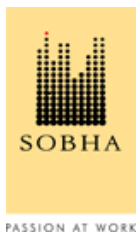




“Sobha Limited
Q2 FY2020 Post Results Conference Call”

November 11, 2019

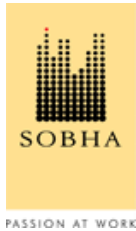


ANALYST:

MR. SANDEEP MATHEW - SBICAP SECURITIES

MANAGEMENT:

**MR. J.C. SHARMA - VICE CHAIRMAN &
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**MR. SUBHASH BHAT - CHIEF FINANCIAL OFFICER
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**MR. VIGNESHWAR BHAT - COMPANY
SECRETARY & COMPLIANCE OFFICER – SOBHA
LIMITED**
**MR. TEJAS SINGH - INVESTOR RELATIONS &
FINANCE - SOBHA LIMITED**



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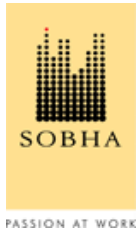
Moderator: Good day ladies and gentlemen and a very warm welcome to the Sobha Limited Q2 FY2020 Post results conference call hosted by SBICAP Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal 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. Thank you and over to you Sandeep!

Sandeep Mathew: Very good afternoon everyone. 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 and belated Happy Diwali and New Year in advance. We are pleased to connect with you today post declaration of our unaudited financials results for the second quarter and half year ended September 30, 2019 through this concall hosted by SBICAP Securities. Thank you, Sandeep for the same. We have already shared the details of our operational update of the company in the first week of October 2019. The investor presentation based on the financial results adopted by the Board can be downloaded from the website of the company.

Market outlook, the macroeconomic environment remains unsettled and financial markets are experiencing considerable flux. Financial markets have remained edgy and volatile amidst the uncertainties of trade tensions, geopolitical strife and renewed financial volatility in emerging markets. Real estate sector is still going through an overhaul and a structural transformation. The credit crisis of recent years is still impacting the operations, however, businesses in the listed space seems to be performing better. Government of India is coming out with series of measures and reforms to support the economy as well as the real estate sectors.

The Finance Minister's recent announcement on setting up of Rs.25000 Crores alternative investment fund aimed at providing relief to developers with unfinished projects to ensure delivery of homes to buyers is a welcome step and shows government's focus towards rival of real estate sectors. The mega-PSU banks consolidation should help the organized players



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with speedier processing due to operational synergies arising out of increased scale of banking operations. Rs.100 lakh crores planned infrastructure spending over the next five years is expected to boost the growth in economic activities and thereby helping the core sectors like real estate to perform better over the medium to long term.

With the game-changing measures being announced by the Government of India, we are anticipating better operational performance in the days to come and also improvement in the sentiments. Bold measures in corporate taxation announced will prove to be beneficial over the long run due to reduced tax outlay and better utilization of the same into further operational activities. In this backdrop, the Sobha's performance and its outlook, I would request our CFO, Subhash Bhat, to speak.

Subhash Bhat:

Thanks, Sharmaji. With the economic activity appearing to be rebounding slowly in the current year, Sobha has delivered a performance, which is good for the Q2. We have achieved fresh sales of 1.04 million, valued at Rs.6.82 billion. The total cash inflow has been at Rs.8.4 billion and the real estate inflow coming in at Rs.5.11 billion and the contract and the manufacturing inflow at Rs.3.29 billion with the EBITDA of Rs.1.87 billion, a PBT of Rs.0.93 billion, resulting in a PAT of Rs.0.67 billion. On September 30, 2019, we have also delivered almost 105.9 million square feet of developable area, which is one of the highest in our sector.

We are pleased to inform you that our unsold completed inventory is only 0.22 million square feet, valued at Rs.1.17 billion as of September 30, 2019 which is probably the lowest in the industry and reflects our strong capability to sell the project before completion. Out of the 0.22 million square feet, 0.08 million square feet is attributable to plotted development. We have achieved 55% sale of the area that has been released for sales in ongoing projects. Overall, unsold inventory on ongoing projects is 16.18 million square feet, which we consider adequate in the current given scenario.

