



# “Sobha Developers Limited Results Conference Call”

May 10, 2011



**MODERATORS: MR. SHALEEN SILORI  
MR. MR. J C SHARMA  
MR. S BAASKARAN**



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**Moderator:**

Ladies and gentlemen, good day and welcome to the Q4FY 2011 results conference call of Sobha Developers hosted by ICICI Securities Limited. As a reminder for the duration of this conference all participants' 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. At this time, I would like to hand the conference over to Mr. Shaleen Silori of ICICI Securities. Thank you and over to you Sir.

**Shaleen Silori:**

I welcome you all to Sobha Developers fourth quarter results conference call. To discuss the results with us we have senior management of Sobha Developers Mr. J. C. Sharma and Mr. S. Baaskaran. Over to you Sir.

**J. C. Sharma:**

Good evening ladies and gentlemen, it gives us immense pleasure in welcoming you all for discussing our audited results for the financial year 2010-2011 and for the fourth quarter. We also thank ICICI Securities for hosting this call. We are happy to share with you that Sobha during this current financial year sold real estate space of more than Rs.1000 Crores. We clocked a turnover of Rs.1133 Crores of delight the income for some different sales. This is for the first time a company from South India achieved.

The current financial year has been the best ever performance in the company's history on various parameter. Sold two times Rs.7 to Rs.8 million square feet of new space on projects to the extent of four times and have currently clear visibility in constructing the extent of more than Rs.11 million square feet and have many grounds for launching our real estate projects once this is to the extent of Rs.11 million square feet. In the financial year 2010-2011, we have generated operational cash flow of Rs.414.6 Crores and have repaid loans worth Rs.643 Crores.

The debt equity as per the year-end stood at 0.63. Also during the year, the average sale realization was better and we realized about Rs.4082 per square feet on an average during the financial year under reference. This is about 40% higher than what it was in the preceding financial year. We have also handed over 36 projects focusing Rs.6.32 million square feet out of that Rs.4.12 million square feet was on account of real estate and balance Rs.2.3 million square feet we handed over contractual projects.

In the financial year 2010-2011, as you are aware that we recorded our topline in Rs.64 (ph) Crores out of this Rs.892 Crores came from the real estate operations and that Rs.64 Crores we need to add to our sale of land of developments and Rs.410 Crores we earned from our constructing and manufacturing activities. Rs.8 Crores we realized from other income. You will notice that our topline has gone up by about 37% when compared with the financial year 2009-2010. Real estate operation less 71% balance 29% came from manufacturing and constructing. We are also happy to share, our operating margins from real estate as well as from the



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construction able to manage 8% of increase in the total cost. We need to enjoy 35% plus operating margins in our real estates and on a spot plus basis above 15% margins on front desk.

Profit before tax stood at Rs.244 Crores up by 52% and profit after tax stood at Rs.183 Crores up by 34%. We had a higher net provision this financial year because we did not have HTIC project this financial year, vis-à-vis last financial year.

Topline performance for the Q4 was Rs.349 Crores, which are the Rs.403 Crores as compared with the corresponding financial year and vis-à-vis about Rs.360 Crores that sequentially preceding financial year. This quarter real estate contributed Rs.216 Crores and balance came from the construction and manufacturing business. The topline has come down by 13% but if you look at we had realized about Rs.124 Crores in the last financial year towards the land price monetization. Also realized about Rs.35 Crores in this quarter. We exclude this revenue; we have done breaks on our topline front as well as on profitability front. We are happy to communicate that during this quarter we faced 656222 square feet of residential space.

We targeted sale of Rs.3 million square feet in the current financial year, we ended up selling Rs. 2.78 million square feet which is 33% more compared to the corresponding period. We would have Rs.3 million square feet but for delay in launching new projects in existing locations as well as in new location. However, we have prepared ourselves and fully equipped to launch projects in these cities from this quarter onwards.

As on date we have about Rs.7 million square feet of ongoing projects, out of this about Rs. 6 million square feet is on our account and we have an unsold inventory of about Rs.2.77 million square feet against this existing ongoing projects. In addition to that, we have to sell about Rs. 270,00 square feet of a product from the completed project side. We expect to realize about Rs. 928 Crores from our existing customers. So already done the booking or space some money against the ongoing projects and from the unsold products we should be realizing Rs.1473 Crores. We hope to incur Rs.1222 Crores to complete all these ongoing projects, which will leave us an operating cash flow of about Rs.1180 Crores with us. The current financial year seems that our average realization from Rs.4082 may go up to Rs. 4500 or so.

