



“Sobha Developers Conference Call”

August 9, 2011



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Moderator: Ladies and gentlemen, good day and welcome to the Sobha Developers Q1 FY 2012 earnings conference call of hosted by Kotak Securities Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Ajay Mathrani. Thank you and over to you Sir.

Ajay Mathrani: Thanks Faizal. Good day everyone. We have with us Mr. J.C. Sharma, Managing Director of Sobha Developers and Mr. S. Baaskaran, Chief Financial officer of the company to discuss Q1 FY'12 results. We will have a Q&A post the opening remarks. I would like now to invite them to make their opening remarks.

J.C. Sharma: Good evening everyone. We are happy to be here in this concall hosted by Kotak Securities for declaring our first quarter results for the financial year 2011-12. We have written this financial year with the launch of six new projects consisting of about 3.48 million square feet and including a new launch in the city of Mysore, Karnataka. In this first quarter we have done new sales of about 0.67 million square feet. The average realization, the cost in this first quarter Q1 was Rs.4547 per square feet which did go up by 11% compared to the average realization of about Rs.4082 per square feet in the financial year 2010-11.

This includes realization is primarily on account of the sale of the new launches, which we have done at a higher price than what we were realizing from the existing product mix. We have received positive response from all our new launches, which we have done in the first quarter. During this quarter we have also recorded a topline of above 319 Crores, out of which Rs.195 Crores has come from the real estate division and about 123 Crores has come from the constructing and manufacturing activities. This topline is up by 2% compared to the corresponding period of the last year. So, it is lower than the preceding quarter. The real estate operations constituted about 61% and the balance had come from the complex and manufacturing business. It should be pertinent to know that the real estate has been contributing in the recent past about 70% of our total revenue. Despite constructing division contributing at 39% or so, we were able to maintain our operating margins, we were able to improve our profit before tax, but for increase in our implied cost and increase in our tax provision, we would have done much better. Till the profit before tax is higher by about 4% but profit after tax is lower by 9% due to 31% provisioning of the income tax.

Operating margins in real estate remains more than 35% and all the construction still continues to do at cost plus basis, there we ensured 15% plus margin both from the contract and the



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manufacturing division. This year we have as on date about 8 million square feet ongoing projects, out of that, 7.21 million square feet is to our account, rest is to our joint development partners. Out of this, 7.21 million square feet we have already sold about 3.4 million square feet and the balance 3.8 million square feet remains to be sold. In addition to that we have about 200,000 square feet of area to be sold on completed project. We expect that going forward our average realization should further improve from this unsold inventory. From the existing customers we hope to realize about Rs.880 Crores and we hope to realize about 2065 Crores from the unsold apartments, based on the current selling prices. We feel that we will be completing all such projects by incurring a cost of 1435 Crores as per the current cost estimation, which will leave us about Rs.1510 Crores as operational surplus from the real estate division alone.

As communicated to you, the realizations are better and likely to become further better as we move forward. During this quarter we have completed and handed over one real estate project, measuring about 300,000 square feet. As per our construction and manufacturing division is concerned as I have said we have clocked a turnover of 123 Crores in the first quarter. Going forward we have got clarity of about 11 million square feet of construction to be executed out of that, about 8 million square feet of projects are being undertaken currently and balance 3 million square feet we should get started in the next couple of month's time. We see that these projects we should be able to complete in the next two years and based on the current run rate, we hope to grow more than 500 Crores topline from our constructing and manufacturing divisions and we will be maintaining the margin as I have said.

We have completed two constructions in this quarter, which is consisting of about 240,000 square feet. The net debt as of June 30 stands at 1297 Crores, which is about 100 Crores higher than what it was in the beginning of this financial year. This debt has gone up primarily on account of the requirements we had to meet launch projects in Gurgaon to pay for EDC, IDC and other charges. Going forward we feel that the realizations from these new launches will help us in bringing down our debt to around 1000 Crores and to our stated target of 0.5 debt to 1 equity as we move forward. This is primarily based on the improved phase what we have witnessed from the month of June 2011 onwards. We have already done more than 1 million square feet of new sales so far and we feel that our objective of doing between 3-3.5 million square feet of new sales in this challenging environment, we should be able to achieve. We have already launched another 4 million square feet of township in Gurgaon. We have also launched one project in Pune. We hope to launch two more projects in Bangalore this month and we also are confident of launching two more projects in Chennai and one more project in Coimbatore in the next two month's time. With that we hope to do 11 million square feet of launches complete in this financial year and will be able to give you clarity in the next quarter about any further new launches if at all, we should be able to do it in this financial year or not.



