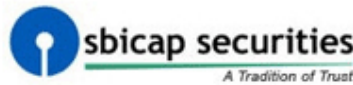
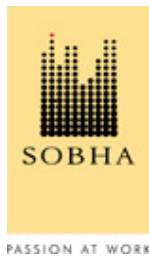


**“Sobha Limited  
Q3 FY2019 Earnings Conference Call”**

**February 06, 2019**



**ANALYST: MR. SANDEEP MATHEW – SBI CAP SECURITIES LIMITED**

**MANAGEMENT: MR. J. C. SHARMA - VICE CHAIRMAN AND MANAGING DIRECTOR – SOBHA DEVELOPERS LIMITED**  
**MR. SUBHASH BHAT – CHIEF FINANCIAL OFFICER - SOBHA DEVELOPERS LIMITED**  
**MR. VIGNESHWAR BHAT – COMPANY SECRETARY AND COMPLIANCE OFFICER - SOBHA DEVELOPERS LIMITED**  
**MR. RAMESH BABU – VP, FINANCE – SOBHA DEVELOPERS LIMITED**  
**MR. TEJAS SINGH – INVESTOR RELATIONS AND FINANCE – SOBHA DEVELOPERS LIMITED**



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**Moderator:** Ladies and gentlemen, good day and welcome to the Sobha Limited Q3 FY2019 Earnings Conference Call hosted by SBI Capital 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 after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sandeep Mathew from SBICap Securities Private Limited. Thank you and over to you Mr. Mathew!

**Sandeep Mathew:** Very good afternoon everyone. We are very happy to have with us today the management of Sobha represented by Mr. J C Sharma – Vice Chairman & Managing Director; Mr. Subhash Bhat – Chief Financial Officer; Mr. Ramesh Babu – VP, Finance, Mr. Vighneshwar Bhat – The Company Secretary and Compliance Officer; and Mr. Tejas Singh - Investor Relations and Finance. I now hand the call to Sharmaji for opening remarks. Over to you Sir!

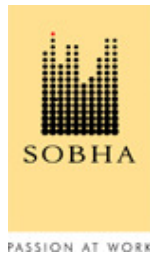
**J C Sharma:** Good evening friends. We are pleased to connect with you today post declaration of our limited review unaudited financial results for the third quarter and financial year 2018-2019 ended December 31, 2018 through this con call hosted by SBICap Securities. We are thankful to Sandeep for his continuous support.

We had already shared the details of our operational update of the company in the first week of January 2019. The investor presentation based on the financial results adopted by the board also has been uploaded to the websites of our company and all of you can have an access through that.

As far as the last quarter and the last calendar year is concerned, we believe that the 2018 ended with a mixed bag. There were more positives than the negatives. We had the highest ever absorption of commercial space. We had a much more new launches especially in the affordable housing, I am talking from the industry point of view and sales in the residential space. There has been a decrease in the inventory that the prices have remained stable and most of the developers whatever we hear they have successfully adopted themselves to this new RERA GST regime.

The customers also, if we look at the last year, they have got good time, they have got lots of benefits under PMAY scheme, the availability of home loans have remained at attractive rates to them and developers by and large have been offering good schemes to buy the homes. However, it seems that the developers' accept to easy liquidity and low interest rates remain a challenge. The liquidity issued fresh by the NBFC and its impact on the developers' community is yet to be addressed fully.

In this environment, we believe that the overall demand for the residential space in 2019 is likely to be better than the previous 2, 3 years even with the biased towards higher price realization



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across all categories of the product. As far as Sobha is concerned, our calendar year 2018 and our last 9 months, they have been to our satisfaction. We have achieved highest ever-new sales of Rs.30.14 billion for the calendar year. Our cash flows were more than 32 billion, and our PAT was 2.48 billion for the calendar year. We also booked highest ever-new revenues of 28.83 billion, and continue to invest in completing our existing projects on time, launching new projects and have planned for the forthcoming projects as well.

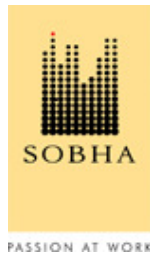
Our last quarter was also satisfactory in terms of the operational and financial parameters. The unique business model with these better integration capabilities allowed us to offer quality products to our customers and it also offers such a strong platform to grow faster than the industry. The other significant benefit of this model had been to keep growing our constructing and manufacturing business. You will notice that the performance of this vertical for the year as well as for the quarter is quite encouraging. The interim budget 2019-2020 which was recently presented by the government, it is quite a welcome step. We believe that this budget has been prepared keeping with the overall economic conditions and the role the housing sector can play within that parameter.

The way the tax rebate of 0% for individuals with taxable annual income up to Rs.5 lakh, people with gross income of Rs.6.5 lakhs not being required to pay any income tax if they invest in the provident funds, specified savings, etc., augurs well, because the net take home salary from now onwards to this class will be available more making them eligible to buy affordable homes in larger numbers. Similarly we believe that the standard deduction increase is also a step in the right direction. The exemption of levy on the income tax on notional rent for the second sales occupied home is also welcome move. Also the benefit of rollover of capital gains under section 54 of the Income Tax Act, which has been increased from investment in one residential house to two residential houses for the tax payers having capital gains up to 2 Crores is a welcome step. All such things will definitely have a positive impact as far as the perception about home buying is concerned and we also believe that, that should add from a perspective where the demand for home from the high net worth individuals can start growing up.