Now I just drive your attention to our construction and manufacturing activity. First time we were able to receive orders Rs.132 Crores past six months from other clients besides Infosys who continue to remain our main company as far as constructing activity is concerned. Our new prestigious clients is ITC, Biocon, Bosch, Hotel Leela Ventures, ICE, etc., We have currently executing Rs.7.42 million square feet of contractual projects and we have got orders in pipeline to the extent of Rs.4 million square feet. We have signed significant opportunity in this segment, where our cost plus margin of above 16%, we are confident of protecting.

During this financial year 2010-2011, we have completed and handed over 25 contractual projects measuring Rs. 2.2 million square feet. Debt has been brought down to Rs.1183 Crores;



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debt stands at 0.63 as of March 31, 2011. The present cost of borrowing is less than 13%. You will be presently surprised that in the beginning of our financial year also we had the rate of interest quite significant increase in the base rate and lending rate deposit we have been able to keep our interest cost at the same level. The company had successfully met all its obligations in the last year by repaying Rs.343 Crores worth of debt. Also confident of making our current year's repayment obligation of Rs.550 Crores cash flows from the junction but undisbursed available to us.

We are also conscious of current challenges being faced by the industry primarily on account of increase in interest rate as well as increasingly lesser availability of credit limits from the banking sector to the industry. Our company is reasonably well poised to test any such eventuality where our cash flows and limits in flows that we are in a position to launch our new project, execute our existing projects and maintain a healthy cash flow to meet all our obligations.

During the year, as I have been telling, there has been delay in launching some of the projects about three to four months, but primarily due to some correlated related issues which we have been able to mostly overcome and hopefully we will see these project launches from this month onwards on a regular basis. As intimated that our (indiscernible) 11.25 factory has gone through and difficult price by the construct workbench by about 71 days had minimal impact on our operation, lost about Rs. 5 Crores of revenue on that account. So work has started from last Friday that factory as well and our view at the labor department of the state government, we have been able to maintain our delivery schedules on our contractual agreement projects to a large extent despite disclosure.

As things stand today Sobha has delivered 42.68 million square feet consisting of 41 million square feet of real estate, 4.2 million square feet of construct. Our construct revenue now today Infosys forms just a little bit more than 50% of the revenue, balance coming from the other parties. We already have become an Rs.1000 Crores brand and despite the challenging environment we feel that we should be able to show volume growth as well as value growth in this coming financial year.

I once again thank you on behalf of my team for your patient hearing and now would leave the floor for discussion. Thank you.

**Moderator:** We will now begin the question and answer session. The first question is from Abhinav Sinha from CLSA. Please go ahead.

**Abhinav Sinha:** My question is on margins, which appear to be slightly lower this quarter versus the previous quarter. So was there any one of, what is the reason for the decline?

**Abhinav Sinha:** What I am saying is that the margins for the current quarter appear to be lower vis-à-vis the previous quarter by around 300, 400 basis points, so what is the reason for that?



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- S. Baaskaran:** Last quarter if you see, we had a land bank as well for the performance; this quarter contractual income is much more where our operation margin is less.
- Abhinav Sinha:** So there is no one of in the revenue asset?
- S. Baaskaran:** No, no there is no one of.
- Abhinav Sinha:** Secondly, there is a reduction in the Hyderabad land bank that you used to state earlier so is any sale being done?
- S. Baaskaran:** We have not sold that it is a joint development consideration, now not go ahead with the project since we are removed that from the land bank, so we thought we should take it out.
- Abhinav Sinha:** Any sales target for next year?
- S. Baaskaran:** 3 to 3.7 million square feet.
- Abhinav Sinha:** Where is the increase expected to come from largely?
- S. Baaskaran:** We will be entering new three geography, Mysore, Chennai and NCR that will give the additional plus the existing we will have in improved sales.
- Moderator:** The next question is from Amit Agarwal from Daiwa Capital. Please go ahead.
- Amit Agarwal:** First is you have not sold any land in this particular quarter, so do I assume that there will be no more land sales as we go ahead because we are probably your net debt requirements if you want to reduce are taking care of operational requirements? And secondly what is your target for net debt in FY and FY'12?
- S. Baaskaran:** As far as our net debt target for FY'11 and FY'12 seems to be between 0.5 and 0.57. As far as the land monetization is concerned, yes, operational cash flow is taking, operations also taking from public limited; however, as and when we get a good opportunity and better pricing.
- Amit Agarwal:** Do not understand there will be no land sales?
- S. Baaskaran:** What they are saying is the operational cash flow is giving us a comfort on the operations and as well as on the repayment of loans, in case if we get a better price realization on good margins we will be looking into the land monetization as well.
- Amit Agarwal:** Any particular targets for land sales?
- S. Baaskaran:** We do not have any particular target as such.