With our committed receivables on sold units standing at Rs.41.25 billion as of September 30, 2019, we have coverage of 85% of the balance cost to be spent on completing these projects. Additionally, we also have cash inflow visibility of Rs.21.7 billion from contracts and manufacturing verticals through our order book. Our unique business model of offering quality products to the customer offers a strong platform for faster growth in this industry. The other significant benefit of this model has been our growing contract and manufacturing business and the performance of this vertical has been quite satisfactory from our perspective.



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With good visibility of future launches, focus on execution and delivery and with a hope that the government will take further steps to boost the latent demand in the real estate sector, Sobha expects to perform better in the second half of this financial year. With this backdrop, we would like to summarize our company's performance for the second quarter as well as for half year ended September 30, 2019 as follows.

Coming to the financial highlights for specifically Q2 of FY2020, our total income was recorded at Rs.8.04 billion, which is 19% higher as compared to Q2 of FY2019. Real estate revenue was recorded at Rs.4.28 billion, which was higher by 11% as compared to the previous year's Q2 FY2019. The contracts from the manufacturing revenue was recorded at Rs.3.56 billion, which was 30% up compared to the earlier year same period.

EBITDA at Rs.1.87 billion is 18% higher as compared to Q2 of last year with the margin coming in at 23%. PBT was recorded at Rs.0.93 billion, which is 4% higher as compared to Q2 of FY2019 with the overall margin at 12%. The PAT was recorded at Rs.0.67 billion, which is 11% higher as compared to Q2 of last year with the margin at 8%. CRISIL and ICRA have confirmed our long-term credit rating at A plus stable. The debt equity ratio as of September 30, 2019, stands at 1.29 with the cost of borrowing coming in at 9.81%.

Coming to the half yearly highlights, so this half year, we had recorded all-time high total income of Rs.19.97 billion, which was 55% higher as compared to half year of FY2019. At the same time, the real estate revenue also recorded an all-time high of Rs.12.73 billion, which was 71% higher as compared to the previous half year. Our contracts and manufacturing revenues also recorded an all-time high of Rs.6.88 billion, which was 35% higher as compared to comparable half year last year.

EBITDA came in at Rs.4.31 billion, which was 43% higher. The PBT at Rs.2.35 billion, which was 44% higher and PAT came in at Rs.1.58 billion, which was 39% higher. Coming to the cash flow highlights. Our total cash inflow for the Q2 FY20'20 was at Rs.8.4 billion, which was 11% higher as compared to Q2 of last year with the real estate inflow at Rs.5.11 billion. We have taken various steps internally to overcome the delay that we had mentioned in the last concall about entering into sale agreements with customers for ongoing projects and collecting money from clients beyond 10% of the agreement value as per RERA. As a result, we have seen improvement in the cash flow during this quarter and we expect this to improve further in the coming months.



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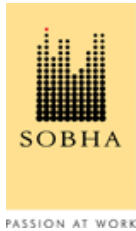
The contracts and the manufacturing inflow was at Rs.3.29 billion, which was 51% higher as compared to Q2 of FY2019. The real estate cash outflow has increased due to more spends on completion of projects like SOBHA Bela Encosta, SOBHA Clovelly, the completed projects of Sobha City, Sobha 25 Richmond and on Global Mall, which is the land owner's share for Sobha Indraprastha with the Global Mall now nearing completion during this current quarter. For the half year FY2020, the cash inflow was at an all-time high of Rs.16.41 billion, which is 10% higher as compared to half year FY2019. The real estate inflows stood at Rs.10.32 billion with contracts and manufacturing inflow at Rs.6.1 billion, which is 35% higher as compared to H1 of FY2019.

We draw your attention to the operations highlight that was published in the first week of October 2019. We had mentioned that we had sold 1.04 million square feet during the second quarter of FY2019-2020, totally valued at Rs.6.823 billion, with Sobha's share in the sales value coming in at Rs.5.6 billion. We have achieved a total price average price realization of Rs.6584 per square feet. As we have witnessed a growth of 5% in sales volume as compared to half year FY2019.

