

**“Sobha Limited  
Q1 FY2020 Post Results Conference Call”**

**August 13, 2019**



**ANALYST:**

**MR. SANDEEP MATHEW - SBICAP SECURITIES**

**MANAGEMENT:**

**MR. J.C. SHARMA - VICE CHAIRMAN & MANAGING  
DIRECTOR – SOBHA LIMITED**

**MR. SUBHASH BHAT - CHIEF FINANCIAL OFFICER -  
SOBHA LIMITED**

**MR. RAMESH BABU – VICE PRESIDENT (FINANCE) –  
SOBHA LIMITED**

**MR. VIGNESHWAR BHAT - COMPANY SECRETARY  
& COMPLIANCE OFFICER – SOBHA LIMITED**

**MR. TEJAS SINGH - INVESTOR RELATIONS &  
FINANCE - SOBHA LIMITED**



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**Moderator:** Ladies and gentlemen good day and welcome to the Sobha Limited Q1 FY2020 Post results conference call hosted by SBICAP Securities. 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 the 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. Thank you and over to you Sir!

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

**J. C. Sharma:** Good evening friends. Again it is a pleasure to connect with you today first declaration of our unaudited financial results for the first quarter of FY2019-2020 through this concall hosted by SBICAP Securities. Thank you Sandeep for hosting this. As we have already shared the details of our operational update of the company in the first week of July 2019 and also have uploaded our investors’ presentation based on the financial results adopted by the Board this can be downloaded from the website of our company.

The market outlook if you look at the sector has been going through huge transformations in the recent years. While this transformation should give huge sustainable benefit and growth prospects to our sectors as things stand today we find huge challenges being faced by every participant who is currently operating in the sector primarily on account of low demand a), b) the nonavailability of the liquidity from the banking system and c) the continuous regulatory pressures with which the developer fraternity has to go through. At the same time we have also seen that this rapid urbanization and increasing income level, the demand and requirements for the home will continuously keep increasing.

We have also seen that the efforts being made by the government financial and regulatory authorities to boost growth around real estate sectors signifies the importance of the sector in the overall contribution to our economy. We would also like to share that this last Sunday the representatives from our sector were able to meet the Housing Minister along with the Finance Minister and deputy and we had good exchange of views about this sector and how to revive this and we believe that some productive outcome should come from this meeting as well.



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As all of us are aware that the implementation of RERA, GST coupled with other reforms while the government has been trying to bring a better transparent environment for the sector somehow it had not helped the sector in showing the desired outcome and this has resulted in to the delayed projects as well as dense customers and the suppliers suffering on account of inordinate delays and the liquidity crisis the sector is facing. In such an environment Sobha has been taking a positive stand and believes that the medium to long term story remains intact the way the commercial space absorption is happening, the way in the services sector the jobs are getting created that augur well for our sectors. The quality of the customers who are buying homes they all are end user actual buyers gives lot of comfort at the same time the way the retail customers today are being pampered both with the financed companies and with the developers that yes this is what in a buyers market we need to prepare ourselves to sustain and which is a good sign. So much performance needs to be looked at in this context where we are reasonably cautious as far as our finished stock inventory is concerned and we are also reasonably aggressive in ensuring that this is the time where our presence in the existing market as well as in some of the new markets, we can deepen, we can broaden, and efforts are being made to ensure that this direction remains as we move forward. As far as the performance of our organization this company is concerned, I would request our CFO to talk about and thereafter we will take your questions as well.

**Subhash Bhat:**

Thanks Sharma Ji. Good evening to everyone. Despite the challenging macro and real estate industry environment that we have faced over last few quarters, Sobha has delivered a good performance during Q1 of FY2020. We will continue to invest new opportunities with a view that the things would turn out to be better going forward in spite of the liquidity situation remaining tight for the sector, Sobha continues to enjoy sufficient liquidity from financial institutions and we have good amount of undrawn approved bank limits, which we have not utilized. We continued to enjoy good long-term credit rating of A+ from CRISIL as well as from ICRA.

So coming to June 30, 2019, we had unsold completed inventory of only 0.24 million square feet, which is valued at Rs.1.22 billion, which is probably the lowest in the industry and reflects as a strong capability to sell projects before completion. Out of the 0.24 million square feet 0.09 million square feet is basically water development. We have also if you look at the projected cash flow slides we have achieved 51% of sales on areas, which have been released for sale in the ongoing project and we have unsold ongoing inventory projects of only 17.05 million square feet, which we consider is adequate in this market. The committed receivables from the sold unit stands at 40.92 billion as of June 30, 2019 and this provides 78% coverage for the balance cost to be spent on completing the projects. In addition to this, we have cash inflow visibility of Rs.22.33 billion from our contractual and manufacturing verticals, which complements the overall cash flow visibility for the company.