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- Amit Agarwal:** The status on the NCR project when it is going to take off?
- S. Baaskaran:** NCR we will see at the beginning of June month.
- Amit Agarwal:** Have we got all the approvals of the project?
- S. Baaskaran:** It is in the final stages, that is why we are like you get the approvals in the third week or fourth week of May and it will be launched in the first week of June.
- Amit Agarwal:** Thank you very much sir. That is all from my side.
- Moderator:** Thank you. The next question is from Sandeep Matthew from BNP Paribas. Please go ahead.
- Sandeep Matthew:** What exactly are these approvals we just waiting for Gurgaon if you can just throw some light on that? What is holding back the launch in Gurgaon, I know it is on approvals but what specifically are these approvals that you are looking for that you are still awaiting in Gurgaon.
- S. Baaskaran:** We are waiting for the plan approval to be in place while I can go and launch a project even now, I want launch only after I have all my zone conversion every then in place, which is expected by Q3 upon which I will launch the project.
- Sandeep Matthew:** Seasonally your third and fourth quarter of the fiscal year usually the stronger ones, now while you have been maintaining a run rate which is fairly identity across the four quarters, this would be kind of disappointing given that the second half is usually much better in terms of at least volumes, are you seeing a slowdown in the market? What is your expectation going forward? Can you give us guidance in terms of what you expect to sell next year in terms of volume?
- S. Baaskaran:** As a guidance for the financial 2011-2012 we are talking about between 3.3 and 3.5 million square feet of sales. That should come from apart from the existing locations with the launches happening in Delhi, Mysore and Chennai. While we have not been able to achieve 3 million square feet for the financial year 2010-2011, we achieved closed to around 2.77 million accepting for one month down in the month of February due to the sudden increase in the interest rates and all but now having considered we are confident that we will be able to achieve our targeted sales for the financial year 2011-2012.
- Sandeep Matthew:** And a bulk of this 3.3 to 3.7 would be coming from NCR market, right?
- S. Baaskaran:** No bulk will not come, but Bangalore will continue to be the bigger market for us.
- Sandeep Matthew:** Finally one question on the EBITDA margin for the quarter, did the strike have any impact at all, and did you take any right of any one of items again during this quarter?



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- S. Baaskaran:** No not much of price wise we are taken.
- Sandeep Matthew:** No, I am saying about the strike.
- S. Baaskaran:** As said by M.D. the strike has had an effect of topline about Rs. 5 Crores only not beyond this.
- Sandeep Matthew:** Thank you Sir.
- Moderator:** The next question Arun Agrawal from Religare Capital Market. Please go ahead.
- Arun Agrawal:** One question on the launches, is that you will be launching few projects from this month onwards, can you please throw some light on what all projects are you planning to launch specifically in May and June because if I look at the presentation that you have shared on #13, most of the projects that you are going to be launched you are expecting final approvals by June 2011 only. So what all projects are you expected to launch from this month onwards?
- S. Baaskaran:** In May we will be launching plotted of sales development in Mysore. In June we are expecting Sobha City in Bangalore and also NCR Villa project.
- Arun Agrawal:** Is there is chance of some kind of slippages again from the part of approval delays?
- S. Baaskaran:** As thing stands today we did not find anymore slippage on the stand approval, as things stand today we are planning to get it to us in the month of June.
- Arun Agrawal:** If you can share a bit of feedback that you are getting from the market because we are pretty close to the launch in Gurgaon, what is the kind of feedback that we are getting from that market?
- S. Baaskaran:** The market is aware of the projects they are aware of the type of products what is going to come and also we are aware of the brands, which is going to develop, and reasonably we are confident that we are getting a positive feedback from all the people.
- Arun Agrawal:** In Sobha City, we have 2.93 million square feet of total built up area there, what would be the area that we are going to release in first phase. In Sobha City, we have a built up area about 3 million square feet right, how much of that would release in first phase or are we going to release all of it?
- S. Baaskaran:** It will be released in phases; it should be closed to a million in the first phase.
- Arun Agrawal:** Thanks a lot sir.
- Moderator:** Thank you. The next question is form Gunjan Prithyani from JP Morgan. Please go ahead.