During the quarter, Sobha launched SOBHA Blossom, plotted development in Chennai with a total developable area of 0.3 million square feet and a sellable area of Rs.0.18 million plus we have launched 0.79 million square feet of projects during the first half year in the financial year after adding the Q1 launches that we had done. During the quarter, we have also completed our Sobha commercial mall at St. Mark's Road, Bangalore. The structure has been completed with a developable area of 0.38 million square feet and operations are likely to commence in Q4 of FY2020.

The company is also planning to launch 10.46 million square feet of new projects in Bangalore, Gurgaon, Delhi, Hosur, Thrissur, GIFT City and Hyderabad region in the coming quarters, which should further drive the growth in presales. The contracts and the manufacturing segment has delivered good financial and operations performance and we will continue to grow at a steady pace. The contracts revenue and the cash flow inflow has grown at 30% and 51% respectively as compared to Q2 of FY2019. The current ongoing contracts projects aggregating 28.61 million square feet, which are under various stages of construction will support this growth.

The order book as of September 30, 2019 stands at Rs.21.7 billion, which gives us very good visibility for revenue and cash inflow in the coming quarters. All these segments have



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contributed significantly and meaningfully to both the topline and the bottomline of this company. Thank you and we can now open up for questions.

Moderator:

Thank you very much. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Abhishek Bhandari from Macquarie. Please go ahead.

Abhishek Bhandari:

Good evening Sharma Ji. Good evening Subhash Sir. Happy Diwali and happy New Year. Sir, my question is on the net debt. While we understand some of the payments are still due and it is a part of the regular business. But from a year ago when we were at Rs.2200 Crores, Rs.2400 Crores level, now we have started touching almost Rs.3000 Crores level. So one, what is the comfort level in terms of absolute debt? And is there any strategy to bring it down or you are comfortable over here?

J C Sharma:

Good evening Abhishek. The prima facie, if you look at what has happened in last one year, we are selling more, but we are spending more than what we are selling on the project. At the same time, we are ensuring that the projects are completed on time and the margins remain intact. We believe that some of the investments are to be have made in this period should help us to create a unique position in the southern market especially as well as in the markets, we are currently, we are operating. We also feel that the debt equity level, which currently is from a technical point of view, because Rs.700 Crores worth of the reserve and surplus, what you call, reverts as on April 1, 2018. If you go by the old one sort of the thing, we still believe that 0.8 to 0.89 and as per the new accounting norms, 1.1, we should be able to bring it down by March 31, 2020. These kinds of investments, looking at the current environment, looking at the liquidity position, we do appreciate the concern. At the same time, we also felt that this is the time where we cannot stop either our operational expenditures or the malls, what we are likely to hand over to landlord as well as one small retail cum office space, which we are likely to start earning rental income, hopefully, from the first quarter 2020 onwards as well as to look for certain opportunities, which are complementary. From the banking point of view, from the unused sanction limit point of view, we remain quite comfortable and if you look around in the industry at this point of time, you would notice the more or less, this is a scenario with which the sector is also going through. We are not an exception. But at least in our case, we can talk about that we have got a clear road map to see that this debt-equity is again brought down without raising any kind of any additional equity.



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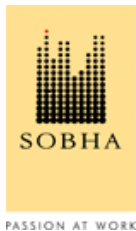
Abhishek Bhandari: Okay, Sir, so that is helpful. Sir my second question is, is there any progress on the APMC project, especially in the context that the commercial market in Bangalore is doing well, there seems to be a lot of interest, so it is probably a right time to get an apartment start work over there? So has there been any progress over that project?

J C Sharma: So some improvement has happened on the APMC front. But hopefully, when we go for the next con call or next results, we will have much greater clarity on the same.

Abhishek Bhandari: Okay and Sir my last question is, some of your other cities, especially like GIFT City and some of the Kerala markets, do you think they can be a big contributor for you from a sales volume, at least for next few quarters, especially given that there has been some improvement in the GIFT City movement of companies and also after this tax rate cut announced by the Government of India? Do you see any more corporate interests rising in that part of the country?