We also feel that the increase of one more year to go for affordable housing under 80 IBA is a welcome step. This is encouraging us to launch more number of projects under this category as far as we are concerned and we believe that other developers also should be doing the same thing. We believe that under this background we should be doing better in the 2019 than what we achieve in the year 2018. As far as the performance for our third quarter and for the nine months are concerned, I will request our CFO to summarize the same for the benefit of everyone.

**Subhash Bhat:**

Thanks, Sharma Ji. Good afternoon to everyone. Looking at the financials for the third quarter that is Q3 of 2018-2019, the revenue for third quarter stood at 8.08 billion which was higher by



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19% quarter-on-quarter, the revenue achieved during this third quarter is a highest ever in the history of this company. We have achieved the highest ever nine months revenue also for this company, which came in at 20.94 billion. The PAT for the nine months ended December 31, 2018 is also the highest ever profit reported by this company. The real estate contributed 5.03 billion, which is 62% of the topline and the contracts from the manufacturing business contributed 2.85 billion.

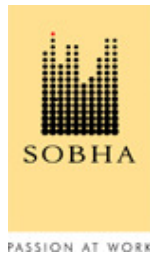
The real-estate revenue was higher by about 30% quarter-on-quarter. The contract and the manufacturing revenue was higher by 4% quarter-on-quarter. The EBITDA for the quarter came in at 1.79 billion which is up by 13% Q-on-Q. PBT for the quarter stood at 1.1 billion, which is up by 23% and the profit after tax came in at Rs.695 million which is higher by 15% quarter-on-quarter basis.

Looking at the cash flow for the quarter. The total cash inflow during the third quarter was Rs.8.19 billion which was higher by 21% year-on-year basis, we have achieved the highest ever nine months cash flow for the current financial year coming in at Rs.23.13 billion. The real estate cash inflow during the quarter came in at Rs.5.58 billion which was higher by 15% year-on-year basis and the contracts on the manufacturing inflows came in at 2.61 billion, which was higher by 39% if you look at the year-on-year basis. The generated net operating cash flow of Rs.191 million after meeting our interest and tax expenses and we are happy to mention that this is the 14<sup>th</sup> consecutive quarter where company has generated net operating positive cash flow after meeting the financial and the tax outflow.

The debt equity ratio under the old accounting standard stood at 0.83 and as per the new AS 115 it stood at 1.13 as on December 31, 2018. The cost of borrowing came in at 9.57% per annum.

Coming to the operational highlights. As communicated during the first week of January 2019, we have sold 0.91 million square feet during the third quarter of FY2018-2019. Total valued at Rs.6.98 billion, the Sobha's share of sales value coming at 6.02 billion. We have achieved average price realization of Rs.7689 per square feet with Sobha's share coming in at Rs.6604 per square feet. The total price realization and Sobha's share of price realization quarter-on-quarter has increased by 7% and 10% respectively. During the third quarter, company has launched three projects, two in Bangalore namely Sobha Green Garden and Sobha Raj Villas and one in Cochin named Sobha Isle. The total sellable area measuring 3.01 million square feet was launched during this quarter.

We are pleased to inform you that as on December 31, 2018, Sobha has delivered 100.31 million square feet of developable areas in residential and contractual segment put together. During this quarter, sales in Cochin regions have included significantly with new launch, we hope to derive



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full benefits from the Bangalore launch over the coming quarters. However, we had seen a temporary dip in the Gurgaon market during this quarter and Bangalore contributed 68% of the total sales volume for the quarter. We expect Bangalore to continue to play a significant role in our overall sales number and we are also seeing the demand for Sobha products in Chennai, Coimbatore, Thrissur and Mysore markets coming in consistently as compared to the earlier quarter.

We are planning to launch 7.7 million square feet of new projects in Bangalore, Thrissur, Chennai, Pune, Coimbatore and Gujarat region in the coming next three to four quarters, which should further drive our growth in these markets from presales.

Coming to inventory. At close of Q3 2018-2019 our unsold inventory in the completed projects was only 0.24 million square feet out of which 0.14 million square feet comprised of plotted development projects. We have a total area release for sale in the ongoing projects at 14.17 million square feet of which we have already sold 9.02 million square feet till December 31, 2018. The unsold area came in at 5.15 million square feet. This unsold area accounts only for 36% of the area released for sale, which we consider adequate and required in this market. In addition to this, the projects approved and not released for sale is about 9.76 million.

The contractual and the manufacturing segments have continued to show consistent growth and during the current quarter they have performed well and we have good visibility for the coming quarters as well, as these segments are contributing meaningfully to both the topline and the bottomline. The order book as on December 31, 2018 for this business stood at Rs.23.44 billion.

Thanks and we can now open up for questions.

**Moderator:**

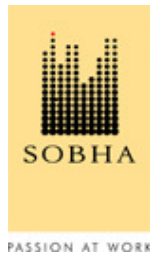
Thank you. We will now begin with the question and answer session. The first question is from the line of Abhishek Bhandari from Macquarie Capital. Please go ahead.