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In the backdrop, I will summarize the company's performance for first quarter FY2019-2020. The financial highlights first, the total income recognized was Rs.11.93 billion, which is 96% higher as compared to Q1 of last year. The real estate revenue recognized was Rs.8.45 billion, 135% increase as compared to Q1 of last year. Contracts and manufacturing vertical revenues came in at Rs.3.32 billion, which is 39% higher as compared to corresponding quarter last year. The EBITDA was worked out at Rs.2.44 billion, which is 71% higher as compared to Q1 of FY2019. The EBITDA margin came in at 20%. PBT was reported at Rs.1.42 billion, which is 92% higher as compared to Q1 of last year. The PBT margin for the company was at 12%. The PAT was reported at 0.91 billion, which is 70% higher as compared to Q1 of last year. The PAT margin was 8%. The debt equity ratio as of June 2019 stands at 1.19 as compared to 1.09 in March 2019. The cost of borrowing was reported at 9.8% slightly higher than what we closed for March quarter.

Coming to the cash flow highlights, the total cash inflow was at Rs.8.01 billion, which was 9% higher as compared to the corresponding quarter. The real estate inflow stood at 5.21 billion, which was about 4% higher as compared to the corresponding quarter. The real estate inflows were impacted during this quarter by the procedural delays in entering sales agreement with customers for newly launched projects like Sobha Royal Pavilion, Sobha Dream Heights, Sobha Palacia where we have achieved good sales during the last few months but the cash inflow we could not collect more than 10% as the agreement was delayed, agreement signing and we expect these agreements to be signed in the coming months and cash flow to return to normality over next two to three months.

You are aware that without the agreement Sobha is not allowed to collect more than 10% of the agreement value under RERA. The real estate cash outflow was on a bit higher side due to higher spends in projects, which are nearing completion like Sobha Clovelly, Sobha Arena and Sobha City in NCR.

The commercial capex outflow of Rs.703 million during Q1 of FY2019-2020 is mainly on account of the near completion spends at St. Mark's Mall in Bengaluru as well as buying out of club house from our JD partner in international city in NCR to ensure proper facilities are provided to our customer. The company has also invested in opportunities in Bengaluru, Gurgaon, Hyderabad, Hosur and Trivandrum totaling to Rs.1.53 billion for buying land and entering to JD arrangements. The contracts and manufacturing inflow was at Rs.2.8 billion, which is 20% higher as compared to the Q1 quarter last year.

Due to the above reason, our debt has gone up by Rs.3.18 billion during Q1 FY2019-2020 and this is likely to come down over the next coming months as a planned land related outflows is limited for the rest of the year.



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Coming to the operational highlights, as communicated during the first week of July 2019 we have sold 1.06 million square feet of area during Q1 totaling to Rs.7.77 billion in sales value, which Sobha's share of the sales value at Rs.6.61 billion. We have achieved overall average realization of Rs.7312 per square feet and witnessed 11% growth in the volumes with the sales value going up by about 2%.

During the quarter the company also launched Sobha Nesara at Pune, which is a super luxury apartment project with the salable area of about half a billion. We also launched Sobha Verdure an exclusively designed row house project in Coimbatore with a salable area of about 0.1 million square feet. So in total we launched 0.6 million square feet of new project during the first quarter of this year. We are also planning to launch 10.65 million square feet of new projects in Bengaluru, Gurgaon, Delhi, Hosur, Chennai, Thrissur and Hyderabad during the coming quarters and this will further drive the growth in the presales volume.

Coming to the contract and manufacturing business, the contracts and manufacturing segment has delivered good financial performance as well as operating performance and will continue to grow at a steady pace. The contract revenues and inflows have grown by 39% and 20% respectively during this Q1 of FY2019-2020. Currently the ongoing projects aggregating to 9.15 million square feet are under various stages of construction and the order book as of June 30, 2019 stands at Rs.22.33 billion, which gives us good visibility for the coming quarter. All these segments are contributing meaningfully both in terms of topline and bottomline. Thanks. We can now take questions.

**Moderator:** Thank you. Ladies and gentlemen, we will begin the question and answer session. The first question is from the line of Atul Tiwari from Citigroup. Please go ahead.

**Atul Tiwari:** Yes Sir. Thanks a lot. Sir my question is on the debt, so over past one year and in this quarter also we have seen the net debt going up and in this quarter this has kind of coincided with weak operating cash flows as well at just about Rs.55 million. So just wanted to get your perspective as to why the debt is going up and what level of debt you guys are comfortable with and why your operating cash flows were particularly weak in this quarter?