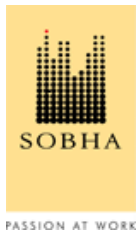
J C Sharma: Our belief is clear that India probably today is at par with China on the population front. The cities what we have chosen to develop, they are the growing cities, which will keep growing for a few decades. Looking at the urbanization, looking at the way the consolidation has been happening among the organized players, there are handfuls of players who can go to any city in India and can launch projects, can sell projects. So that is a good position to be in. Of course, it requires a little bit extra management bandwidth and there are certain challenges as well to understand the market, to understand the products, to understand the locations. We do not say that these challenges are not there, but the balance sheet and the overall structure allows you to take care of these kind of challenges. These are good things to be taken into account when you get into the new cities and move ahead. So our views remain that whether be it Kerala, be it Tamil Nadu, be it your Telangana now, be it Ahmedabad, be it you're to NCR. These are the markets which should give us a good number in times to come. Right now due to the environment, difficult to predict. However, couple of more projects launched, should give that comfort, Thrissur for us has become a reasonably matured market, which is still the smallest from the point of view of the geography and the population. Hopefully, other markets also will start delivering in due course.

Abhishek Bhandari: Thank you Sir and my last question will be on the corporate tax rate changes. What is your thought process in terms of whether or not adopt the new 25%...



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- Subhash Bhat:** Abhishek, in the Q2 results, we have adopted updated the new tax rate, so we have disclosed that in the SEBI results.
- Abhishek Bhandari:** Okay, thank you Sir.
- Moderator:** Thank you. The next question is from the line of Kunal Lakhan from Axis Capital. Please go ahead.
- Kunal Lakhan:** Good evening Sharma Ji and Subhash. Sir, quickly on your guidance for the new launches, at the beginning of the year, we had highlighted 7 million to 8 million square feet of new launches and in the first half, we have done less than 1 million square feet. Where do we stand there? And I see the pipeline of launches, given in your presentation, but how much of these will actually come in second half?
- J C Sharma:** We should probably see another two million square feet as of now, but this will improve as we go forward.
- Kunal Lakhan:** And if you can highlight which projects, which geographies are we looking in these two million square feet? That will be helpful.
- J C Sharma:** Thrissur should be coming forward any moment. The Bengaluru Nagenahalli so these are the two larger projects, which should also be coming forward any moment, right? And the other smaller projects here and there. The work is going on. Difficult in an environment where there are multiple authorities who need to give approvals.
- Kunal Lakhan:** Sure.
- Subhash Bhat:** Plus, Hyderabad is a touch and go for over Q4.
- Kunal Lakhan:** Okay. But would it be safe to assume that for the second half, it will still be less than 5 million square feet, lower than what we are guiding for? I understand the environment is not that conducive but...
- J C Sharma:** But not way, Kunal, these are the things which take its own time. Sometimes small things, even if you have a software where online you need to put it upload, still things do not happen a couple of months pass. The context that we need to understand is that we have got 8.15 million square feet, which we have already released from the ongoing inventory and we got about 7.81 million square feet. This is our share. With this, we can always bring it



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forward to see that yes, this can be launched. On top of this, these are going ahead and all of these projects will come forward in the next few quarters, taking its own time and it is not going to per se my growth or my cash flows in any which way.

Kunal Lakhan: Okay. Secondly, on the cash flow front, if you look at the last two, three years, our quarterly sales run rate have really ramped up significantly from Rs.500-odd Crores to about like Rs.700 Crores, Rs.800 Crores in recent times. But we have not seen that kind of a jump in collection run rate in the past two, three years. So collection run rate in real estate, particularly, remains in that Rs.500 Crores odd or quarterly range. When can we see that the jump in sales getting reflected in the collections going ahead?

Subhash Bhat: Kunal, the jump in sales is clearly related with RERA coming into play. So under RERA, as you are aware that taking extra money from the customer, which most of the developer used to do earlier, does not help you. The money would lie only in the current account and help the bank. So our payment schedules are currently in line with the actual spend that would happen at the site and therefore, you should see the improvement in this happening probably from Q4 onwards in terms of collections because all those projects will start bunching together and we will start getting better collections from the sales that we have done.