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We have also brought this 40.5% stake held by Pan Atlantic in Sobha Forest View after the end of this quarter and with that the Sobha will be recognizing the revenue of this project, because it owns 59.5% of economic interest in this project, which is of about 1.4 million square feet. We also see that despite the tough environment with the company's ability to launch projects, complete projects, service all its obligations including repayment of loans and interests will be met. We have more than 500 Crores of undisbursed sanction limits from reputed banks, against ongoing projects, whereas the requirement to repay the loan is about 400-odd Crores in this coming nine months. We are also aware of the global economic scenario as well as this challenging and tough negative sentiment with which this industry is going through, but at the same time we realize that the demographic dividend real estate has started enjoying now, as we have seen the resilience of the customers in buying the apartments at the current prices without much of an hesitation. This gives confidence that our targeted new sales of about 1500 Crores in this financial year we should be able to achieve comfortably in this financial year.

As things stand today we have delivered 43.22 million square feet of projects consisting of about 90 million square feet in real estate and about 24 million square feet on construction (ph). We are currently executing 8 million square feet in the real estate and about 8.26 million square feet in the construction (ph) side.

We thank you for your participation and now leave the floor for discussion, our CFO; Mr. S Baaskaran will be taking all your questions. Thank you.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Unmesh Sharma from Macquarie. Please go ahead.

Unmesh Sharma: Thank you very much for taking my questions. What is your outlook on prices in the Bangalore Market, you did touch upon the impact that there has not been much impact on bill rate, but at the same time what do you think will be the movement in prices for the next one year? Secondly, in terms of your experience outside your home markets of NCR and Pune, from marketing exercise or what is the feedback from the marketing personal that you have on the ground in terms of the offtake of your projects in these markets? And the Third, is slightly more hypothetical. In terms of the US slowdown are you hearing of any impact on commercial leasing or on the consumer sentiment when it comes to eventually showing up in housing demand? Thanks.

J.C. Sharma: I will take your last question first. It is too premature for me or for anybody to as such articulate about decreasing demand impact in the commercial real estate segment, but whatever little bit, we are hearing at the ground level, there has been a greater absorption of commercial real estate in 2011, than in any financial year in last four five three years. Besides that our core client Infosys's job,



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whatever we have in our hand, gives as things stand today, a clear confidence that, the increase in the constructing revenue what we are talking about means that the constructing activity in the general market should remain quite good. As per rate the Bangalore market and the prices going forward is concerned, that was your question number one, we feel that a) that it has become increasingly better, but for that, the kind of volumes what we are achieving now on such good prices normally speaking as a layman, we would not have and should not have expected and we did see a kind of a blip in the first two months. But thereafter the way things have picked up and we feel that the second quarter normally is always good. Now from the next month onwards the festivity and the benefit of that also, start accruing historically. We are reasonably confident that if the volume growth as well as the current prevailing prices should be maintained. Our launch in Gurgaon, we did not start with very high expectation, but still we have been able to sell about 75,000 square feet and have been able to book P&L of around 70 Crores so far. If you take their own time it is a Bungalow scheme, but we are trying to sell it to the end customers and we feel that going forward looking at the last project to be done in three to four phases over a period of four to five years time, at the edge of Delhi, it will have a good comfort to us from our cash flow and from our parties perspective. Pune also, with the launch of this third project Sobha Garnet since last month we have seen clearly improvement in our pickup and we hope that this momentum should continue. Coimbatore and phase II they have been giving us a credit rate of new sales and we are not complaining. We are banking upon a significant volume improvement from our Bangalore market and the new launches in new cities should act us to give us the increase in the volumes that we have been talking about.

Unmesh Sharma: Thank you, very much. These were all my questions.

Moderator: Thank you. The next question is from the line of Adhidev Chattopadhyay from Edelweiss Securities. Please go ahead.

Ashish: Good evening Sir. This is Ashish here. Just wanted to understand a couple of items over here. One, the deferred tax effort has become deferred tax liability. I understand the difference is very small about 20 Crores. So the question that I really had in pertaining to that is how is it arising from and would this be recurring in nature? Second thing I wanted to understand is what is the actual cash interest outgo in the quarter?

S Baaskaran: What is the second question please?

Ashish: See in the orders of actual cash paid by way of interest during the quarter?



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S Baaskaran: The actual outflow of interest in this first quarter is about 43 Crores. As far as the deferred tax is concerned, since we are inventorizing and capitalizing such portion of interest that will keep to happen under the head deferred tax. As and when the project is launched it will be off setted.

Ashish: We do not see this number increasing going forward?

S Baaskaran: It will be more on the similar numbers only.

Ashish: Would we be having a sense of breakup of inventory by city? I mean you have given the total inventory that we have, by the unsold across all the projects put together would we be having a sense of unsold inventory we have in each of these cities?

S Baaskaran: In SBA or you are asking in numbers?

Ashish: In SBA?

S Baaskaran: I will give you before the end of this call.

J.C. Sharma: About 200,000 square feet.

Ashish: In each of the cities I was looking for?

J.C. Sharma: I will give you before the end of this call.

Ashish: Thanks. I will come back for more questions.

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

Anand Agarwal: Good evening Sir. My first question is pertaining to have you met the dividend payout done in this quarter or will it be done in the second quarter?

S Baaskaran: Sorry.

Anand Agarwal: The dividend payout will that get reflected in the first quarter numbers only or will they get reflected in the second quarter numbers?