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- Gunjan Prithyani:** This has been asked couple of times but I just wanted to get more clarity on the margins for the full year as well as this quarter because if you are seeing our realizations have moved up to almost 40% in this year, large part of it would be coming from sales which have been done this year in terms of revenue but your margins for full year are around 21% and 75% of the sales are coming from real estates, you have been mentioning that you get 35% margin on your real estates, I am bit unclear as to why margins are little lower than what it has been guiding to?
- S. Baaskaran:** While there has been increase in the sale price we should also understand that there has been a corresponding increase to input cost as well. So in spite of the increase input cost and we are able to made into same margin of 35% on real estate titrations.
- Gunjan Prithyani:** How much would be our cost per square feet now in Bangalore project?
- S. Baaskaran:** On a standard apartment to be about Rs. 2100 per square feet; cost of construction Rs.2100 per square feet.
- Gunjan Prithyani:** On your NCR project any idea on the pricing that you are looking on that project?
- S. Baaskaran:** The pricing will be about Rs. 8000 per square feet.
- Gunjan Prithyani:** This is going to villa project. There was no land sale in this quarter, right?
- S. Baaskaran:** Fourth quarter we did not have any land monetization.
- Moderator:** The next question is from Tejas Sheth from Emkay Global. Please go ahead.
- Tejas Sheth:** NCR projects also we are planning in phase wise?
- S. Baaskaran:** Of course it is a big project will be planning in phase base. The first phase we will have about 1 million square feet.
- Tejas Sheth:** Just wanted to have an idea of your current inventory of around Rs. 2.8 million square feet, can you just tell me how much is there in Bangalore?
- S. Baaskaran:** It will be about around 60%.
- Tejas Sheth:** How much revenues are expecting from our contractual business segment in FY'12?
- S. Baaskaran:** We are expecting a 25% growth; it will be about Rs. 500 Crores.
- Tejas Sheth:** I just wanted to know the location of our Sobha City, Bangalore?
- S. Baaskaran:** It is North Bangalore behind Manyata Tech Park.





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- Tejas Sheth:** Near Hebbal?
- S. Baaskaran:** Yes near Hebbal.
- Tejas Sheth:** What is the customer advances figure for this year-end?
- S. Baaskaran:** For the customer advances, Rs. 2006 million.
- Gunjan Prithyani:** Thank you.
- Moderator:** The next question is from Samar Sarda from Anand Rathi. Please go ahead.
- Samar Sarda:** We acquired some land in Coimbatore this quarter, just wanted to know what kind of acquisition was this and how much have we paid for this?
- S. Baaskaran:** It is a small acquisition to low cost land; we are paid about some Rs.7 Crores.
- Samar Sarda:** Would it be a city centric development or development outside the city?
- S. Baaskaran:** It will not be city centric; it will be a little bit close to the city.
- Samar Sarda:** Because it is 61 acres, 61 acres was acquired only for Rs. 7 Crores.
- S. Baaskaran:** This is the amount we have paid. It comes at a very low cost acquisition. This has to be cash flow if you paid over a period of next two years.
- Samar Sarda:** If I just see your total land cost numbers for third quarter and this quarter, the addition is hardly Rs. 25 Crores so would that be the cost for the land?
- S. Baaskaran:** Should be, it is about 60 acres yet, should be about Rs. 25 Crores.
- Samar Sarda:** I missed out Sharma sir's statement with regards to from the sold projects like completed projects what is the inventory left?
- S. Baaskaran:** It is very small amount of about 1,25,000 square feet.
- Samar Sarda:** Thanks a lot.
- Moderator:** Thank you. The next question is from Puneet Jain from Goldman Sachs. Please go ahead.
- Puneet Jain:** I just wanted to understand on the indication of likelihood pricing for the Gurgaon and for the North Bangalore property?



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- S. Baaskaran:** Gurgaon will be about between the range of Rs.8000 and Rs.8500 and for Sobha City we have both apartments and as well as row houses. First the apartments would be in the close to range of about Rs.4000.
- Puneet Jain:** What are our expected volumes on these two properties for the next three quarters?
- S. Baaskaran:** We do not give a projection of how much we sell on the project wise but we expect a good response from both these projects.
- Puneet Jain:** On slide #13 you have given various projects, which we planned to launch for the next few quarter and for all these projects approval will be expected by August 2011. So are there any other projects, which could get approved, in this financial year or this is all?
- S. Baaskaran:** We may, as a process we keep on going and applying for approvals but for the launch this is what will be doing the launch for the financial year.
- Puneet Jain:** Your number of launches say 11.2 million square feet and if you adjust for phases it will be say may be in the reason of 6 to 7 million square feet plus you have got ongoing projects of around 2.8 million square feet which is unsold, so given that backdrop you intent to sell somewhere between 3.3 and 3.5 million square feet?
- S. Baaskaran:** True, but you have to seen, it could not seen total 11 million square feet out of this 11 million square feet of launch I will be offering only in phases for all those projects. So at any point of time we will have only about 6 to 7 million of operations, out of which I will be selling about 3.5 million.
- Puneet Jain:** But you also have got unsold in the entry of around 3 million square feet?
- S. Baaskaran:** I should have always twice the projects ongoing for what I have planned to sell. So if I have planned to sell about 3.5 million square feet, there will be 7 million square feet offering in the market.
- Puneet Jain:** Thanks.
- Moderator:** Thank you. The next question is from Sameer Baisiwala from Morgan Stanley. Please go ahead.
- Sameer Baisiwala:** If I just got the numbers correct, did you say that for fiscal 2012 our average selling price will move up to Rs. 4500 per square feet?
- S. Baaskaran:** No what Sharmaji said was for the financial year 2010-2011 my average price realization has gone up to Rs.4082 and we expect to move to Rs. 4500 in the coming financial year.