**J. C. Sharma:** So Atul the debt level that we are comfortable with, we have been clear in communicating this to the market at every March year end we would like to be at 1.1 debt equity and we are even now targeting the same debt equity for March 2020. So that is very clear a target that the management is carrying. We had good opportunities to buy land and enter into JD arrangements during this quarter and we did not want to miss that out and therefore the company had to invest about 154 Crores on these opportunities. As well as, as mentioned we had the spends in St. Mark's as well as the club house that we have to buy out from a JD partner. We had the customers in NCR complaining about the facility being provided by the JD partner and in order to ensure that our



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brand in NCR market is not impacted. We went ahead and bought this club house from the JD partner. So these are not recurring expenses going forward. So we expect that to normalize and not have a big impact in the further three quarters. At the same time as we have mentioned the cash inflows on real estate projects were delayed basically due to the new projects that we launched where agreements are still not signed by customers and we are expecting that process to normalize over Q2 and Q3 and you should see improvement from September and October onwards on the collection from these projects and without the agreement you cannot invoice the customer over 10% and that is what is restricting our cash inflows over these projects right now.

**Atul Tiwari:** Why this delay in signing the agreement with the customers, one would have thought that immediately after booking say within a week or two normally you will be signing the agreement, is that understanding right?

**J. C. Sharma:** No, in case of two projects the agreement were a little bit complex due to the land holding structures from the JD partners and there was quite a back and forth with the lawyers on this and we have finalized this agreement only in April end and therefore these delays were there with signing the agreements with these customers.

**Atul Tiwari:** Okay. Thank you Sir.

**Moderator:** Thank you. We will move onto the next question that is from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.

**Sameer Baisiwala:** Thanks and good evening everyone. Sir first question is have we talked about which are the land parcels that we acquired in JD in the quarter?

**J. C. Sharma:** So overall we have acquired about 143 acres with about 33 acres in Bengaluru for JD project in the dream series on Hosur road and another 40 acres in Hosur to start the plotted development to ensure that we had the frontage and the excess to the main road, 31 acres in Gurgaon for launching a JD project then we have acquired another 4 acres in Hyderabad for our entry into Hyderabad. In terms of land purchases we have bought about 18 acres in Bengaluru, 7 acres in Trivandrum and 9 acres in Hosur for starting our quarrying and crushing, which we have been mentioning to the analyst teams across last one year, so overall spend is about 153 on this.

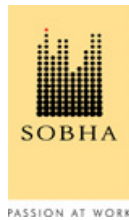
**Sameer Baisiwala:** And for all these transactions, all of them were concentrated in Q1 and for all of these deals have you paid out everything or is there anything pending?

**J. C. Sharma:** The pending we have disclosed about 177 Crores is still pending, but it is not specifically only for these transactions. The earlier transactions also some of them would be pending. So in fact these overall payments payable has come down from 188 in March to 177.



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- Sameer Baisiwala:** Okay and all these transactions were done in Q1?
- J. C. Sharma:** Yes. We have got filled out in Q1 153. So yes there was bunching. These transactions, the discussions going on for quite some time and we have found that the NBFC crisis were forcing the hands of these land owners, so it was a good time to do the transaction.
- Sameer Baisiwala:** Okay great and Sir given the current situation in the market and I am sure these could be pretty attractive land parcels we can discuss this later, so why (inaudible) 20:48 one-off, do not you think you will get many more such opportunities and so therefore you should be putting money to work?
- J. C. Sharma:** See we are all evolving as far as the structuring part is also concerned, so some interesting structures are getting worked out where the people who are in the distress. In such projects so far there is no private equity guy so far. So we have been in discussions with couple of private equity people who are in agreement with us to support and put majority of their money to acquire the opportunity or the land. At the same time you are talking directly to some of the developers who are in stress and trying to take over their projects, which will be a mix of joint development cum development manager fee where we are guaranteed a certain return on the investments what we make whether it is construction cost, whether it is selling or whether it is managing the project sort of a thing, so some interesting structures are getting worked out. Hopefully as things progress we should be sharing that where the amount to be invested will be significantly less, at the same time the benefit also will not be as good as when you do your own project, but a little bit better than the development manager model.
- Sameer Baisiwala:** Okay. That is great and just for all the transaction that you highlighted for those 153 acres and that may come about going forward, what is your guiding principal, is there any IRR target or how do you evaluate the sales?
- J. C. Sharma:** See basically what we look at the time of launching this project we should have at least 30% of gross margins we should be achieving on all such projects and from an IRR perspective what are all projections we make, the return should be more than 20%.
- Sameer Baisiwala:** You mentioned about seven or eight transactions, so all of them would get launched or commercialized in the current year, they are all ready to go sort of land parcels?
- J. C. Sharma:** See yes if you look at the Bengaluru part, if you look at Hosur part, if you look at Hyderabad part kind of a thing, Gurgaon also, the design aspect has been frozen right and the approval process is on.
- Subhash Bhat:** Hosur also we should launch by end of basically by December or something. The only one in Trivandrum, which may take sometime.