S Baaskaran: It will be the second quarter numbers.



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Anand Agarwal: Okay then my second quarter given that you will have a dividend payout and you also bought the Pan Atlantic stake in this quarter do you expect net debt to come down in the second quarter or to still go up again in the second quarter and then start coming down from the third quarter onwards?

J.C. Sharma: It may remain around the same level or it may come down. It is not likely to go up as it looks like because, most of the investments we have made in the first four months in launching the products or in paying out the different rates on buying this Pan Atlantic share going forward the cash flows either from the completed projects or from the new projects should be far higher than the requirement for the construction cost. Otherwise on the basis of which we feel going forward the debt should start coming down.

Anand Agarwal: This is despite having five more new launches in the remaining part of this quarter, two in Bangalore, two in Chennai and one?

J.C. Sharma: That is the required. The cost has already been incurred.

Anand Agarwal: My second question was have you bought any land in this quarter or anything?

J.C. Sharma: No.

Anand Agarwal: Nothing. Third, I mean, despite your residential area under execution going up, I mean your revenues from the residential business has not really increased on a YOY basis. Can you elaborate on that? I mean why is that so?

S Baaskaran: The Forest View projects which we are started selling from October onwards it has not reached the benchmark figure of 25% threshold limit of 25% to start recognizing the revenue. So there is an accumulated one time big income, which is going to happen either in the second quarter or in the beginning of the third quarter based on the construction work. So and then the Sobha City which you are launched you have selling which you have started selling which has not reached to 25 limit as well. So these things will start coming in from this year onwards.

Anand Agarwal: I have a few more questions, which I will take it offline. That is about it. Thank you.

Moderator: Thank you. The next question is from Gunjun Birthyani from JP Morgan. Please go ahead.

Gunjun Birthyani: Sir I have couple of questions, one just again on the revenue recognition number, if I look at your quarterly revenue being recognized it has been around 1.8 billion to about 2 billion and whereas your quarterly booking run rate is close to 300 Crores is there, obviously Forest View is one project, but when do we see this scale up coming to about 300 Crores which is your booking run rate?



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- J.C. Sharma:** I think you should be seeing this melting box rate and this revenue recognition from the Q3 quarter onwards.
- Gunjun Birthyani:** But Sir, what I understand lot of your sales are happening in projects which are ongoing projects are at significant stage of completion, so why is not that contribution coming in terms of recognition?
- J.C. Sharma:** It is not like that, as Mr. Baaskara has pointed out most of the new phase which have taken place like in case of Sobha Forest View or Sobha City, it remains yet to be recognized an income against that and wherever we do not have that agreement done, even if newspaper ways (ph) income can be recognized we do not recognize.
- Gunjun Birthyani:** Okay and Sir on your debt it has gone up in this quarter because of these payments for the Gurgaon launched and the private equity buyout, but do you see this debt of your target is about 1000 Crores but where do you see debt by the end of this year, because in Q2 again, this Pan Atlantic stake private equity buy out again there is about 40% that is held by them, I am not sure if you plan to acquire that 40% as well and further you have more launches coming up so is it that for the next two quarter still we see the debt remaining stable or increasing marginally?
- J.C. Sharma:** Someone asked just before you asked this question, is the debt from this quarter onwards, debt will start showing a trend of reduction. So dividend payout and the Pan Atlantic stake will be factored, but at the same time the operational cash flow improvement also should be visible and going forward, from the next quarter onwards the reduction will be much more visible which gives us the kind of clarity and comfort that this year also, we should be able to bring it down, our debt level and from what it was 1200 Crores to about 1000 Crores despite this Pan Atlantic buyout.
- Gunjun Birthyani:** Sir 1000 Crores you are saying by the end of this financial year?
- J.C. Sharma:** Yes.
- Gunjun Birthyani:** Sir lastly on your margins, your margins are about for this quarter EBITDA margins is about 22% not to sure why is the margins still low when you say that on real estate you are doing about 35%?
- J.C. Sharma:** This is primarily because the composition of this income in this first quarter is huge towards the constructing revenues. It constitutes about 39% of the total revenue, where historically the real estate contributes about 70% of the total revenue so the margins from the real estate is higher. So



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despite special realization this income of constructing revenue recognized more it is reflecting in little it lower EBITDA margin in this quarter.