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- Sameer Baisiwala:** This is excluding the Gurgaon project?
- S. Baaskaran:** This is inclusive of Gurgaon.
- Sameer Baisiwala:** Which should be at 8000? And just philosophically asking is there a good price elasticity to your business to your ongoing projects that if you were not to have increase in the prices by 40%, it would be done about 20% could you have done much higher volumes. Is there enough elasticity and is that ever you think about it?
- S. Baaskaran:** The average price increase has come out because of two reasons; one is the selling of better product mix and of course the price increase. If you notice the price increase has contributed only about 15% or so. The balance has come because of you selling a better product, high-end product.
- Sameer Baisiwala:** For the products which are old products the price increase is only 15% and which are better products is there going which is taking of the price?
- S. Baaskaran:** You are right.
- Sameer Baisiwala:** Again going ahead your sales guidance for fiscal 2011 it was 3 million square feet as for fiscal 2012 you are giving 3 to 3.5 and versus earlier when you were there in four cities now you are going to be in seven cities including NCR, Mysore, Chennai you almost doubling your locations, one could have expected much better guidance?
- S. Baaskaran:** Anyone entering to new city will take a time for him to settle to get his brand recognized and we do not have any specifics in any of the cities what you are talking. So for us it will take time to establish that brand. By the time it will take two years or so then the guidance will increase. I cannot go and sell the way I am selling in Bangalore either in NCR or in Chennai it has to have gradually.
- Sameer Baisiwala:** Okay so what you are saying is in this 3 to 3.5 the new cities would have a very, very minor contribution?
- S. Baaskaran:** Should be say about between 0.5 million and 0.7 million somewhere it will come.
- Sameer Baisiwala:** Is 0.5 to 0.7 you are saying.
- S. Baaskaran:** No, this year we sold 2.77 million in these four cities. We expect 10% growth minimum here that should made make to 3 million. The balance half a million should come from the three locations.



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- Sameer Baisiwala:** That means let us just talk about Gurgaon where your phase I is one million, so probably you are looking to sell 20% to 30% of that is that the way you are thinking?
- S. Baaskaran:** No I have about Chennai I have Mysore.
- Sameer Baisiwala:** Yes, that is right and decreasing something from this 0.5.
- S. Baaskaran:** 1 million I will have in Gurgaon, 1 million in Chennai as well.
- Sameer Baisiwala:** Fair enough but you are saying this is what you launch 1 million each you are saying. But what you will sell is 0.5 million.
- S. Baaskaran:** Yes.
- Sameer Baisiwala:** So what you are saying is only about 20% or 25% is what you are going to have, So then I look at your total Gurgaon was about 6 to 7 million square feet, 6 million what you have indicated. How many years do you think it would take to sell?
- S. Baaskaran:** Fiver years to sell and seven years to complete the construction.
- Sameer Baisiwala:** Okay and sir some final question if I look at your land bank I think two cities, two areas where you have not started monetizing or any plans to monetize. Land Hosur and Kochi. Any time lines for these two.
- S. Baaskaran:** Hosur is the low cost land and so there is no hurry on that. Cochin of course we are making some efforts to start the operation probably next financial year something should happen there not now.
- Sameer Baisiwala:** Thank you very much.
- Moderator:** Thank you. The next question is from Amit Manwani from KC Securities. Please go ahead.
- Amit Manwani:** My question was relating to the very recent news by finance ministry that they are going to levy the 10% service tax on the subcontract jobs and considering that Sobha Developers has more than 50% of salable area through subcontracting projects. So I just wanted to know what is your view on this new regulation by CBDT and how it is going to affect Sobha Developers in particular?



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**S. Baaskaran:** No, the subcontract operates. Sobha as a model does all the work on its own. So there is no question of we paying service tax, which has an impact of the cost per se. I do not think that will affect greatly anything to us.

**Amit Manwani:** Whatever contractual projects you have you are not subcontracting any of the projects to the third parties?

**S. Baaskaran:** Sobha as a model does not subcontract any of the activity.

**Amit Manwani:** Thank you.

**Moderator:** Thank you. The next question is from Unmesh Sharma from Macquarie Securities. Please go ahead.

**Unmesh Sharma:** Firstly in the Bangalore market in terms of outlook are you what are the trends on the sales volume side and are you seeing any slowdown on that. Secondly, what do you think are likely to be the price movement for next year is we like to see some increases? The second question is related to land purchases. Given your stronger cash flow situation now with the debt having come down will the future cash flows be used to pay down debt or are you expecting to see further increase on land purchases going forward. I really wanted to understand what your thought process was on land purchases and related question would be where do you think your balance sheet net debt to equity ratio will be a year from now and where do you think it should stay at?