Kunal Lakhan: Okay. But it would not be the Rs.600 Crores kind of range?

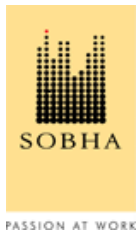
Subhash Bhat: Yes. If you see our projected cash flow, which is on Slide 22, which we put out every quarter, you can clearly see that number has been cumulatively improving every time that we present that number.

Kunal Lakhan: Sure. So Q4 onwards, we will see that ramp up in collections as well?

Subhash Bhat: Yes, you should start seeing the ramp-up in collection for this quarter.

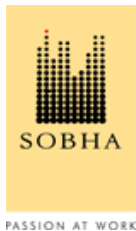
Kunal Lakhan: Sure and then just the last one from my side. In the segmental reporting, the EBIT margins for real estate are higher this quarter. What was the reason of this and what is the sustainable level?

Subhash Bhat: After AS 115 coming, this kind of anomaly will continue because projects, which have higher land area from Sobha itself as compared to JD, will start showing better EBIT margins.



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- Kunal Lakhan:** Thank you so much and all the best.
- Moderator:** Thank you. The next question is from the line of Dhaval Somaiya from Phillip Capital. Please go ahead.
- Dhaval Somaiya:** Thank you for the opportunity. I had a couple of questions. Sharma Ji, the sales from Sobha City and International City have been on a decline. And so have you received any clarity on the Dwarka Expressway, like the last update that I know of, was that NHAI had started to transplant the trees for the construction with the time line of like three months or so. So do we have any update in terms of timelines of the completion?
- J C Sharma:** Work is going on, on a couple of fronts on that area. We will be sending you the YouTube videos of those kind of a work. But the prima facie, we believe still it is two to three quarters away before this Dwarka Expressway is reasonably linked with the Delhi, both from the airport side and as well as from the Palam Vihar side. However, yes, this is not the excuse for the poor performance. The last couple of quarters, we have not achieved the required levels of volume where we have been expecting a bit more from this NCR. Some efforts have been taken, and we are confident that from this quarter onwards, the NCR, especially Gurgaon region should be showing some better performance.
- Dhaval Somaiya:** Okay. Sir, I see that we have added a project in NCR with around one million square feet in our project pipeline. Can we get some color on the projects and any further projects that we are evaluating in NCR?
- Subhash Bhat:** The project which we have mentioned in our pipeline is the TM project that we have signed up with Karma Lakelands, which should get launched probably in the Q1 of next year. That is a project where Sobha's outflow is very, very minimal, but it is able to capture almost 20% of the value of the customer revenue through the model that we have worked out, which we have shared last time also. Currently, we are looking at least two or three more proposals of the same kind, which will not result in the cash outflow from Sobha side.
- Dhaval Somaiya:** Okay and Subhash Sir, we have seen that the net operational cash flow has been declining over the last two quarters. Any specific reason for that?
- Subhash Bhat:** Yes. Basically, two reasons. One is the cash inflow from the sales that we have achieved earlier would take time to come in because of RERA. But if you look at the spends that are happening, okay it is basically the spend on the projects, which we are not slowing down.



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We are going ahead and completing those projects plus in the last quarter, I had mentioned about Sobha City and Global Mall, which has resulted in extra spends being happening without the collection coming or collection adding, I think come earlier. In the current quarter, we have seen a similar kind of spend happening on Global Mall as well as on Sobha Clovelly whereas last time we had spent on Sobha City, which is not there this quarter. So you should see starting to see this improvement in the cash flow from the last month of Q3 as well as from Q4 onwards.

Dhaval Somaiya: Okay Sir, just a follow-up on that. So could we see any further spends on the Global Mall?

Subhash Bhat: Yes, we still need another Rs.20 Crores to be spent in this quarter on Global Mall.

Dhaval Somaiya: Okay and Sir, just one last question from my end. In value terms, our sales has declined considerably in this quarter. Any specific reason for that? Or it is just a mix?