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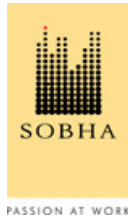
- Sameer Baisiwala:** Okay, so one final question, how does the debt repayment schedule looks like for this year and next?
- Subhash Bhat:** So debt repayment going forward Q2 to Q4 we have got 419 Crores of debt repayment coming up and next year full year it is 533 Crores.
- Sameer Baisiwala:** Okay. Great. Thank you so much.
- J. C. Sharma:** And undrawn limit itself will be about Rs.1000 Crores.
- Subhash Bhat:** And Q1 we have already repaid 173 Crores.
- Sameer Baisiwala:** Okay.
- Moderator:** Thank you. The next question is from the line of Chintan Modi from Motilal Oswal Securities. Please go ahead.
- Chintan Modi:** My question is on the new launches that you have mentioned 10.65 million square feet, I want to understand like how much of these is going to be from our own land parcels and what is the incremental outflow required for this?
- J. C. Sharma:** So right now incremental outflow for this is hardly anything going forward for the 10.65 that we have mentioned. Basically the Hosur was along with the 40 acres JD that we have signed up is from our own land parcel then Thrissur 1.3 million is also from our own land parcel. Gift city about 330000 is also from our own land parcel, Chennai was about 2 lakh square feet is also from our own land parcel and coming to Bengaluru about 2.2 million is from our own land parcel.
- Chintan Modi:** Okay and any update on Hoskote?
- J. C. Sharma:** No. Not right now. Chintan we have been sharing with the investor community. Hoskote would get launched once we complete the structure at dream acres. So that is still about two years away.
- Chintan Modi:** Two years away, okay and can you also highlight like what kind of ticket sizes that we are looking for this 10.65 billion square feet launches.
- J. C. Sharma:** Most of them are in the Sobha that is 50 lakhs to 2 Crores, but good amount of dream series would get launched especially the one on Hosur road in Bengaluru.
- Chintan Modi:** Okay. That is it from my end. Thank you.





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- Moderator:** Thank you. The next question is from the line of Siddharth Agarwal from Prudent Value Partner. Please go ahead.
- Siddharth Agarwal:** Thank you for giving me this opportunity. Sir my first question is you just mentioned we acquired this 143 acres of land and there are a lot of projects, which we are going to launch probably this year from 143 acres, is this already a part of 10.5 million square feet that you have already disclosed in the presentation or is this on the top of that 10.5 million square feet?
- J. C. Sharma:** See about 125 acres out of the 143 is part of this.
- Siddharth Agarwal:** Okay. So it is already included in the presentation all these projects. And Sir the another question that I have is that we have roughly 2500 acres of mostly fully paid up land bank, so how much of this land bank is ready to be developed as of now, a lot of it could be far away areas or in areas which are not ready to be launched yet in the near foreseeable future. So could you give us some sense of that if the company tries to launch projects in the next few years how much of this land can be utilized?
- J. C. Sharma:** About 117 acres is under project planning stage, so that should get launched over say next, some of them is part of this 10.65, but most of that is not here and between next two to three years we should utilize another 200 acres.
- Siddharth Agarwal:** Okay so Sir in terms of capital allocation when we think of it we own our own land parcels, which are fully paid up and the other opportunity we have with other parcels of land, which could be available at reasonable prices from the market. So in terms of priority about is not it better that we have first monetized the land parcels we are already sitting on it or this is how you work, you first look at our land and then whatever other opportunities are available then you go for it.
- J. C. Sharma:** See you do a judicious allocation of the capital where you look at your own land parcels, also you look at the opportunities available as well. As Subhash was telling that prior to this accounting standard 115 we are trying to be around 0.85 as our debt equity, now post 115 we have shifted to 1.10, is within that if we can manage our cash flows and with the rising volumes, rising realizations and steady margins, if we are able to get into some newer markets, newer territories, newer products, we are exploring. When we look at within the fraternity also most of us have been pursuing the same strategy where the organized players are trying to consolidate and gain market share and provides clarity and comfort with the customers and other stakeholders and rather in this direction we have been relatively slow, but with the kind of scenario what we are seeing we thought that yes there has to be a judicious mix of monetizing our own land bank also at the same time looking at some of these opportunities subject to the constraints what sometimes we also undergo for a few quarters to keep that 1.1 as debt equity we will be operating.



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**Siddharth Agarwal:** Okay Sir. So other question that I have is our corporate expenses are roughly in the order of around 210 Crores per year, Sir suppose while we scale up our operations, if we wish to deliver it within a square feet in coming years then how much of these corporate expenses in doing it to cater to that increased volume?