- Gunjun Birthyani:** I will take this online because my adjacent margins for real estate still come out to be lowering, anyway I will take this offline, just lastly on you guidance number which you gave of about 1500 Crores that is on the revenue of 1500 Crores or is that bookings?
- J.C. Sharma:** Bookings, new sale.
- Gunjun Birthyani:** Okay all right. Thank you sir.
- Moderator:** Thank you. The next question is from Gagan Aggarwal from Merrill Lynch. Please go ahead.
- Gagan Aggarwal:** Good evening Sir. I had a question on your Gurgaon project, I just want to understand how much Sobha is invested in the Gurgaon International City project and what would be the expected construction cost on per square feet basis for the project?
- S Baaskaran:** The construction cost expected to be was about Rs.3000 per square feet.
- Gagan Aggarwal:** How much total investment you have done in this project till date?
- S Baaskaran:** On this project o the other project put together we have done about 500 Crores of investments.
- Gagan Aggarwal:** Okay that is including the group housing?
- S Baaskaran:** It includes the group housing and also includes the EB servicing charges, which has to be recovered from the customer catchment including refundable deposits.
- Gagan Aggarwal:** Okay secondly on the tax rate do you expect the tax rate to continue for this year it will be lower?
- S Baaskaran:** It cannot be lower it will be at the same rate thorough out this year.
- Gagan Aggarwal:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Arun Agarwal from Religare Capital Markets. Please go ahead.
- Arun Agarwal:** Good evening everybody. Couple of questions first on the employee cost why is employee cost higher on a quarter-on-quarter basis?



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- S Baaskaran:** This year we have given the increments as the regular process the increment has been given about 15% average increment was given. This is in the first quarter, so you will have the impact starting from April onwards.
- Arun Agarwal:** So next quarter onwards this would be the kind of run rate that we will see in the quarters. Second thing on the Rs.100 odd Crores that you have spent during the quarter because of which the debt is gone up, can you please give me the bifurcation of that, has to what portion of that would have gone to EDC IDC in Gurgaon?
- S Baaskaran:** About 92 Crores should have gone towards the ED side, which is collectible from the customer and the balance 8 Crores towards the other infrastructure development other launch expenses.
- Arun Agarwal:** Do you think these kinds of expenditure are going to come in future quarters as well because we are about a launch of few more properties?
- S Baaskaran:** EDC IDC is the peculiar case in Delhi only; those things are not available in any other location so this is only pertaining to Delhi.
- Arun Agarwal:** Within Gurgaon as well you have another group housing project coming?
- S Baaskaran:** There also we have paid certain sum of money where it is sufficient enough for us to launch the project so we do not foresee anything immediately.
- Arun Agarwal:** Okay so basically all of the EDC IDC payment has been made in that particular?
- S Baaskaran:** Yes, there are certain expense we paid, but whatever is required to be launched it has been paid.
- Arun Agarwal:** Okay one last thing, in your presentation where you have given the states of upcoming projects, the expected date of approval seems to be changed from June to August is that this kind of change in the status expected here onwards. Because for example your Coimbatore project was earlier expected to be, you were expected to get approval by June 11 now it is August 11 same date for Chennai project it was earlier June 11 now its August 11. So, it is like these kind of?
- S Baaskaran:** If you see that it has happened only in region in Tamil Nadu because after the elections the government changed all those issues and it has stopped and now it has started. Now this is the realistic, where we will be able to get this approval.
- Arun Agarwal:** Thanks a lot.
- Moderator:** Thank you. The next question is from Punit Jain from Goldman Sacs. Please go ahead.



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- Punit Jain:** Good evening. My question is with respect to thought process followed behind pricing of various properties so, what is the flexibility with respect to pricing and what decisions go towards pricing of a particular property and at what point of time say the pricing gets adjusted if a particular project sees a certain amount of success?
- S Baaskaran:** As far the process of pricing is very clear the actual cost of land plus the construction cost plus the margin what we plan to 35% operating margin, fixed at the same price. As regards the flexibility of the project we already earlier demonstrated into 2008 and there is situation is warranted the reduction in the price by giving discount, which we adopted during the three years that call, we will take as and when the situation warrants, but at this moment we are finding this market is absorbing the product the price being offered in the market which is very competitive for a product what is coming from the brand Sobha and we are not seeing any pressure at this point on the price front. As and when any situation comes, any such eventuality arises we will look at that point of time.
- Punit Jain:** With respect to interest rate price do you think any impact or some of that being felled in your projects are in the market in general?
- S Baaskaran:** It is hardly about 10-15 days since the hike in the interest rate was happened and only one bank has hiked the home loan rate and still our customer profile shows that 42% of customers do not go for home loans so that has not changed yet. In these 10-15 days we are not seeing any substantial shift in the decision-making by the customer from buying a property going forward will be watching closely and then we will take appropriate action if anything is required.
- Punit Jain:** Sir, I am not saying somewhere you had mentioned that more than 1 million square feet of sales has been made in FY'12 while till June it is around 0.67 million square feet, which means that post June more than 0.35 million square feet of sales have been made?
- S Baaskaran:** I do not who has made the statement.
- Punit Jain:** This was made earlier in the call in FY'12 close to million square feet of sales have already being made.
- S Baaskaran:** I am not too sure. What we are saying is we have sold about 660,000 square feet of sales in the first quarter and July and August, this quarter we are talking about the (indiscernible) 31:38 year. That is what we are seeing.
- Punit Jain:** Thanks a lot.