**S. Baaskaran:** As regards, the Bangalore market is concerned we have been performing average on each quarter of the same date so we do not see any downfall in the market and we continue to be confident that the Bangalore market, which one, which is going to contribute to our sales volume in good numbers for two, three reasons, one the prices are still affordable and the market itself because the IT sector going there is enough market coming into this place where the new comers are coming to buy the property. As far as the price is concerned we have realized an average price of Rs.4082 for this financial year overall by the company and with new projects happening in Gurgaon, which will be high yield products and some more projects coming in better prices we expect this to go somewhere between some 4100 to 4300 or 4500 by the year end gradually not overnight. It is not because of price increase, it will be because of the better product mix being launched and sold. Number three, coming back to the strategy of land purchase we are very clear of course we are seeing positive operational cash flows being generated from the company that does not mean we will go and buy land.



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We are buying land only through joint developer mode accepting small portion where it is coming at a very cheap price. We are not looking into any big investment to land on outright purchase if at all it will be within a joint development provided it is a small cash flow and project is viable in the short term. Number 4, coming back to the debt position we are at 0.63 of our equity for this coming financial year end we are targeting to be somewhere between 0.5 to 0.6 and would like to stay after forever.

**Unmesh Sharma:** Obviously, your cash flow generated if we take your guidance would be more than sufficient to actually pay down the debt to that level. Then what will be the use for cash flow is that all going to be for construction of new projects or launches?

**S. Baaskaran:** When I say the debt reduce I will get keep in my cushion, definitely of course I may have to when I go and launch the project I will improve upon my execution capability. Let it be cost or time lag in construction, which will improve an operation performance as well and also at the end of the day the surplus cash flow will be distributed back to the investors in the form of dividend.

**Unmesh Sharma:** Thank you very much.

**Moderator:** Thank you. The next question is from Madhukar Ladha from HDFC Securities. Please go ahead.

**Madhukar Ladha:** Again on your segment wise margins can you give me what are your segment wise margins for the entire year?

**S. Baaskaran:** For the entire we had on real estate the operations we had about 35% margin.

**Madhukar Ladha:** This is EBITDA or EBIT level?

**S. Baaskaran:** It is EBITDA level I am talking about. 35% is operating level, half of that and central overheads then I come to EBITDA. I am talking about operating level that is sales minus cost. That is why I am telling real estate is about 35%; on land about 30% and contracts which include manufacturing is about 20%.

**Madhukar Ladha:** Okay so this effectively means that before corporate expenses would be close to 30% margins on a weighted average basis?

**S. Baaskaran:** Yes.



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- Madhukar Ladha:** You are saying 9% approximate and as your EBITDA margin is 21% you are saying approximately 9% would be your overhead expenses. One thing, net is 4082 was your average selling price the last year and you are saying 4500 would be your average selling price for FY'12. I mean roughly can work out to that. Some part of this question is probably a repetition but what could be the average selling price for Mysore and NCR in Chennai, which should be the new location basically?
- S. Baaskaran:** Mysore is plotted development. Till now about Rs.2300 for the average realization of plots. Mysore will be say about Rs.8000 to 8500 NCR. Chennai will be between 3000 and 4000.
- Madhukar Ladha:** Got it. That is from my side. Thank you.
- Moderator:** Thank you. The next question is from Samar Sarda from Anand Rathi. Please go ahead.
- Samar Sarda:** With regards to ticket size in Bangalore the average ticket size of an apartment what was the average ticket size in FY'11 and with regards to your new launches like in a blended average terms how would it go up in FY'12?
- S. Baaskaran:** Average of a ticket size is about 1750 square feet in FY'11.
- Samar Sarda:** Sir with regards to like costing?
- S. Baaskaran:** It is for an apartment from a luxury status is about Rs.2100.
- Samar Sarda:** Sorry sir, the ticket size for the buyer?
- S. Baaskaran:** Ticket size for the buyer okay, today the ticket size is about Rs.70 lakh average. More or less it will be between 70 and 75 lakh.
- Samar Sarda:** Bangalore market as a whole like what you term an average size for the Bangalore market?
- S. Baaskaran:** We cannot make any general steps to what will be the Bangalore general market because we have marketing at various levels. There is demand at various levels. We have demand at Rs.10 lakh, we are demanded 15 Crores, we have demanded 5 Crores as well. So there is a market at every ticket size.