**J. C. Sharma:** Yes it is a good point. As far as the sales marketing cost is concerned that will be literally variable in nature and it will keep through going up as the sales volumes or the values go up. The sale we did in part in India that 8% to 10% growth has to be factored and in any new city or new territories initially you need to have a new setup, which also will have little bit of incremental cost, but the big picture remains that yes if you go up from 4 million square feet to 5 million square feet and above sort of a thing this corporate expenses will not be going up that steeply and its operating leverage will start kicking in and hopefully that is what we are trying to look at even if the sales price increase does not happen.

**Siddharth Agarwal:** Okay. Sir and one last question that I have is there were some reports in the social media around that the promoter from the personal capacity appeared to be quite leveraged and there are some concerns around the Dubai business of even though it is not a part of a listed company, but there are some concerns around that, I have given what we have seen happening in the corporate India that some of the promoters have to sell their valued holdings in the crown jewels because of problems they had elsewhere in the business in Dubai, so if there is something that you can share with us on this?

**J. C. Sharma:** Yes. We have spoken to the promoters and they have assured us, they will not bring down their equity state below this current level number one. Number two whatever we have been given to understand from them is that the Dubai market with whatever we are hearing this year has been quite good for them and they are also in the process of resolving most of their issues in the next couple of months' time and it looks to us from the feedback what we have got that they will be doing exceedingly well in the coming quarters had the benefits of the reconstructing what had happened there starts kicking in.

**Siddharth Agarwal:** Okay Sir. Thank you very much for your answer. I will come back in queue.

**Moderator:** Thank you. The next question is from the line of Kunal Lakhan from Axis Capital. Please go ahead.

**Kunal Lakhan:** Quickly on the new launches, so how much we launched in Q2 so far?

**J. C. Sharma:** Q1 we have launched 0.61, in Q2 we have not launched anything till now.

**Kunal Lakhan:** Okay and considering the flood situation in key south Indian states and N cities also and even some of the western cities like Pune, what is the visibility on these new launches plus even



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incrementally on the sales in Q2 and in subsequent quarters you have seen in the past that such things do impact sentiments around real estate?

**J. C. Sharma:**

You are right. We should be able to launch this Thrissur project in this quarter, we should be also able to launch the Chennai project in this quarter that can go right, we should be able to do something hopefully one project in Bengaluru also Nagenahalli. These are projects, which are at the advanced stage of getting the approvals. As far as the flood situation is concerned, there has been temporary setback in the Kerala market especially that Calicut and Cochin, you must have seen airport getting closed and good amount of flooding has happened in these two cities. Hopefully things should come back to normalcy because the severity of the flood this year is significantly less than what has been seen in the last year and the way the things improved last year we believe things should improve and from our volume perspective with the marginal impact negative on the Kerala market all other markets we should be doing as normal.

**Kunal Lakhan:**

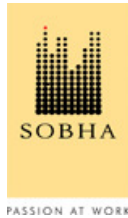
Sure. Secondly on the debt number again, you mentioned that your long term target is to maintain your net debt to equity at 1.1x, but just wanted to understand if you have any target of reducing the absolute debt levels from 2750 Crores odd, can we see that number going down in terms of absolute number, I mean vis-à-vis the kind of the land bank that we have that number seems a bit stuck, so just wanted to understand like how do we plan to manage our balance sheet in terms of gearing versus holding like very long gestation assets?

**J. C. Sharma:**

See, Kunal they are well accepted, well let down formula towards the vertical issue, all of us we follow, we believe in sort of a thing. We need to look at with the cash generating capabilities, the EBITDA, the debt generating capabilities with margins and so forth. The big picture is that there is a unique positioning in the sector where these opportunities are available at the fraction of cost. At the same time the balance sheet remains reasonably steady and strong from the committed cash flow point of view also. If you look at the projects, which we have released for sale as on June 30, 2019 like 70% of the balanced cost to be incurred to complete the projects. You have already got clarity of committed cash flows from the existing customers. If you look at from the constructing point of view we feel that we can keep growing this business for at least next couple of years without much of an effort. We continued to guide that the double digit growth in value terms we should be showing in this current environment, so it is in the matter of taking a judgmental call as whether you should go for reducing the interest in the absolute numbers or you should have the comfort operationally at the same time create a platform where unique opportunity beacons a few of the real estate players currently to capitalize upon and then it is the time, which will give answer to all of us, but we remain positive and clear that in the past what we have chosen it is good for our stakeholders, good for our company.

**Kunal Lakhan:**

Sure. Thank you so much and all the best.