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- Moderator:** Thank you. The next question is from Hitender Gupta from Jaypee Capital. Please go ahead.
- Hitender Gupta:** Good evening everybody. Just wanted to understand, can you just give me the breakup for the project which has been recognized for this quarter?
- S Baaskaran:** It is a big list and we do not share the details as far project wise we do not share the revenue what is recognized or not recognized. What we share is on the entire overall real estate development is for the project wise revenue policy we do not share each project wise.
- Hitender Gupta:** Of the launches, which we have done in this quarter, any of the projects to recognize revenue for this quarter.
- S Baaskaran:** We have not recognized still on Sobha City on the Q1 what we launched we are not recognized any income on the Sobha City.
- Hitender Gupta:** I just wanted to know whether it will start recognizing revenue in FY'12?
- S Baaskaran:** Land income will start recognizing in FY'12.
- Hitender Gupta:** How much it would be?
- S Baaskaran:** It is based on the value of the sale value and based on the land cost.
- Hitender Gupta:** 3.48 million square feet, which you have launched in how many years, you are expecting to complete this project and what would be the total revenues expected from this?
- S Baaskaran:** Sorry come again.
- Hitender Gupta:** Of the 3.48 million square feet this year's launch, how many years will it take to complete the project and how much revenues are you expected from this project?
- S Baaskaran:** This 3.4 what we launched in the Q1. It will take about 3 years to complete this project.
- Hitender Gupta:** How much would be the revenue we expect?
- S Baaskaran:** About 1560 Crores is the revenue to be generated from this project.
- Hitender Gupta:** What kind of margins would be there would be the same like 30% to 35%?
- S Baaskaran:** It is about 35%.



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- Hitender Gupta:** The plotted development, which we have launched what kind of margins we are expecting, would be higher or lower?
- S Baaskaran:** Little bit higher about 40% but the volume of plotted development is very less, only 220,000 square feet.
- Hitender Gupta:** That it is from my side. Thanks Sir.
- Moderator:** Thank you. The next question is from the line of Sashi Kiran Rao from Standard Chartered Securities. Please go ahead.
- Sashi Kiran Rao:** Thanks for taking my question. I just wanting to know you mentioned in the call that you have made provisions for income tax can you please explain what exactly that is made, the deferred tax?
- S Baaskaran:** On the interest outflow on a quarter-on-quarter basis we capitalize certain interest and we charge to profit and loss of certain interest. The capitalized interest we calculate for the income tax benefit and on that we take a deferred tax.
- Sashi Kiran Rao:** Okay and the other question is for the rest of the year. In the Q1 I think the sales revenue booking was not so strong. Rest of the year what are the projects we you think would be contributing to the revenue and how much is the un-booked revenues attributable to those projects?
- S Baaskaran:** The project Sobha Forest View and the Gurgaon project and probably Sobha City we need to see, and Garnet in Pune, Coimbatore and Chennai projects should contribute towards the construction revenue to recognize in this year, which will show an improved revenue admission on real estate in the coming quarters.
- Sashi Kiran Rao:** The Gurgaon project you will be recognizing revenues in this year itself?
- S Baaskaran:** In this year it is a villa project. So this will start recognizing revenues from this year onwards.
- Sashi Kiran Rao:** What is the margin that you are taking on the villa project?
- S Baaskaran:** About 35%.
- Sashi Kiran Rao:** Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Abhinav Sinha from CLSA. Please go ahead.



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- Abhinav Sinha:** My question is on margins. Have you seen that the peak of cost increase, which was pressuring our margins is now behind us or are we still not comfortable on that?
- S Baaskaran:** We are seeing a bit of pressure on the cost as well but having said that we are confident of maintaining this margin with increased and improved average realization what we are seeing. We will be able to get this margin what we are getting today.
- Abhinav Sinha:** So, 20% odd on EBITDA level probably we will be able to sustain?
- S Baaskaran:** 20% to 22%.
- Abhinav Sinha:** Secondly on Gurgaon you mentioned that you have given 92 Crores on EDC payment this refers only to the phase I of launch that we have done?
- S Baaskaran:** This is for the entire project we have to pay including apartment as well as certainly villa.
- Abhinav Sinha:** Thanks.
- Moderator:** Thank you. The next question is from the line of Neetika Singhal from B&K Securities. Please go ahead.
- Neetika Singhal:** My first question pertains against the Gurgaon International City. How many villas have we launched in the first phase and out of this how many have been sold?
- S Baaskaran:** We have sold about 75,000 square feet in the Q2 only we have launched the project about 75,000 square feet of villas, equivalent to 20 units have been sold.
- Neetika Singhal:** If I understand rightly as per your revenue recognition policy in case of group housing what you do is that you recognize the revenue attributable to the land portion as and when 25% of the money you receive but mainly due to sale of land and coupled with this, you have been launching projects continuously for the last 12 months, so I just fail to understand why there has been some lumpiness on the revenues and the dip in the margins?
- S Baaskaran:** As we were stating earlier in the call the dip in the margin is because the contribution of contractual income on the overall revenue this time has gone up by about 8% to 9%, which has shown a reduction in the EBITDA margins on an the overall level and the last project what we launched in the October-November of 2010 will reach the 25% only during this quarter, it's a big project. So that will start showing the revenue.