**Abhishek Bhandari:**

First to Sharma Ji, sir there has been some marginal dip in presales especially in Bangalore not much, but 5% year-on-year despite the launches. Do you think the NBFC crisis played a role in some kind of moderation and demand?

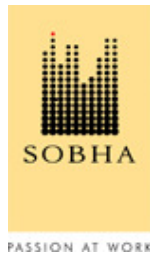
**J C Sharma:**

No, to begin with the marginal dip in either Gurgaon market or in Bangalore market per se has got nothing to do except with the NBFC crisis. Also we believe that the overall performance of the Bangalore market for the financial year will be better than what we have achieved in the last financial year and we will catch up, we are not worried about the Bangalore market. As far as Gurgaon market is concerned, also with performance what was reflected in the last quarter, as Subhash was telling temporarily we should start catching it up. The same thing happened in the Cochin market also and has got nothing to do per se as such with the NBFC crisis.



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- Abhishek Bhandari:** Sir my second question is to Subhash Sir. If I look into slide #24 and #25, the gross interest cost of roughly 71.6 Crores compared to a gross debt of 2500 Crores effectively gives me an interest cost, which is higher than 10%, 10.5%. So is there any other charge, which has included in the finance cost?
- Subhash Bhat:** Yes, always when you do a loan renewal there is a frozen fee that you pay for the stamp duty. So the 9.57% is the actual coupon rate, whereas there are other charges also which are there, which had stamp duty and the registration charges and all that.
- Abhishek Bhandari:** Some one-time payment is...
- Subhash Bhat:** Yes, the onetime payment the totaling fees are paid.
- Abhishek Bhandari:** No, otherwise something which has come for the first time.
- Subhash Bhat:** Not exactly every time it is there.
- J C Sharma:** CP interest.
- Abhishek Bhandari:** So effectively sir the other way to ask is, should one assume 50 basis points slightly higher than the our reported interest cost, effective interest cost?
- Subhash Bhat:** No all that we have reported always if you see reporting at bank for each quarter also that gross context we have given, it is always in line with these numbers. So 9.57 is the coupon rate always. What we have been putting out is the coupon rate on a per annum basis. There are no new additional charges.
- Abhishek Bhandari:** Okay sir. Thank you and good luck for 2019.
- Moderator:** Thank you. The next question is from the line of Abhishek Anand from JM Financial. Please go ahead.
- Abhishek Anand:** My first question is on Green Garden's launch. So as we understand it was launched in December, how has been the response till date considering I think you have opened only one phase of it during the period?
- J C Sharma:** Good evening Abhishek. As you very correctly said, it was launched in the last month of the last quarter and even we are talking about that see this quarter we should be doing relatively better that Bangalore performance was one-off and this is primarily largely based on the launches what



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we achieved in Bangalore last quarter as well as some lunches in this quarter. So we are quite confident that Green Garden should add meaningfully to our new sales momentum in Bangalore.

**Abhishek Anand:** Sharma Ji we are already some one month into the quarter, how has been the traction to the project, I am coming from the fact that the possession date of this particular phase is five years from now and subsequent phases I am looking at it as February 2025, for affordable housing or low ticket configuration the date seems to be a bit far away?

**J C Sharma:** I understood your question, the same thing applies in case of Green Garden as well in some of the other projects, basically what we are communicating to the customers that due to the RERA requirements and the kind of challenges you go through on completion, re-registration and other technicalities involved. To be on the safer side, we took little bit more time than normally we used to take earlier. This is not only limited to Dream Acre, it is there with all other projects, but as far as the completion is concerned, definitely it will be completed much earlier than the dates what we are giving for the RERA and for the agreement purposes. One more thing we need to bear in mind whereas the Dream Acres we are following the precast technology, here in this case it is the normal that aluminum set in home work system we are following, where the completion period will be generally as long as what you will be required in completing a luxury product.

**Abhishek Anand:** Sir the second query on your cash flow will be, if I am looking at the commercial Capex, I have seen that we see a steady increase in the commercial Capex, this quarter I think it was 21 Crores as against 8 Crores last year. So what exactly is this Capex in the commercial real estate side we are incurring for the first nine months we have exceeded significantly exceeded the full year of last year?

**J C Sharma:** Thank you. It is not that way significantly that the St Mark's Road is getting completed this quarter also should have a relatively higher investment and hopefully by the next quarter the St Mark's should be completed in all respect and the leasing would have got started. So these are the finishing cost to complete my St Mark's Road project primarily.

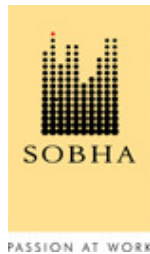
**Abhishek Anand:** So there is no other commercial project apart from St Mark's?

**J C Sharma:** Yes you are right.

**Abhishek Anand:** So basically the investment under construction, investment property under construction of 173 Crores is purely to St Mark's?

**J C Sharma:** Yes.

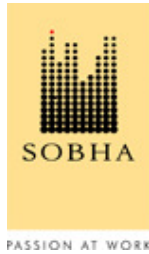
**Abhishek Anand:** And any update on the APMC project, the commercial project?