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- Moderator:** Thank you. The next question is from the line of Abhinav Sinha from CLSA. Please go ahead.
- Abhinav Sinha:** Hi. Sharma Sir you mentioned in your opening remarks about your meeting with government last week so what is the sort of measures you are hoping for, which will be I think best for Sobha?
- J. C. Sharma:** See we have generally requested the following. The government is insisting that housing for all it is there a mission statement and they should achieve by 2022 with affordable housing being a focus area. So we have requested them that there will be uniform definition of the affordable housing 60 meter square or 90 meter square to avail of the income tax benefit, the GST benefit and the subvention benefit where they need not to be different, different criteria to define an affordable housing. Secondly all of us are aware of the huge liquidity challenge where while some of the companies may have fundamentally disrupted the financial structure or they may not be viable, I am not representing them or watching on their behalf, but what a little bit we have done the studies of some of the opportunities, primarily it is the last mile connectivity and because of RERA, because of the multiple challenges in the documentation even sometime if you want to take up those projects we have not been able to take it up. So what we requested is somehow the window has to be created where they approve launch from the NBFC can be substituted by the public sector banks somewhere some restructuring a few quarters is provided to ensure that these companies can come out of that kind of stigma in default they cannot trade money, they cannot complete the project but been permitted to complete the projects and ensure that the confidence of the customers comes back, otherwise it is hurting the good players also because of the challenges of not getting the projects completed. Then take for instance subvention scheme, we are conscious of the fact that we sometimes may have misused this facility, but it can be used from the purpose of a construction linked progress oriented subvention scheme, which benefits and becomes an effective hedge to the customers, Then let us come to the GST also, why we have to have observed all the GST and charge 5%, we can go back to that input tax to be permitted and the GST rates can be reduced. So these are some of the few points, which we feel that the government must look at more deeply and come out with some kind of a solution.
- Abhinav Sinha:** Okay Sir realistically in your judgement is there sort of a timeline, which we are hoping for these are very long term measures as such?
- J. C. Sharma:** See, I do not think the liquidity kind of a thing or the definition of the affordability or taking the GST rates sort of a thing should be a long drawn process. At the individual level honestly speaking I am not saying that we were not being impacted, but we feel that our performance at the level at least we are likely to be least impacted with what is our government done or does not do, good liquidity, good availability, reasonably good sales momentum, all such things we feel we are having, but when we represent a sector sometimes it is good that the sector specific issues



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it understood and I hope that the government is listening and will take care of some of these issues what I have mentioned.

**Abhinav Sinha:**

Sir when you have given a double digit sort of a broad guidance on sales, etc., so at this point how much you think is dependent on the underlying market momentum and how much will be launched link?

**J. C. Sharma:**

It is a good point. I think this is considering that things may or may not improve while we are optimistic, things may not work out the way right we believe, at the same time, right as far as the performance is concerned looking at the current environment and looking at the performance of the last four and four-and-a-half months we feel that definitely we should be doing better in this financial year as well than what we did both operationally and financially.

**Abhinav Sinha:**

Right Sir finally on the contractual business, we have seen that the order book has sort of picked out over the last I think couple of quarters, so what is the outlook here?

**J. C. Sharma:**

Outlook remains good. I think we have been telling for last few years as such not very aggressive because we are conscious of the facts that presuming if I go and take up a developer's project my cash flow will get impacted, so very conscious that we should not be doing that. At the same time the constructors today that they are operating at almost zero margins to gain some of the orders from the market. We have got certain pipelines even now also and we believe that the growth momentum what we have shown in last three, four years at least a couple of years, this kind of a momentum will be there, thereafter let us see because all our manufacturing capabilities today is working at full shift morning and evening kind of a thing at full capacity we are operating, all the constructing divisions Infosys and non-Infosys they also are working at its peak capacity, company has got highest number of permanent employees 3605 as we talk and at the ground level the activities are at its peak.

**Abhinav Sinha:**

Right Sir. Thanks and best of luck.

**Moderator:**

Thank you. The next question is from the line of Dhaval Somaya from PhillipCapital. Please go ahead.

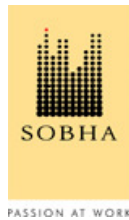
**Dhaval Somaya:**

Sharma Ji, if you could provide some more color on how the contractual order book is changing because if you see in the last quarter we had almost 8.59 million square feet of projects with total cash flow receivable of around Rs.25.8 billion and now in this quarter even though we have a higher order book of share of 9.15 million square feet our expected cash flow is somewhere around Rs.22.3 billion, so how has this orderbook changed over the quarter or what has happened if you could give some more color on that?



