally there is a gap of 5 – 10 crores anyway between standalone and consolidated so will that increase this year now?.
- JC Sharma** Of course. We see this Sobha Forest View, we have only recognized its first 30 crores now. It's 800 crores plus project and realization has to be to such an extent. So regularly it has to be reflected in the coming quarters.
- Unmesh Sharma** Okay and is the debt also higher on consol side?
- JC Sharma** 25%. What it was, it remains?
- Unmesh Sharma** Okay small amount. Okay thank you.
- JC Sharma** Thank you.
- Moderator** Thank you. The next question is from Anand Agarwal from Jeffery's. Please go ahead.
- Anand Agarwal** Thanks for taking my follow up question. If I understood correctly, I mean just for the refund on the Gurgaon land and the PE stake purchase, your operating cash flow deteriorated from last quarter levels. Is that a right estimate and then if I then adjust for these 2, then it could potentially take you at least 3 more quarters to take you to 0.5 net debt-to-equity numbers. So just wanted to get your sense on that?
- S. Baaskaran** You see this quarter we generated about 208 crores of operational cash flow inclusive of 76 crores from the Delhi property. So 208 minus 76, I got about 142 crores of operating cash flow vis-à-vis 124 crores of last quarter. Then there is no deterioration but only appreciation that happened to the cash flow.

- Anand Agarwal** I mean last quarter you although had dividend payout so if I adjust for that and see how much the debt had gone up and if I make those adjustments then it appears it's flattish to a slightly negative recurring cash flow number that comes in this quarter.
- JC Sharma** Someway certain expenditures that way cannot be planned on month-on-month and quarter-on-quarter basis. But on balance you see that as construction activities improved the cash flow improves significantly both from the existing customers as well as from presold customers. So the way we look at our cash flow, it is not linear. The customer has to be for the same project every time the same amount. So within the three months he has to give far higher amount as the construction progress improves. So the real estate cash flows are a bit dicey, wherein the construction cost more or less remains stable. Say an expect at the time of finishing there may be some spurt.
- Participant** Okay thank you.
- Moderator** Thank you. The next question is from Mr. Madhukar from HDFC Securities. Please go ahead.
- Mr. Madhukar** Yeah, All my questions have been answered, thank you.
- Moderator** Thank you. The next question is from Mr. Punit Jain from Goldman Sachs. Please go ahead.
- Punit Jain** Hello good morning sir. How do you look at your dividend policy going forward because you have been continuously raising dividends over the last couple of years and do you have any dividend payout ratio in mind as you move forward?
- JC Sharma** We have been always trying to give around 20% or so of the profit what we are earning to be distributed among the shareholders. Going forward as the cash flow improves, right, dividend policy also should remain stable with the bias towards improving it.
- Punit Jain** Okay, and as the operating cash flow improve going forward, do you think that will you change your sales strategy at some point of time in terms of how you think that how much you want to sell when you launch a property and how much you want to sell along the way?
- JC Sharma** Come again Punitji, can you repeat your question?
- Punit Jain** Like with your cash flow and balance sheet improving, do you think that at some point of time you will change your sales strategy somewhat, like in terms of how much you want to presale and how much you want to sell as you start constructing, because you typically get a slightly better pricing once the property is under construction?
- JC Sharma** It is a fair point but generally speaking we are not controlling the presale What we are controlling is phase wise release of within a project certain towers for sale where architecturally and otherwise they feel those projects can be completed on standalone basis as well with all the amenities so that the delivery of all the Towers can be done in a staggered manner. If the sales improve, we will be offering newer towers for sales faster as its happening in the case of Sobha City, Bangalore.
- Punit Jain** Okay thanks a lot.