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- J C Sharma:** See there we have been waiting for this NGT order, in the Supreme Court the matter is closed. Lots of issues, Bangalore developers have been facing where the buffer zone requirement based on some 1900 village map was not allowing us to utilize full FSAs. So either through the master plan they made some changes or through a court order for a prospective development. So maybe by next week we hope that once the Supreme Court order comes the clarity will be there and we will check up this APMC project post that.
- Abhishek Anand:** So likely clarity in next one to two weeks?
- J C Sharma:** 100%.
- Abhishek Anand:** Finally on the revenue recognition side, did we recognize a big chunk of Dream Acres during the quarter.
- J C Sharma:** The Dream Acres we will not recognize a big chunk that will be happening more or less on a consistent basis, last quarter in the first start, some of the apartments revenue got recognized.
- Abhishek Anand:** Because our margin has come off, especially Q-on-Q we cannot compare Y-on-Y, but Q-on-Q sequentially margins have come down, so just trying to understand if contractual margins are around 10% our real estate margin has come off during the quarter?
- J C Sharma:** No it is not that way we are looking at. What we are looking at now is that whatever revenue you are recognizing, you are recognizing on a completed project basis. Earlier whenever the revenue used to get recognized, post that at the time of completion some plus minuses hit we were taking and more or less it used to be on a higher side. Now that uncertainty has gone, so when the first time a project is completed that margin get determined. Overall margins on the completed projects remain same what we have been showing in the last few quarters and we are not worried about the margin front, both on the residential space as well as on the constructing space.
- Abhishek Anand:** I have a few more, I will join back in the queue. Thank you.
- Moderator:** Thank you. The next question is from the line of Vinit Manek from Karma Capital. Please go ahead.
- Vinit Manek:** I just wanted to check sir that our amount to be collected from this old inventory from a 100, 150 Crores of a run rate few quarters back has ramped up to 600 Crores this quarter. So do we expect some such kind of amount to be collected going forward or it is some onetime reorganization or due to which.
- Subhash Bhat:** Are you talking about the projected cash flow.





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- Vinit Manek:** Yes, on the slide #31 that we have, the outstanding receivables from the completed projects.
- Subhash Bhat:** The outstanding receivables from completed projects because you have got now intercourse stuff you have got lot of projects were slightly misprofile because it is a large project and when customer pays up the last and we raised the PRL only during the last month. So once we collect that we will handover.
- J C Sharma:** So prima facie what Subhash is trying to communicate is on completion of the project when the demand letters for the final bill as well as whatever depending bills are there when it is raised it becomes sundry debtors and as and when the delivery starts the payments start coming. So that way initially there will be an increase, which keeps coming down from the day the handover begins.
- Vinit Manek:** part from that just broadly understanding that based on the current market situations we are able to launch a 4 to 5 million square feet on an annual basis. So going forward for the next two years we can expect some same run rate of the launches going forward or something like that.
- J C Sharma:** Let me try to answer your question a bit differently. See the project size is dependent on the kind of opportunities we have on hand, we invest initial money to get the project approved as a whole and the size will vary, but it is getting completed on a phase wise basis. So that initial cost is relatively small enough for us to absorb and keep a visibility of that particular project depending upon the sales velocity, we keep releasing on a state wise basis such projects and ensure that there is never what you call the shortage or a gap in the markets like Bangalore we operate to offer to the customer all the products. In future, we are feeling very strongly that as the number of players become smaller and smaller, that Sobha and some of the stronger players should launch more number of projects, make their presence felt a little bit more than what earlier it used to be and then continue to sell and complete the project depending upon the sales velocity. We also see that year-on-year basis considering our current base that we can have a double digit growth and also looking at that the finished stock inventory is relatively a much less and quite manageable, all such things we can make it possible within our current business operations without increasing the debt or the debt equity in visible terms.
- Vinit Manek:** Thank you for the detailed explanation and all the best.
- Moderator:** Thank you. The next question is from the line of Kunal Lakhan from Axis Capital. Please go ahead.
- Kunal Lakhan:** Sir we, if we look at our run rates in terms of deliveries and sales, we typically do about 3.5, 4 million square feet of deliveries and sales annually and if you look at our launches now like in nine months we have already done 5 million square feet and you in your opening remarks said



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that we will launch about 7.7 million square feet in the next three to four quarters. So clearly our launch run rate has ramped up and there is quite ahead of our sales and delivery run rate. So how should we read it like, should we read it like in terms of and plus considering that 15 billion square feet of unsold inventory, should one read it like we are being a little aggressive in terms of launches or other way of looking at it would be that maybe like couple of quarters or maybe a year down the line we expect to ramp up our sales and deliveries closer to about over 5.5, 6 million square feet, any color on that will be helpful?

**J C Sharma:**

See we have today also communicated that even you look at the completion period of the most of the projects from RERA perspective as we are taking little bit more time than the time we take to complete the project. These are all launches where the completion time will be going beyond four years on almost all the projects, some of the projects we would be showing up to six to seven years also. So keeping that thing into mind and keeping that now we have got a new product range like when you talked about Green Garden it is a project in the below 1 Crore category where you are doing almost 36% of your new sales.

Similarly when you are going into say Gift City it will be again in the affordable housing. The Hadosiddapura thing is in the luxury segment in the south east corridor, another 2 million square feet plus of a development. So looking at the kind of products variety what we are offering, looking at the finished stock inventory, looking at that the markets can only become better even if the same demand continues we should continue to increase our market share and we also feel that the market also base is low, it can keep growing for next three to five years and in that parameter 5 to 7 million square feet of new sales and new completion is well within our targeted range and we should be achieving and this is the homework primarily we are doing targeting that kind of a goal in mind. We are not resting even beyond 7.7 million square feet as well and maybe in next quarter couple of more million square feet of new product launch will be able to share. So that is how we are looking at this sector at this point of time.