Subhash Bhat: It is a mix with aspirational homes are contributing to a larger value.

Dhaval Somaiya: That is all from my side. Thank you.

Moderator: Thank you. The next question is from the line of Parvez Akhtar from Edelweiss. Please go ahead.

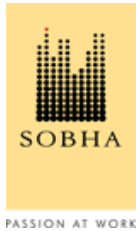
Parvez Akhtar: Good afternoon Sir. As far as the land spend is concerned, we have seen a significant jump this year for a half year, we have spent almost equivalent to what we did in whole of FY2019. How does the land spend look in the second half of the year? what are the full year numbers?

Subhash Bhat: Not much, you will see a tapering happening. Q2 already tapered off from what we have spent on Q1 and we expect a similar kind of spend in Q3 and Q4 what has happened in Q2.

Parvez Akhtar: Okay. But that meant for the year as well, will still be getting north of that Rs.500 Crores?

J C Sharma: No, land payouts are not at Rs.500 Crores, expected will be something, so, we are at Rs.175 Crores, we expect another Rs.40 Crores to Rs.45 Crores spend in second half, not more than that for lank okay.

Parvez Akhtar: Thanks. That is it from my side.



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Moderator: Thank you. The question is from the line of Manoj Dua from Geometric Securities. Please go ahead.

Manoj Dua: Good afternoon Sir. As you said that consolidation is happening in this sector, so there are two ways we can take advantage of this consolidation, is that we may launch more and take the market share and increase in our sales as well as we go more for the business development and take advantage of the deals available in the market. In terms of launches in first two quarters, we have launched 0.8 million. So can you throw some light that we are launching very less as compared to our good competitor developers were launching much more? And can you give some color on the business development in this quarter?

J C Sharma: See, as far as the launching is concerned, not necessarily you need to do every quarter, 1 million square feet if you are selling 4 million square feet or so. It will always be happening as and when you have a plan approved. I have already answered that we have got enough inventory of unsold approved projects. There are no applications pending with the RERA authority. And we have been working in all these cities for the plan approval point of view, and they may start happening at any given point of time. The context is that I do agree that we would like to take advantage of this environment by getting into certain opportunities, which we believe will have much deeper value to the Sobha stakeholders. And at the same time, we are also looking at that, the cash outflow in our such deals, right, remains under control. At the same time, we believe that, yes, this kind of a short-term mismatch where you have less number of launches, more number of new investments in the projects as well as more expenses being incurred to complete the projects, then to get the money from the customers kind of a thing, it is a temporary mismatch. As we move forward, everything will get, what you call, streamlined. And at the end of the day, the operational performance also must start generating enough cash flows to meet all these kind of expenditures, all the investments we are making right now.

J C Sharma: Thank you and best of luck.

Moderator: Thank you. The next question is from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.

Sameer Baisiwala: Looking at your annexure and trying to back calculate the projects which can get completed next fiscal. It looks like 1.5 million to 2 million square foot is what will get completed, and therefore, recognized, does this number sound correct?



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J.C. Sharma: More or less, yes. Some of the projects in Bangalore, Sobha Arena, Clovelly, Silicon Oasis, right, these are likely to get completed in this financial year in Bangalore. And yes, we are spending money on accomplishing these projects, and we have to get a lot of money also from these projects as we move forward.

Sameer Baisiwala: Sir, applying your sort of average cost of sales per square foot, I mean, are we looking at a substantial decline in the reported sales for the next year?

Subhash Bhat: Sameer, you are aware that we are not recognizing project revenues based on project completion as a whole, but I do not hand over of actual units to the customer, which is quite different from most of our peers. And because of that, we do not see a dip happening in our revenue for next year. But it will slow down. The growth will slow down. And as you complete projects and you will see probably an increase happening during the quarter, in which the project is completed. But overall, on a yearly basis, we do not see a dip happening.