- Moderator** Thank you. The next question is from the lines of Mr. Adhidev Chattopadhyay from Edelweiss.
- Adhidev Chattopadhyay** In the press release you mentioned that in Chennai launch you have seen a good response to whatever launches you have planned. Would you give us some idea on what is the amount of sales would have clocked on the launch and what is the sales target for this fiscal year from the Chennai Project?
- JC Sharma** On the day of our announcement we have got more than 500 calls. Above hundred people have visited the site also and we have also collected a good number of cheques. I'm not in a position to disclose that. But it looks like that this project also is going to add both the volume and cash flow improvement from this quarter onwards.
- Adhidev Chattopadhyay** Okay, the second question pertaining to the Bangalore market, are you see a slowdown in demand in any specific segment like one crore plus home or 50 lac to 1 Crore bracket? Is there any specific sign of slowdown?
- JC Sharma** If you look at 71% of our new sales, it is coming from the products which are being sold at Rs. 75 lakh plus sort of a thing and we are seeing improvement in the demand. At the same time we are not denying that there is also improvement in demand for projects which are around 50 lakhs or below 50 lakhs level. So market is huge and large enough. We have chosen this market where we find that this market will be more resilient in tough times and during good times also its growth can match the growth rate of even the sub 50 lakhs category market also.
- Adhidev Chattopadhyay** Okay, thank you.
- Moderator** Thank you. The next question is from Mr. Vineet Chandak from IDFC Securities.
- Nitin** I am Nitin. Thanks for taking the question again. So on the debt-equity ratio, 0.5 is what we have been talking about on a medium term 3-4 years view, this is what, where you want to stabilize the debt equity ratio? Or you see scope of improving that further or beyond this you continue to, once you hit 0.5, you use increase incremental cash flows to for commercial purposes, some other land acquisitions and other sort of activities ?
- JC Sharma** It is like this, on a month-on-month, Quarter on quarter basis it is difficult to calibrate and we have to be like that only. This is a specific guideline, which we have It helps real estate company to remain structurally stable and can pursue multiple growth opportunities depending upon the appetite and the capability it had in the given market scenario. So the broader perspective remains, like you have dividend policy you have D/E policy, which should be operated within that 0.5 level. It cannot be considered that every single month or every single day we have to maintain at that level only.
- Nitin** Something as a philosophy 0.5 level we want to hold ourselves to.
- JC Sharma** Hello, come a bit louder please.
- Nitin** I'm saying Sir as a policy 0.5 debt-equity we are looking to maintain consistently going forward and beyond that best of philosophy go away going forward.
- JC Sharma** Sorry, there was an announcement. What is the question, you can repeat.

Nitin Basically I'm saying the 0.5 or thereabouts. Philosophy or as a business strategy we would be maintaining a net debt equity ratio at and basically not only. Cut it down to much below that as a sort of the cash flow picks up as you go along the coming years and look to utilize the incremental cash flows largely for more business growth purposes.

JC Sharma As it looks like.

Nitin Okay, Thanks very much.

Moderator Thank you. The next question is from Gunjan from JP Morgan. Please go ahead.

Gunjan Most of my questions have been answered, just two things. Firstly on the cash flows, would you be able to share what was the collection from real estate in this quarter and also the construction outflow?

JC Sharma Collections from real estate is about 320 Crores this quarter.

Gunjan 320 Crores. And what would have been the construction outflow only for real estate projects?

Mr.Baaskaran About 130 Crores.

Gunjan And on contracting?

Mr.Baaskaran On contracting we would have spent about close to 50 Crores.

Gunjan Okay and sir secondly on your margin, though you seem slight improvement over last two quarters but to expect Gurgaon and for us to additional phases to kick in the coming quarters. How do you see the margins going forward? Should we see a significant improvement ahead?

JC Sharma Margin may not be, because there is as such no price increase and the Gurgaon project is not coming at a higher margin than the average margin what we are realizing. So we see that we should stabilizing the operating margin at this levels but going forward with higher income getting recognized, we'll have better in value terms profitability.

Gunjan Thanks you. So sir the margin would continue to stay at this level of 24 to 25%.

JC Sharma Pardon me?

Gunjan The margin would continue to stay at this level of 24 to 25%?