**Subhash Bhat:**

And Kunal our policy of releasing for sales based on a sales velocity still continues as Sharma Ji mentioned to the earlier question our investment here is just tying up the land and the approval. We will not spend on the construction till we release it for sales.

**J C Sharma:**

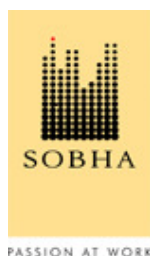
Precisely.

**Kunal Lakhan:**

And just a follow-up on that could be like in our internal, what is the internal strategy in terms of maintaining the levels of inventory unsold inventory is it like two, two and a half years worth or how do we look at it?

**J C Sharma:**

See work in progress can be two and a half to three years without any problem. The finished stock inventory that we are trying to achieve that by the time the project is completed more or



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less it should be sold out. So the project whatever we are finishing like when we have even finished in the first half we finished some of the Dream Acres, we might have finished Sobha Avenue. So when we get finishing these projects you will see there is hardly any finished stock inventory. So till that situation is there and delivery we do not do without completing the money we are not unduly worried about this kind of an inventory where the construction cost as Subhash has rightly pointed out will only be incurred where the earlier stage 70% of the sales happened. So with that kind of a philosophy our cash flows and our the so-called inventory of under construction we will be able to perfectly balance and match.

**Kunal Lakhan:** That is helpful sir. Thank you and all the best.

**Moderator:** Thank you. The next question is from the line of Mohit Aggarwal from IIFL. Please go ahead.

**Mohit Aggarwal:** My question was on the cash flows. So while our collections have been up for nine month FY2019. If you look at the net operating cash flow after the construction cost that number for nine months is down year-on-year. How do we look at this number and how will things improve significantly going forward, I am asking this question because, if this number goes up significantly we have sufficient room to buy more land or do more commercial Capex, so just wanted to have your point there?

**J C Sharma:** It is a good point Mohit. If you look at from a cash flow point of view that the next important item where the maximum cash outflow has taken place, is in investing money back in our ongoing projects under construction as well as which have been completed. So this will be there where you are investing that money faster in completing the project to ensure that a) on the sold apartment you can get money faster like in case of Dream Acres or even if you have got some small inventory on the ongoing projects you can collect more from the same customers by investing more money that kind of a philosophy is allowing us to ensure that the investment is made on completing the projects little bit ahead of time and that is consuming a more of this cash outflow. Sometimes when the projects are about to get completed and the payment plan allows you to collect money bit ahead of that time, some few quarters that will be a mismatch which has been reflected in this first three quarters of this financial year. Going forward, we believe that there should be an improvement where the operating cash flow should be higher and which will allow as you very correctly said either in reducing the debt or using that surplus money in looking for more opportunities or to develop the commercial real estate.

**Mohit Aggarwal:** Sure sir, thanks a lot, this is very helpful.

**Moderator:** Thank you. The next question is from the line of Abhishek Anand from JM Financial. Please go ahead.



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**Abhishek Anand:**

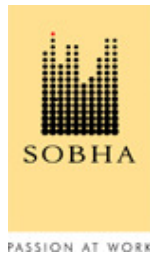
Firstly Sharma Ji what is your take on the GST rate revision, there has been talk about the 5% composite rate with no input tax credit; how will the market in general and how will Sobha specifically react to that, will there be a input credit loss what is your take on that?

**J C Sharma:**

It is a very, very important question and I think it is the right platform for us to put forward at least our point of view. Our point of view is very simple a) like the spirit of the GST watch that the input tax should be allowed and the final tax should be absorbed by the final buyer. So if you try to put composition where the tax compliance letters issued vis-à-vis the real estate developers is next to nothing it is not in this spirit in which the GST has been incorporated and has been introduced. So principally we are against this kind of a composition scheme, point number one. Now point number two we are getting different, different kind of views because in some of the markets where you have got a higher land cost and more or less a standard construction cost anything above Rs.7000, Rs.8000 if you have a composition tax somewhere there is a benefit to the developers and some way there is an optical comfort a buyer also feels. Today in India if the buyer is shown separately this tax 6+6 or 9+9 kind of a thing he believes he is paying little bit more, but the same thing if it is sown at 5% he believes a right perception and psychologically that as if he is paying next to nothing. So the government according to me is trying to play to the gallery to give that kind of an optical benefit to the end buyer by telling it look I have reduced your tax from 18% to 12% to 5%, which is probably a political gimmick I am using this strong word than really passing on the benefit, because when we look at the overall scenario even in those markets where the prices are higher than 7500 the basic EBITDA margin, PBT margin and the PAT margins I think all of you analysts, at least in the listed space you are aware of, in the case of unlisted space if we see the kind of problems they are facing from a liquidity point of view and the profitability point of view it is visible. So there will be no other choice but to increase the prices as the construction cost goes up, this has to be borne by the customers. So as this cost gap arrangement the government would like that the 5% they do, from our side we are putting across at the various platforms that if at all you are hell bent upon doing this thing like in the VAT regime you were giving us the option of allowing either the input tax or the 5% composition they can allow or they can also have if they really want to benefit the customers go for that affordable housing rate of 8% GST with the input tax which in most of the cases will mean the sales prices of most of the products are likely to come down by at least 3% to 4%, this is what my personal belief is.