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- Neetika Singhal:** My last question pertains to your payment I mean Pan Atlantic investment. How much payment is still to be done for the buyout?
- S Baaskaran:** For the 50% stake we have paid already US \$10.5 million there is nothing to be paid out of the stake what we have purchased already. They are holding the balance.
- Neetika Singhal:** So you plan to do the buyout for the entire left out portion as well?
- S Baaskaran:** That we have to see. They have time, but right of first refusal lies with us.
- Neetika Singhal:** Thanks a lot. That it is from my side.
- Moderator:** Thank you. The next question is from the line of Samir Baisiwala from Morgan Stanley. Please go ahead.
- Samir Baisiwala:** Good afternoon. Just on the debt repayment if I remember correctly at the beginning of the year you mentioned that about 550 Crores is meant to be repaid this year and now you are updating 400 for the balance part of the nine months is that correct?
- S Baaskaran:** Correct.
- Samir Baisiwala:** So we have already paid out 150 in the quarter gone by and the 400 Crores that we have is it lumpy or it is equally spread out between the three quarters?
- S Baaskaran:** It is equally spread out between the three quarters.
- Samir Baisiwala:** Second question on the unsold but completed inventory of 200,000 square feet was not this number 125,000 square feet end of previous quarter?
- S Baaskaran:** This quarter we completed one more project this quarter Q1 of June 2011, we have completed one more project, so the number has gone up there.
- Samir Baisiwala:** It is very big number in value term I am just curious that most of the time the project gets sold during the course of development and construction but in your case we are almost always left with certain inventory. What should we understand on this and how long do you think you will be carrying with unsold but completed inventory with you?



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S Baaskaran: Unsold but completed inventory as on June 30 is about 190,000 square feet on an overall numbers of about 8 million square feet what I handle, is a very small number. As you know, the last few apartments get sold over a period of (indiscernible) 41:03 we said we are confident with 190,000 should get sold, majority in this coming quarter.

Samir Baisiwala: Why are you so confident on that are you cutting prices?

S Baaskaran: Because the apartment is ready the customers in this scenario does not want to make EMI payments, Pre-EMI and all those things. It will move faster.

Samir Baisiwala: This Gurgaon project for 75,000 square feet sold I think you mentioned or Mr. Sharma mentioned 70 Crores of realization almost we are looking at Rs.9500 per square feet and you mentioned Rs.3000 per square feet construction cost but the margin you mentioned 35%. Does the number tie-up, so where is the in a gross margin looks like 65% but your operating margin you are indicating 35%?

S Baaskaran: We always talk about operating margin after that you have to reduce the land cost right, this is the joint development know, so whatever I construct for them that will also become my cost. So, on that figures we get about 45% operating margin.

Samir Baisiwala: So that means this Rs.3000 per square feet is cost without loading the partner's cost and if I had load that is Rs.4500 because 70:30 or something like that and plus land cost that is the math behind 35% right. Just a final question on the dealer raising target for the balance part of this year you target to almost bring it down to 1000 Crores from 1290 something right now. So we are looking at 300 Crores of surplus from operations. Is that a realistic and achievable target?

S Baaskaran: Yes, it is realistic and achievable target because all this we launches what are we are seeing now and new launches to come this year will give us that cash flow and contractual income we are growing strong there that also will generate surplus cash flow there, which will be there to generate to this cash flow to reduce the debt.

Samir Baisiwala: On both these counts if I look at your new sales that you are doing we were doing almost 0.7 in the quarter gone by and full year target is 3-3.5. So the runrate is not too different right from what you have done right now you would probably scale it up to 0.8 or something like that 0.7 and as far your contractual business is concerned it would the runrate that you had in Q1 is something that you want to maintain for the balance three quarters as well and in this quarter we have seen a net profit of roughly 30 Crores. So I am not quite sure that the new launches and the contractual business will see such a meaningful scale up in the balance three quarters to actually you will be able to scale up your 30 Crores profit and this company profit with operating surplus



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of 300 Crores for the balance 9 months. I am not able to understand whether this is realistic or it is just a talk?

J.C. Sharma:

It is a very good question. This is J.C. Sharma good evening. What I have said is our first two months in this financial year there were a below par that is why it is 0.67 million square feet of new sale. The improvement started from June onwards and the people who give us money thereafter they give first the blocking money, which starts from 300,000 to 500,000 except in New Delhi that Gurgaon launch, we are collecting about Rs.15 lakhs for booking money to be sure because, it is high digit product. Thereafter customers are taking about 2 months time to give us 25% of the due or whatever that has become due since the sales picked up from June onwards and the trend we feel will continue with the new launches, whereas the construction cost depends we are not completing many new projects. So we in construction you have embedded higher construction cost. So we have done our maths and feel reasonably confident that if we achieve what we have targeted in volumes, we should be getting a higher per square feet realization and concurrent cash flows it should help us in reducing the debt from now onwards.