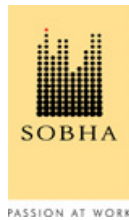
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- J. C. Sharma:** As far as the constructing business is concerned what you need to look at right now as far as when we talk about from a square feet point of view the civil finishes what we do in a building on a square footage basis is considered. So there we have got some orders for a structure definitely it will be considered as part of what you say it is new projects acquired. The interior activities, the glazing activities and some of the other manufacturing divisions' activities while the revenue recognized it is not considered as part of the square footage. So some of the new orders with the structure had been added what has been reduced may be a nominal structural activity part, but the billing had happen a little bit more, which is giving you this kind of an anomaly.
- Dhaval Somaya:** Okay and Sir any color on if we are planning any capex on the manufacturing side?
- J. C. Sharma:** Small little bit capex will be there on the shuttering system once you get a civil structure activity, but not significant as much as what you look at, vis-à-vis you see in the real estate business so that is where from the return on investment point of view this business gives us a far superior returns then what we earn from the residential space.
- Dhaval Somaya:** Okay Sir. Thank you. That will be all from my side.
- Moderator:** Thank you. The next question is from the line of Vineet Manik from Karma Capital. Please go ahead.
- Vineet Manik:** I had just two book keeping questions with you that we had seen a jump in our spends for the construction during this quarter, so can we expect a similar kind of a run rate going forward for the rest of the year?
- Subhash Bhat:** So basically if you look at these spends yes there is a jump that you saw as I mentioned during our introductory message it is mainly because of few projects, which are nearing completion, so basically we had extra spends in about Sobha Clovelly about 12 Crores, Sobha City, now these are spends, these are not booking accounting entries, but actual spends, provision would have happened by the time of handover itself, okay. Like in Sobha city in Bengaluru we had the substation approval coming in only in the last quarter and we had to spend about 11 Crores for setting up the substation. It was provided when the handover happened in 2016 and 2017, so that was one anomaly, which will not get repeated. Clovelly also because it is closer to finish we spend about 12 Crores extra. If you are aware in Sobha Indraprastha the corresponding land owners part is basically the mall so there we had to spend about 20 Crores last quarter and the mall is scheduled to be handed over by October, so probably this quarter we will see the spend, but not going forward.
- Vineet Manik:** Okay.



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- Subhash Bhat:** These are the major ones.
- Vineet Manik:** Okay and apart from that in terms of the land deals that we had made during this quarter so are any other deals pending where we can expect some capex to be spill over for the next two quarters?
- Subhash Bhat:** Yes, we have already given you these pending payments in the land bank, which is about 177 Crores, but overall spends will be in line with what we did last year, which is about 196 to 200 Crores is for the full year, I do not think we will go beyond that.
- Vineet Manik:** I was just talking about any new deals that we were not able to close during the last year.
- Subhash Bhat:** I think as of now on the table we have one or two JDs and development manager proposals, which we are discussing and as Sharma Ji said probably in the next call we should be able to share those news with you, but investment on land payments will be miniscule on these deals.
- Vineet Manik:** Okay. Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Manoj Dua from Geometric Securities. Please go ahead.
- Manoj Dua:** From 2006 from demonetization and then GST then RERA then NBFC choking and now interest subvention scheme being cut off, so all it has leading to the consolidation in the real estate sector and with interest rate being low and all other asset lever apart from goal like real estate equity market not performing well and affordability being all time high in the last 10 years, so it is to say that we are in a very sweet spot for three, four, five years where the cycle may turn with limited competition, so what are the steps we are talking to take the benefit of that platforms from like PE player or acquiring those land parcel, which can be launched very fast or something like that, this is my view and I want to know the management view on that?
- J. C. Sharma:** See I think in your question, the answer lies. The structural reforms, which this industry had gone through in last three to four years of the size and scale it is unprecedented. At the same time sometimes there is a clear disconnect between the way the new jobs are getting created versus the new homes are being sold. Now that clearly says that a pipeline is definitely getting created and with the affordability as you currently put it across at some point of time all such things should get converted in to the actual demand for the developers as well, but for some reasons right whether you can articulate, whether you can factor or you cannot factor, somehow it has not helped us in realizing our true potential what we are capable of otherwise achieving, but at the end of the day there has been definitely a qualitative improvement clearly visible, the customers feel significantly more empowered than ever before and the developers also realized that without becoming accountable to the customers, suppliers including the bankers, they cannot sustain



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themselves. The positive interest of that is just to be seen once that sets in, when it sets in is anybody's guess, but I believe that it should be setting in sooner than what we anticipate and once that it sets in sort of a thing, yes there should be both a qualitative and quantitative sustainable growth we should be witnessing, which may last even beyond three, four years, these are the (inaudible) 54:40 kind of a behavioral improvement, we will see this sector showing and producing the positive outcome, of course when we look best at the past, there is nothing to indoors what just now I have spoken but the belief still remains because that the effort which we have made and supported the government's move to have come up to this stage and we do not wish that having reached this far for that last mile challenges we should be giving up.