**Subhash Bhat:**

Abhishek this is mainly being driven by developers based in Mumbai and capital Delhi where land prices are high. So basically it is not a demand, which is coming in from the other players, but here also one thing that these developers are missing is that their exercise that they buy from the municipal corporations for various schemes. Today it is not under the reverse charge mechanism with the new government after May reverse charge mechanism is likely to come in



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place where they will have to pay 18% GST on that. If that happens how are they going to recoup if there is a composite scheme.

**J C Sharma:** And there is even more point there also, most of this JB agreements see tomorrow we may have that problem of absorbing the GST. Sometimes what you say is right even the small time developers or from the tier II, tier III city developers also mentally feel that 5% GST may increase the demand without realizing that it will add to their cost that also exist.

**Abhishek Anand:** Also there is a term in the GOM on the land anything you are seeing, can land be included as part of GST is it possible stamp duty being subsumed by the GST rate?

**J C Sharma:** Because the councils will have the representative from the State Government also if they are willing to forego this kind of a scenario it will augur well, definitely it will augur well.

**Abhishek Anand:** Secondly on the breakup of this 7.7 million square feet we have geography wise if you could give some color on the Bangalore launches which you are planning any more affordable housing there or which segment of launches you are looking at and maybe if possible location as well?

**J C Sharma:** See I think in Bangalore we have added one new project in Nagondanahalli one of our land bank where almost 15 acres of land we are planning to utilize for this purpose. Now when we go through the next quarter hopefully we should be able to give detail of one more affordable housing project in the south.

**Abhishek Anand:** Okay South Bangalore.

**J C Sharma:** South Bangalore.

**Subhash Bhat:** The major part of Bangalore is Hadosiddapura launch which is 2.25 million in this 4.35 that is the major one, which was there for last two, three quarters we have been mentioning that we should launch it.

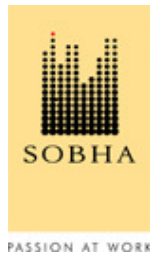
**J C Sharma:** Hadosiddapura is getting launched in this quarter.

**Abhishek Anand:** Perfect, thank you so much sir.

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

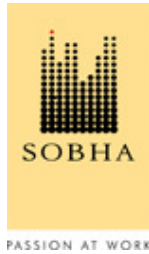
**Abhinav Sinha:** Sir can you just repeat that which project is getting launch this quarter.

**Subhash Bhat:** Hadosiddapura, we are calling it as Royal Pavilion.



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- J C Sharma:** This month it is getting launched while we are talking yesterday only we have got the RERA registration done so we are making efforts to launch the project from now onwards that 2.3 million square feet.
- Abhinav Sinha:** This is the higher end one, right?
- Subhash Bhat:** This is the normal Sobha project.
- J C Sharma:** Normal Sobha project, not like Indraprastha, or Palladian, or Grenadier or Pristine, bit lower than that but in the luxury segment, standard product of Sobha Limited.
- Abhinav Sinha:** Can you tell me what was the deliveries in this quarter the complications as such in between both contracts as well as residential?
- J C Sharma:** See the major projects had got completed, Indraprastha was one which got completed, that was the major one and then we have Dream Acres Firewood coming up and Valley View.
- Abhinav Sinha:** The total area would be?
- Subhash Bhat:** We have completed 2 million almost.
- J C Sharma:** 2.8 million square feet.
- Abhinav Sinha:** How much of this is, so basically I was just listening to an earlier question as well, the revenue jump that we saw in the real estate side on a Q-o-Q basis, can you tell us which projects have contributed on the revenue front this quarter?
- J C Sharma:** Yes, so on the revenue front Indraprastha is there, you have got Paradiso, also Sobha getting so Dream Acres about 3 lakh square feet was delivered, the Bangalore luxury almost 343000 square feet was delivered and then overall about 8 lakh square feet delivery has been recognized.
- Abhinav Sinha:** I just looked on the P&L front the contracting business margin seems to have gone up substantially if we look at the nine-month comparison also in the segmental margins, is it an Ind-AS thing or what is leading to it?
- J C Sharma:** It is not an Ind-AS thing there is some improvement in the mix of the project. In fact, in Q3 contribution to the revenue went up slightly.



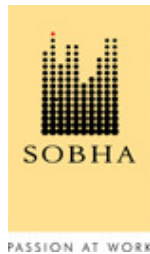
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**Abhinav Sinha:** Just checking again on the presales front. So you are fairly confident of say Bangalore and even Gurgaon doing better next quarter, but underlying markets do you think the traction is as good as it was say even four, five months back?

**J C Sharma:** See it is a good question, because last quarter should have been much better quarter this Diwali and new year and other things did not happen. We did not expect like in case of Kerala market things will get revised so fast which has happened, but a little bit feedback or the pulse I am getting from the sales and marketing people the year had begun well, we should be doing better than the last quarter, the new lunches also should help us in achieving better sales and definitely for the Bangalore I can say with a reasonable amount of confidence that we should be doing a much better performance than what we have achieved. As far as the Gurgaon market is concerned, yes it still remains tentative but our performance should be better than what we have achieved in the last quarter.