JC Sharma Hopefully yes.

Gunjan Okay, alright, thank you sir.

Moderator Thank you. The next question is from Mr. Prakash Agarwal from RBS. Please go ahead

Prakash Agarwal Good morning sir, hello. Just wanted to check on this presentation slide nine talks about 8.7 million square feet on the Bangalore ongoing project. Just wanted to know how much is already been recognized for specifically for Bangalore and in terms of new launches you have shown Habitat been launched, but what

is your outlook on the near term monetize able land banks specifically for Bangalore? And is this the reason of going to Gurgaon and Coimbatore and Chennai that you have more monetizable land there and not in Bangalore?

JC Sharma No I think if you look at forthcoming projects, You will see four five projects, where we are converting them into monetizable land stock, projects stocks that way. This is just in this quarter; there will be one project launched in Bangalore and the other project which have been launched in Chennai and Coimbatore, where the approvals are at the advanced stages. That answers your question. As far as the other information about the area sold and other our CFO will be communicating.

S. Baaskaran On the income which not recognized out of Bangalore sale is about 660,000 square feet.

Prakash Agarwal Not recognized so out of this 8.7 basically.

S. Baaskaran 8.18 is total sales for the quarter across India, out of which totally I am not recognized for 1.41 million square feet. On this Bangalore contributes 660,000 square feet.

Prakash Agarwal And the next slide that I see Slide #10 Hosakerehalli, Is it Hosur project? Is the land in Hosur or..

S. Baaskaran No, Hosakerehalli is in Bangalore.

Prakash Agarwal This is Mysore Road and these are all what mid income to low income kind of project or for these are significant projects exceeding 15?

JC Sharma These are mid income to high-level, as we have been telling repeatedly we are not at the affordable segment at all.

Prakash Agarwal But that would mean what three and half four and half thousand kind of range or?

JC Sharma The average realization will not be less than four thousand in any of our projects.

Prakash Agarwal And that includes your Hosur land parcel also?

JC Sharma Yeah whatever is coming.

Prakash Agarwal And when do you plan your Hosur project?

JC Sharma Not immediately as I said our Cochin and Hosur projects, we are not currently planning.

Prakash Agarwal Okay sir, Thank you.

Moderator Thank you and the last question is from the line of Mr. Avneesh Sukhija from BNP Paribas.

Avneesh Sukhija Hi sir, thanks for taking on my query. Your delivery target for the whole year has come down from 5.05 million square feet to 4.3, could you elaborate on that?

- JC Sharma** See the real estate we have planned to deliver 2.2 mnsft on the real estate, which are on target. As far as the contract is concerned there will be some delay in the clearances being from the customer but we plan to pick up this in the coming quarter onwards as communicated earlier.
- Avneesh Sukhija** Okay, real estate has also come down 2.25 to 2.
- JC Sharma** We have one more quarter to go we will able to catch up.
- Avneesh Sukhija** Okay, alright sir thanks.
- Moderator** Thank you. As there are no further questions I would now like to hand the conference over to Sobha Developers Management for closing comments.
- Management** Thank you once again. Right, as we have tried to communicate via this quarter that we are on the threshold of showing improved volumes which have started getting converted into improved cash flows and now onwards would start getting flowing into our P & L a/c. We see that the current mis-match that we are seeing from the sales numbers to the P&L numbers, we will start increasingly getting big from the coming quarters onwards. We also do believe that the interest rate cycle has peaked and companies should start getting the benefit of having a lower payout as well as the lower percentages. We also hope to launch good number of projects in this quarter and in the coming quarters to ensure that, when the pricing indeed turnaround which we hope that next 2 to 3 quarters, it should be visible. We should have the availability of products to take advantage of that. That's where Sobha Developers feel that it is poised for. Once again thank you everybody for joining this conference call and Happy New Year.
- Moderator** Thank you very much. On the half of ICICI Securities Ltd. that concludes this conference. Thank you for joining us. You may now disconnect your lines.