Samir Baisiwala:

This is helpful. Let us say recap on bands, based on what you said just now and correct me if I am not understood correctly. You mentioned that 15 lakhs is what you are getting per booking there is timing difference between booking the sales and getting the cash in hand, right?

J.C. Sharma:

We are booking the sales against cash that we are simply blocking the unit size, so we are booking the sales in case of construction, where only 25% it is completed or 20% of the cash is collected or a sale agreement is executed with the customer. So from that angle, in spite there is a sales booking there is no corresponding revenue recognition, which is the gap, which is getting reflected in our doing a new sales of more than Rs.300 Crores in the first quarter wherein recognizing a revenue of about Rs.195 Crores only, but going forward this will turn in our favor and once this turns in our favor and with the construction cost and the inflow realization from the same product as it progress, in the subsequent quarters you get better cash inflows than the cash outflows and that trend give us the comfort that we should be able to reduce the debt rate in absolute number as well in this financial year.

Samir Baisiwala:

Okay fair enough Sir, if you are so confident I would not drill down too much into but just on the point that you mentioned that Rs.300 Crores the new sales that you did Rs.190 Crores is what you recognized and the difference is what is going to catch up. If I remember correctly you mentioned from Q3 this year, Q3 and Q4 two quarters would mean Rs.200 Crores of catching up, and I assume that this should also match up with your cash inflow, but there would be a concomitant higher construction cost as well pertaining to this differential. So even under the best case scenario I do not see your surplus cash from operations north of Rs.150 Crores this is



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just a estimate based on all that you are said just now and your target of Rs.300 Crores looks quite distant from this project itself?

J.C. Sharma: I do not know how you have done your maths.

Samir Baisiwala: It is based on what you said just now that Rs.300 Crores is what you would achieve as a new sales for quarter and Rs.190 Crores is what you are recognizing so difference about Rs.100 Crores odd?

J.C. Sharma: Yes.

Samir Baisiwala: This is what is going to catch up in Q3 from this year onwards?

J.C. Sharma: Yes.

Samir Baisiwala: Is this your number the revenues?

J.C. Sharma: Based on the same numbers only you can see debt starts coming down and the cash flows are getting deflected in the overall performance.

Samir Baisiwala: Final question, any thoughts on restarting the land sales or that is something that we are done with?

J.C. Sharma: In the event of last week or so has made us consider and expect there is nothing in hand, but we feel that we should see a right, doing something on that front as well.

Samir Baisiwala: Thank you so much.

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

Tejas Seth: This question pertains to the pricing in Bangalore market right now have you increased any per square feet rate in Bangalore last quarter?

S Baaskaran: New launches has come in the different price, as a whole project we are not seen any very much big increase, overall the price have gone up or because of the new launches and better fee.

Tejas Seth: How is the price's strategy going forward are we going to stay put, at the current market rate because of the increase in the interest rates, which is affecting the cost to the consumer?



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- S Baaskaran:** At this point, the price will remain stable we feel from a short term to medium term. As you move forward, we need to see how it is going to change.
- Tejas Seth:** Just want to know this Gurgaon project, which you have launched villas what is the square feet you launched in first phase?
- S Baaskaran:** You want the rate per square feet?
- Tejas Seth:** No the total square feet?
- S Baaskaran:** About a million square feet.
- Tejas Seth:** Thank you.
- Moderator:** Thank you. The next question is from the line of Kunal Lakhan from Enam Securities. Please go ahead.
- Kunal Lakhan:** Good evening. Going by what you said early in the evening today on television that you are looking at a 25% growth in PAT, considering your higher tax rate this year the topline has to grow by more than 25% for sure I am just wondering how because you are looking at a Rs.500 Crores revenue from contractual, I was just wondering how we plan to catch up on the real estate revenue front, you mentioned about few projects, which are likely to cross the revenue recognition threshold but if you can give us some number in terms of un-booked revenue as of today that will really help?
- S Baaskaran:** The better average realization, which is going to come from the unsold stock with a better topline, which will result in this growth of 25% PAT that is number 1, number 2 on the sold projects where the income is yet to be recognized on the construction front and on those unsold units also we expect a better realization, will help us to achieve this topline growth above 25%, which will help us to realize a profit after tax growth of 25%.
- Kunal Lakhan:** But going by the Rs.200 Crores runrate that we are currently achieving on the real estate front will have to significantly scale up as in there has to be couple of projects which have to significantly contribute, if you can highlight those projects and what has been the sales in those projects till date if you can give me like for example Forest View?
- J.C. Sharma:** We have launched in the Q1 3.5 million square feet of new projects then in the last month we have done another launch in Gurgaon then we are launching two more projects in this month in Bangalore. We have launched one project in Pune also, Garnet. We are launching two more projects in Chennai and the revenue of all such projects, the land revenue at least or all such



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projects up to the sales what will be linked in January 2012 and the construction revenue of the project which we are already launched including that of Gurgaon it should fetch a threshold 25% cost should help us in realizing a higher topline contribution from now onwards from these new projects, which currently are not eligible because either I have not collected 20% advance or we have not gone for the agreement or the construction of 25% has not yet happened. So the new launches, once it starts getting converted into the revenue recognition it will have a direct impact to both on the revenue recognition as well on the cash flow, which will serve the purpose of improvement in the profitability as well as improvement in the cash flows, which will have the consequent effect in the reduction of the sales.