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**Samar Sarda:** Just pardon me on your sales volumes for Bangalore like coming from previous question. We have done roughly 5500 square feet in Bangalore for the last two-quarter on an average. Now we launching in new cities and of course it will take time for brand establishment in those cities but given your current ticket size is there any scope of like volume improvement in Bangalore?

**S. Baaskaran:** Of course Bangalore will continue to grow because if you see current year to last year itself we have grown about 56% in Bangalore alone. Though we do not expect the 56% but there will be growth in Bangalore because coming at the new projects in new attractive locations and the price, which is very nominal for the location, what you are launching. So definitely there will be a growth in Bangalore as well.

**Samar Sarda:** Is there a possibility this 550,000 square feet of average might go up to something around 575 or 600,000 square feet?

**S. Baaskaran:** Today, I do not know what is the average we go but definitely there will be a growth in Bangalore, which in result update the numbers going.

**Samar Sarda:** Last thing with regards to volumes in Gurgaon again at a price point of 8000 I do not presume you are looking at volume for a margin-based business in Gurgaon probably after a launch this year how would you see the volumes going on there because if you see the market most of the market where you launching the project is the mid income market. You are launching a luxury projects there. So from a volume perspective how can we see that after the initial years?

**S. Baaskaran:** In the locations where I am operating that is not many Villa projects so it cannot be compared with the projects what is available, most of the projects available as the apartments. I am not launching an apartment. I am launching a Villa and I am strategically located design Dwarka, which is just five kilometers from Dwarka. There is a huge demand for Villas in Dwarka, where the people cannot afford to buy now there. So for them it is affordable project at just five kilometers down the line better infrastructure project where fully compounded secured with full facilities and the better products itself per se so this will make the product to move in the coming years.

**Samar Sarda:** Sir one final question like in Bangalore typically most of the sales are done through in-house marketing and sales people Gurgaon again it works through brokers so how would our working of sales be in Gurgaon like we would depend upon brokers or in our sales team?





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- S. Baaskaran:** We will have a combination of both because we know this Delhi market is primarily run through brokers market. Of course we will go through brokers as well and over a period of time we will develop our in-house capabilities as well. We will have a combination of both but in the initial years we see most of the sales happen through brokers.
- Samar Sarda:** Sure great thanks a lot sir.
- Moderator:** Thank you. The next question is from Shirish Hisaria from Kotak Mahindra Bank. Please go ahead.
- Shirish Hisaria:** On your presentation slide #21 there is various customer profile in that customer applied for bank loan is 58% whereas self finance is 42% it is the general trend in Bangalore market or it higher for Sobha Developers?
- S. Baaskaran:** I cannot make a statement for general Bangalore because I do not other data but generally for Sobha it is always about 60-40 ranges - 40% of the customers do not take a funding.
- Shirish Hisaria:** This has been trend for say last two, three years?
- S. Baaskaran:** Generally it is like that.
- Shirish Hisaria:** Thank you Sir.
- Moderator:** Thank you. The next question is from Dheeresh Pathak from Goldman Sachs AMC. Please go ahead.
- Dheeresh Pathak:** Can you share the average realization for this quarter?
- S. Baaskaran:** This quarter we had a better realization of about close to Rs. 4500, which made the average realization to come to Rs.4082 for the year.
- Dheeresh Pathak:** Okay and sir in the Bangalore market it seems that the sales that your are reporting as sort of stabilized at the 0.5 MSF level, in the Bangalore market is there time of the year when sales are generally higher than the other months? Is there a seasonality to the Bangalore market you can share that?



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- S. Baaskaran:** But you can see our presentation on slide #12 average we are able to fill about 5, 5.25 lakhs square feet in Bangalore market so we are not finding any seasonality factor of sales happening beating one quarter or in the less in other quarter. Generally in Bangalore sales are even distributed. Here and there one or two months there may be difference but quarter-on-quarter basis generally it is equal.
- Dheeresh Pathak:** Okay great thank you.
- Moderator:** Thank you. The next question is from Sameer Baisiwala from Morgan Stanley. Please go ahead.
- Sameer Baisiwala:** Just on the level you mentioned your target for fiscal'12 is 0.5 to 0.55 and then mentioned 0.5 to 0.6. Just wanted to have that clarification?
- S. Baaskaran:** It will be between 0.5 and 0.6.
- Sameer Baisiwala:** In absolute level what could be the net debt number?
- S. Baaskaran:** Today's level I have to bring it on 1000 Crores. To bring it on to 0.5 I have to bring it to 1000 Crores. As you should increase this absolutely will keep increases but however the equity ratio will be at between 0.5 and 0.6.
- Sameer Baisiwala:** First it will come down to 1000 Crores and then it will go up in average, because at 0.6 if I am not wrong this is some ballpark number your absolute debt actually goes up next year so I just wondering?
- S. Baaskaran:** The equity goes up along with the results on that I will be making 0.6.
- Sameer Baisiwala:** No I am saying if your achieve 0.6 assuming certain reasonable amount of increase in the equity and you actually net debt number in absolute sense actually goes up about this March 2011. Is it what we should to prepare for?
- S. Baaskaran:** There is increase in equity compared from March 2011 to March 2012. It will be. Of course on that increased level you will have a 0.6 increase in loan as well.
- Sameer Baisiwala:** What you guiding is an increase in the absolute net debt number by end of next year?
- S. Baaskaran:** I am guiding only for a debt equity ratio of between 0.5 and 0.6 and outside overall loan will come back.