**Abhinav Sinha:** Sir also finally we have seen some sort of renewed concerns on NBFCs lately, so again have you seen some incremental tightening in the market on liquidity or it is still as good or as bad it was two months back?

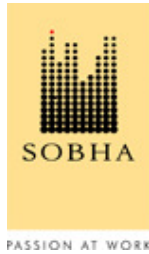
**J C Sharma:** See this how you look at, at the macro level what I believe that the cost of funds because of this tightness to the real estate developers, in particular because the banks know that NBFC will not be able to lend probably they will try to take some benefit on the interest front, that is one factor we need to bear in mind. But as far as the overall access to the funds are concerned, our experience has been best some of the NBFCs rather they have funded my joint development partner also in the last quarter when even the developers were not getting the funds, that is the reality. L&T finance has funded one of my partners. Now coming back to Sobha as such, we are fairly comfortable, my loan repayment for the financial year 2019-2020 is only 567 whereas in this financial year we would have prepaid or repaid more than Rs.1000 Crores in this financial year, vis-à-vis this we have got an existing undrawn limit of more than Rs.1000 Crores and there are some sanction limits where we have not yet started or completed the documentation part where we can get some Rs.700 to Rs.800 Crores. So we remain fairly clear and confident that the access to the liquidity should not be a problem as far as Sobha is concerned. We also are conscious that with the cost of funds which was coming down if you are going for a new launch, looking at the current environment if it persist there is a likelihood of some increase, but if the RBI in this week decides to play some kind of a positive role probably that increase in the interest rates may get halted. Otherwise the MCLR rate revision most of the banks and institutions have done and that impact you have seen in our case also and with other developers as well I hope you must have noticed.



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- Abhinav Sinha:** Just one last question. So assuming as you said the financing conditions where they are also the interest cost, will you look to add projects in a very near-term let us say six odd month?
- J C Sharma:** See we are looking at our debt equity ratio, our ability to generate cash and then how do we deploy it in this kind of an environment. Inherently, we have seen more bullish now than we were about a year back and this is primarily on account of looking at the overall macro scenario where you can see that our cash flows, our delivery and our sales, we are being able to maintain and manage in a beautiful manner without carrying the risk of finished stock inventory and the RERA permits has to complete the project on a phase-wise basis which is a big boon. So considering that our emphasis will be that if the cash flows permit us the debt equity ratio permits us, we should keep looking at the opportunities either from our existing lend banks or from some of the new opportunities which this market should provide hopefully on better terms to create a bigger and larger presence in times to come.
- Abhinav Sinha:** Okay sir thank you.
- Moderator:** Thank you. The next question is from the line of Dhruvesh Sanghvi from Prospero Tree. Please go ahead.
- Dhruvesh Sanghvi:** Sir in terms of manufacturing, if you can throw some light, I think you said that there are no plans in terms of reaching out to the other consumers or other areas, but we see advertisements of for example the beds and doors and certain of these things, I am just trying to understand what is our strategy out there?
- J C Sharma:** In the manufacturing side the Restoplus Mattresses constitutes not more than 5% of the total sales, not even 5% are there.
- Dhruvesh Sanghvi:** It is 25 Crores per year.
- Subhash Bhat:** 25 Crores on a yearly basis.
- J C Sharma:** Yearly basis 500 Crores, so it is not that significant, it is being sold in the retail market it needs to be pushed. But when it comes to the selling of the cabinet kitchen or the interiors for the corporate clients or the glazing work and other activities or the block work, there is hardly any advertisement, there is no per se a marketing team promoting. So it is B2B this does not require marketing cost and which is leveraging on the existing investments we have made in large size factories and which is giving us a good cash flow and reasonably good industry leading margins also. We will continue to follow that path, the visibility of the order book is reasonably good and at least for next two years both the manufacturing and the constructing division should keep doing better and better is what our belief is.