Kunal Lakhan: I just wanted to know basically what is the sales run till date in the newly launched projects, which have not yet reached the recognition threshold, if you can give me that number?

S Baaskaran: I will give it offline we will give it first to you.

Kunal Lakhan: All right thanks.

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

Vineet Chandak: Thanks for taking my question. Couple of questions one is on the sheet when you mentioned about the inventory, which is unsold and the value which is of the projects which are launched but yet unsold, the average pricing really comes about 5200 odd plus are we sort of assuming that what we have sold over the last few quarters has been around 4500 for the last couple of quarters or lower below that, so are we assuming that on the project, which we are undergoing but some sort of 15% to 20% sort of price increase on the inventory as we go long?

J.C. Sharma: No, it is because if the Gurgaon project is being launched at a much higher price, it improves the average realization otherwise most of the other products remain between the range of about Rs.3100 to about Rs.4500 to Rs.4700 at price, the basic price, till you get car park and some other incremental charges are also added.

Vineet Chandak: What I meant is on the slide #17; I am assuming on the ongoing project you probably have included the Gurgaon project in those lists of projects 7.98?

J.C. Sharma: No.



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- Vineet Chandak:** Because even if I look it, you saying about Rs.2000 Crores as a value of unsold stock and about unsold area is 3.8 million which gives our rate of over 5200 odd, so are we assuming that the unsold inventory will get sold at much higher price as we go along?
- S Baaskaran:** No, there it includes the project called Signature, which is being sold at about Rs.8000 per square feet. We have (indiscernible) 56:18 called as Classic, which is being sold about Rs.5000 and odd, these two projects and Due Flower is getting sold at about Rs.7500 these two projects significantly contribute to the higher realization.
- Vineet Chandak:** Secondly, we have talked about the full year sales of about Rs.1500 Crores newly sales for the year we have done about Rs.300 Crores for the quarter and I think this is pretty much like a run-rate that we have done for the last three to four quarters. So when we are incrementally talking about almost like Rs.400 Crores quarterly run-rate for new sales as we go along. Where is the bulk of this increment going to come from because we are pretty much we have maintained the same sort of run-rate in terms of 0.7 to 0.8 million square feet is being selling over the last few quarters?
- S Baaskaran:** We were selling 0.7 to 0.8 in the last few quarters and from this quarter we are getting added few new locations one is Gurgaon and one is Chennai, this will add or contribute to this increased volume, which will enable us to achieve the Rs.1500 Crores sales.
- Vineet Chandak:** If we take how does it really go up forward from here because Bangalore we been doing about 0.5, 0.6 for a while now, so going forward do we see Bangalore materially ramping up or Bangalore is going to be around these level then incrementally when we look at new sales growth for us largely it is going to be coming in by the additions of new geographies?
- S Baaskaran:** As you said earlier the first two months we have seen little bit slag in the sales but we have seen an improved performance in Bangalore also from the month of June and July two months and so far in August as well. With this improvement performance in all the existing regions and also the new locations coming in during this year both Gurgaon and Chennai we are confident of doing this increased sales performance on all these regions put together, which will enable us to achieve the Rs.1500 Crores sales.
- Vineet Chandak:** Lastly, what is the construction cost that we are estimating on the real estate side for the year?
- S Baaskaran:** About Rs.450 to Rs.500 Crores.
- Vineet Chandak:** What is the customer advances expecting for the year?



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- S Baaskaran:** Off the hand I do not have the figure, but I can give you across.
- Vineet Chandak:** Thank you very much.
- Moderator:** Thank you. Ladies and gentlemen that was the last question. Sir, would you like to add any final remarks?
- S Baaskaran:** We are confident of the market with two new locations getting added and the prices of the project at various level of consumer starting from Rs.3100 to various levels and up to Rs.4500 and there is a sustained demand in these existing locations where we are operating. We are confident of achieving our projected sale of Rs.1500 Crores new sales for this financial year and bringing down the debt to below Rs.1000 Crores to maintain at 0.5 by the end of this fiscal. While we are saying we are also aware of this macro environment situation we are conscious on the decisions what we take and we are closely monitoring the situation. The new launches will continue to happen in all the existing locations and also the new locations in the coming quarter. We are fairly confident that we will able to achieve, all what we have committed and we hope that will be able to do in the coming quarters. With this I would like to end this call and again we thank Kotak and Mr. Ajay for hosting this call on my behalf. Thank you very much.
- Moderator:** Thank you Sir. Thank you members of the management. On behalf of Kotak Securities Limited that concludes this conference call. Thank you for joining us. You may now disconnect your lines.