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- Sameer Baisiwala:** Overall loans will come down you are saying?
- S. Baaskaran:** Yes this financial year it will come down.
- Sameer Baisiwala:** It can be 0.6 in that case.
- S. Baaskaran:** It will be lesser but I am giving guidance I can go up to this. But this year it will come down definitely.
- Sameer Baisiwala:** Just strategically speaking is it the shortage of labor etc., for a contractual side and you seem to be having margin ballpark 15% I think at EBITDA level. Is it possible to push it up to 25% to 30% given the shortage in the industry or you think this is what it would be?
- S. Baaskaran:** Margins will remain at this level because of shortage of labor we do not increase the price as well the margins will be continue to be at this level.
- Sameer Baisiwala:** Just again strategically speaking are there any third process to build commercial projects to retain them on your balance sheet to enjoy the rental income in the future? Are you moving towards that in any meaningful manner?
- S. Baaskaran:** We will be moving it to the slow and progressive way. To start with in Thrissur we are having a 3-lakh commercial square feet out of which one lakh profit will be retaining with us.
- Sameer Baisiwala:** This is in which location?
- S. Baaskaran:** Thrissur. So we will be doing commercial as well progressively and in that while we will be selling something we will be retaining something as well in the balance sheet.
- Sameer Baisiwala:** Okay one just final question your update on City Center Mall in Bangalore, which was the JDF if I remember correctly?
- S. Baaskaran:** No development as such at least for the FY'11 and FY'12.
- Sameer Baisiwala:** But projects continue to remain with us?
- S. Baaskaran:** Yes it is with us only.
- Sameer Baisiwala:** It would not be like Hyderabad.



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**S. Baaskaran:** No. Land is in my name.

**Sameer Baisiwala:** Land is in my name?

**S. Baaskaran:** Yes.

**Sameer Baisiwala:** Thank you very much.

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

**Bhaskar Chakraborty:** I just wanted to know what is the total interest expense for a company in FY'11?

**S. Baaskaran:** About 180 crores.

**Bhaskar Chakraborty:** What is the total net that is repayable in FY'12?

**S. Baaskaran:** About 550 Crores.

**Bhaskar Chakraborty:** Okay would you have new sanctioned lines already?

**S. Baaskaran:** I have sanctioned limits unutilized scheme of about 800 plus Crores.

**Bhaskar Chakraborty:** 800 Crores are unutilized.

**S. Baaskaran:** Yes sanctioned unutilized.

**Bhaskar Chakraborty:** What is the borrowing cost of these lines?

**S. Baaskaran:** About 13%.

**Bhaskar Chakraborty:** Thank you very much sir.

**Moderator:** The next question is from Madhukar Ladha from HDFC Securities. Please go ahead.

**Madhukar Ladha:** 180 Crores the total interest for of which 41 Crores has been expensed so approximately 139 Crores has been capitalized. Do these capitalize interest on projects as well as land or it is only on land? Do we capitalize interest on projects that are under execution or only on land that we have acquired?

**S. Baaskaran:** No it will be a combination of both.



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- Madhukar Ladha:** Second, if wanted to know how much of previous capitalized interest has been expensed in this year? Could you be able to give that number?
- S. Baaskaran:** About in the FY'10, about 10-12 Crores I would have expended already in this financial year.
- Madhukar Ladha:** No I am saying in the current year you have 180 Crores of interest with 41 Crores of expensed, 139 crores is capitalized?
- S. Baaskaran:** Certain things have gone in to the cost also. Something has been written as financial expenses. Certain thing has been taken as a cost and certain portion has been capitalized to the land.
- Madhukar Ladha:** What could be that number?
- S. Baaskaran:** I would like to give you the report separately.
- Madhukar Ladha:** Thank you.
- Moderator:** Thank you. Ladies and gentlemen that was the last question. I would now like to hand the floor over to the management for closing comments.
- J. C. Sharma:** Thank you, everyone for taking your time out to attend this concall. We look forward to be in touch with you in due course. Thank you.
- Moderator:** Thank you. On behalf of ICICI Securities Limited that concludes this conference call. Thank you for joining us. You may now disconnect your lines.