**Manoj Dua:**

Okay. Thank you and best of luck.

**Moderator:**

Thank you. The next question is from the line of Rushi Vaidh from Invisal Investment. Please go ahead.

**Rushi Vaidh:**

My question is more regarding the Gurgaon project particularly Sobha International City, I believe as we all know luxury is not the flavor of the season, so I wanted to know the management view and perspective on the outlook of the market on luxury developments in Gurgaon and the realizations and the strategy for the project in particular?

**J. C. Sharma:**

I think it is a very good question because with good belief and faith we had entered into NCR market because of the Sobha City we have sustained ourselves though in the international city for the first two years of our initial launch we had done exceedingly well, but the good news is that even the work, which is required to connect the Delhi side to the Haryana, right, it has started and we are doing our level best to see that even if it takes a few more quarters to complete the formality of doing that work somewhere and excessive rate by (inaudible) 56:51 this done and may be the road was relatively small, so that the traffic from Delhi can start moving towards Dwarka Expressway. Dwarka Expressway on the Haryana side it is complete, but once it gets connected to Delhi the whole ballgame should change, we are working towards that, hopefully in next quarter we can share this positive news also and post that the chances are the international city and the Dwarka Expressway both should tend to gain and ensure that the investments what we have made, the commitments what we have given right, it works out well for our customers as well as for our shareholders.

**Rushi Vaidh:**

Sure Sir. Sir just one question in particular, Sir had highlighted earlier that we had purchased on JD partner share in the club house I believe?

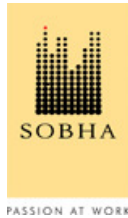
**Subhash Bhat:**

It is not JD partner share.

**Rushi Vaidh:**

So do we completely own the club house now?





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**J. C. Sharma:** Earning clubhouse along with the land completely kind of a thing. We constructed on behalf of the landlord as part of our arrangement, but then the running and maintenance of this clubhouse was becoming difficult due to about 30 families only living looking at the long-term benefit of earning such a large clubhouse with 2 acre of freehold land we thought it is a great opportunity for us to capitalize.

**Rushi Vaidh:** Great Sir. Thanks a lot.

**Moderator:** Thank you. The next question is from the line of Siddharth Agarwal from Prudent Value Partner. Please go ahead.

**Siddharth Agarwal:** Sir you did mention that while we are looking or evaluating new projects our hurdle rates are sort of we should have at least 30% gross margins and 20% IRR, but I guess Sir the IRR is also function of the velocity of the project that how soon we are able to launch and enter and exit the project, so could you please share from your experience in the last two, three years we have done a lot of these projects, are we able to meet those hurdle rates, IRR hurdle rates because when we look at consolidated results we cannot really understand at the project level if we are how profitable individual projects are?

**J. C. Sharma:** Right that is where while we go for the plan approval depending upon the size of the land to avoid the future difficulties in launching and continuing with the momentum in one go with registering these projects in multiple RERA registration numbers with different dates of starting and completing, so when you look at all these projects from that module perspective we are succeeding in achieving both because the model is otherwise very simple to implement. Once you have 70% of the sales getting achieved and once you hardly carry any finished out inventory, if you are following these two principles with the gross margins as well as the IRR what we talked about is normally achieved, sometimes the input cost increase in a negative cycle or the velocity part in a negative cycle in one or two smaller projects may have been the case, but by and large we are achieving this.

**Siddharth Agarwal:** Okay Sir and lastly Sir could you also please give us some sense of our construction cost, how are they faring over year-on-year are you seeing any significant increase or roughly the same?

**J. C. Sharma:** If you look at the primary input cost by your steel, cement and ready mix concrete, there has been a cyclical increase and decrease, but when you look at the yearly trend we have been generally comfortable with prices of these items. When it comes to the wages there has been an increase every year, with this labour code where the parliament is in the process of defining minimum wages for throughout India hopefully it should put a full stop of indiscriminate increase of the minimum wages in the certain space. We accept that generally the environment has remained positive as far as the construction cost is concerned.



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**Siddharth Agarwal:** Okay. Great Sir. Thank you very much for those answers.

**Moderator:** Thank you. Ladies and gentlemen due to time constraint that was the last question. I now hand the conference over to the management for their closing comments.

**J. C. Sharma:** Thank you friends for attending this conference call. We believe that while couple of quarters may be relatively tough on the cash flows part, but we are confident that by the end of this financial year things will look again as good as what we have been showing in the last few years. We are on a much stronger wicket now than ever and going forward the hard work what had been put into this company we will definitely start showing the desired results. Wish you everyone Happy Independence Day in advance. Thank you.

**Moderator:** Thank you. Ladies and gentlemen on behalf of SBICAP securities that concludes today's conference. Thank you for joining us. You may disconnect your lines.