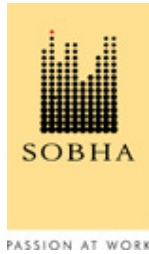
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- Dhruvesh Sanghvi:** Sir that is more from it is like you are getting orders and only then trying to completed but I am asking more a strategic point of view that are you looking to expand this as also a self-sustaining businesses is there some thought on those lines or this is absolutely not going to be the case?
- J C Sharma:** I take your point. It is a beautiful question. We have that kind of a capacities where what you were talking about if you look at from mattress point of view so take it from B2B to B2C some of the products have I understood you correctly?
- Dhruvesh Sanghvi:** Yes, I mean maybe not B2C in terms of mattresses but let us say the doors, or the furniture because for example in Gurgaon project the interiors can be taken up by you as a company so is that a process that the solutions will be offered to other developers or other let us say 500 unit developers, 200 unit developers something like that.
- J C Sharma:** See doors, windows and others we are offering our services to the other developers there is not to opinion about that, but when we look at from the Restoplus kind of thing the huge furniture part and other things connected with the textiles or the mattresses or certain other sundry items definitely we are exploring that opportunity where we have got some kind of a product range. Hopefully in next quarter we may give some positive subsidy on that front as well.
- Dhruvesh Sanghvi:** Second Sir I am just reading about your broader vision kind of a statement in the annual report about potentially more than doubling in the next five years in terms of sales, which automatically means more than doubling of the presales that we are doing so I found you to be very restrictive in terms of saying that we can easily do 4, 5 million and 6 million but is this assumption of probably two, two and a half times possible even without any big market expansion.
- J C Sharma:** We believe it is possible, correct. Even if at the market present expend, the way the commercial space absorption is happening and the way the government is trying to promote housing at least up to the 60 meter square in new product category and the way we are looking at couple of new markets, we are positioning ourselves and we remain quite confident that we need to make a sincere effort towards that. At the same time, we are agree that the industry has gone through with this lot many structural changes and one issue or other issue, which keeps happening in that environment also the ability to grow your topline, bottomline and your other activities reflects that the desire to keep improving the market share, desire to keep improving the volumes is our focused approach and hopefully we should be achieving that doubling from our current levels.
- Dhruvesh Sanghvi:** Sir and one last question when we enter a new city though Gift City came to us you have been saying rather the new venturing out there how does a consumer in Ahmedabad market or a Gift City market really understand what Sobha is and what would be the kind of selling strategy there and why would Sobha be preferred versus another 50 builders who have not done well in the same area where government has not able to pick?



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- J C Sharma:** You have a beautiful point, correct, sometimes it is again you take a call from a timing point of view. The GIFT City is in operational every month you find 500 to 1000 new employees are being added in the GIFT city and couple of new clients they start functioning from that particular place and if you look at the ongoing commercial projects there the visibility of another 4 to 5 million square feet of commercial space is being planned, which should be operationalized in next two to three years time. So keeping such things in mind we believe the timing is work in to our advantage that first mover advantage with little bit or lower risk where you are being given 5 years payment time and you can also do affordable housing, we felt that Sobha can take this kind of so-called in your word where others have not ventured to go for a product depending upon our experience in this quarter itself we should be able to launch this project, we have got the all the approvals now only these approvals we have probably there.
- Dhruvesh Sanghvi:** What is the typical ticket size out there I mean because you are saying affordable?
- J C Sharma:** A 60 meter square the first...
- Dhruvesh Sanghvi:** In terms of pricing.
- J C Sharma:** Pricing we have not yet disclosed till the RERA approval comes but it will be higher than what the normally the Gujarat market is seeing, but at the same time we have positioned the product reasonably well. This will be the tallest residential tower in whole of Gujarat, Madhya Pradesh and the other neighboring states this will come with probably the maximum number of features in Gujarat any developer will be offering for an affordable homes and looking at the captive customers available there we are quite positive that the GIFT city will give us reasonably good volumes.
- Dhruvesh Sanghvi:** That is all. Fine, thank you.
- Moderator:** Thank you. The next question is from the line of Swagato Ghosh from Franklin Templeton Asset Management. Please go ahead.
- Swagato Ghosh:** Sir if I look at your slide #64 the cash flow statement the real estate project expenses I would assume it includes the construction cost as well as if you have paid any advances towards JD etc., is that understanding right.
- Subhash Bhat:** No, JD advances have not come under the land payments. These are all investments made to complete the project from the joint approval to the completion occupancy certificate.
- Swagato Ghosh:** So these do not include those, okay that is fair.



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- Subhash Bhat:** Let me clarify what you hear land payments done at the time of signing the JD will be deposits and all that will go into land payment what I had shared from revenue is netted of from the revenue itself.
- Swagato Ghosh:** Yes that is fair, but I am talking about the optimum payment that would all come in the land payment.
- Subhash Bhat:** Land payment yes.
- Swagato Ghosh:** sir just curious that at the end of last quarter we had that this 9.5 million square feet upcoming launches now after launching about 3 million tonnes 2.2 is our share. The current number stands at 7.7 so I am just doing the arithmetic please correct me if I am doing something wrong here but it as about net 0.4 to our launchable area the next three to four quarters?
- Subhash Bhat:** Yes your math is right so during the quarter we have decided to add only about 0.5 million square feet for the future lunches.
- Swagato Ghosh:** But have we like made incremental progress like more than 0.5 but have not decided to added as it might come in the later quarter so I am just trying to understand what activities we have done as a number we might have put that only 0.5 but have we done more than that in terms of tying up in terms of areas etc.
- Subhash Bhat:** The number that we disclose here is that where we are confident of getting RERA approval and launching within this year that is four rolling quarters. So work is always on so if you look at the work which is on we are working on almost 115 acres at this point in addition to this, but when will it get launched when the approval come through how when will I get RERA approval those things are still not clear.
- Moderator:** Thank you. Well Sir, that was the last question for today. I would like to hand the conference over to the management for closing comments.
- Subhash Bhat:** Overall, the management would like to confirm that this quarter was really good for Sobha and we would expect this momentum to continue and going forward hopefully the GST composite tax issue should get sorted out and should not create a bump knowing the government and the regulatory practices that we have seen over last two years we are hopefully should not create a bump and if it does not create a bump I think we are on the road to archiving the out hence gain for GST rollout and some RERA. So the Tier I developer should be able to increase their market share to a significant number in the markets that we operate. Thank you.



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**Moderator:**

On behalf of SBICap Securities Private Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.