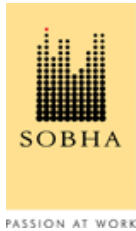
J.C. Sharma: About 800,000 to 1 million square feet, as far as Dream Acres are concerned, that it will get completed, it will get sold and it will get recognized. So that kind of stickiness is there due to the precast technology. Rest all of them, a couple of quarters here and there, there may be some changes. But when we look at the next financial year also, overall, we should be showing growth in our top line based on handing over of the apartments.

Sameer Baisiwala: Okay. No, this is very heartening. And Sir, what is the difference between project completion and handover?

Subhash Bhat: I believe, see, most of our competitors what they are doing, listed guys, is that when the project is complete, they recognize revenue on every single unit that they have sold, whether they have handed over to the customer or not, okay? Whereas for us, revenue recognition is happening at individual apartment level. So let us say, you have booked an apartment with us. Only if you take the handover of that department, I recognize revenue in my books. Otherwise, whatever you have paid continues to be held as advance from customers and the spent on that particular apartment continues to be held as WIT.

Sameer Baisiwala: Okay, fair enough. I will take this offline. And Sir, second is on the mall completion, St. Marks. What is the sort of a rental expectation over there and our share of that?

J.C. Sharma: It will be north of Rs.150 square feet, right. And we have 70% of our stake in that.



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Subhash Bhat: So area is ours. So the area which is with the other partner goes to them only. So there is no sharing of revenue there.

Sameer Baisiwala: Okay. And the total area, you said, 0.38 billion square foot. That is a total or our share?

Subhash Bhat: That is developable area. The leasable area is about 0.2 million and...

J.C. Sharma: 219 Lakhs is the leasable area.

Subhash Bhat: Of which, ours is about 170 lakhs.

J.C. Sharma: 70%.

Subhash Bhat: 70% of it, yes. 154 lakhs is ours.

Sameer Baisiwala: Okay. And how much of this is preleased as of now?

J.C. Sharma: Almost 70% is preleased.

Subhash Bhat: LOIs has been signed.

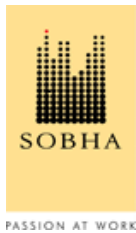
J.C. Sharma: LOIs have been signed. Sorry, Sameer, this answer includes 25,000 square feet of our own retail showroom.

Subhash Bhat: For Metercube.

J.C. Sharma: For Metercube. We already incubated that project in our office, and as we have been doing that trial run for about last three quarters. And hopefully, by the last quarter of this financial year or 100% by the first quarter, our own stores will be up and running there.

Sameer Baisiwala: Okay. Okay, Sir. And Sir, one final from my side that is, what is the pricing outlook in the home market of Bangalore and also Gurgaon?

J.C. Sharma: See, Sameer, it is a good question. See, most of the developers today, they are not making money at the current prices. That is the fact. At the same time, most of the developers are not in a position to increase the prices due to the customers' resistance. So it is a catch-22 situation, where if someone wants to increase, the others start to, offering a bigger discount and tries to sell their inventory. My gut feeling is that from the developer's perspective, all



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of them today are desperate that the price, they do not offer further discounts, they do not rather start looking for whether we can increase the rates, both in Gurgaon as well as in Bangalore. But the ground realities do not permit. How long it will last? It is anybody's guess. But my personal view that prices cannot correct from PL meaningfully, one-off short term some kind of a sale scenario by a couple of developers here and there, we may keep hearing. But more or less, they have bottomed out.

Sameer Baisiwala: Okay great Sir. Thank you so much.

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

Mohit Agarwal: Sir, I know you do not give volume guidance, but based on the current trends in first half numbers, you think that for FY 2020, we will be able to do a double-digit volume growth?

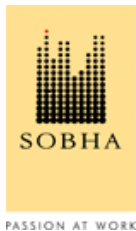
J.C. Sharma: See, you have a point. Normally, second half, always better. That is one sector sort of a thing. And a thing, to me, it looks better, though only 1 month and 11 days have passed, that this quarter should show a better realization, better performance overall. However, a touch and go, the overall scenario still remains a bit challenging. We can keep our fingers crossed.

Mohit Agarwal: Okay. And Sir, any like two, three years out target that you have in mind that you can share in terms of where you want to be in terms of the sales volume numbers? We had, yes.

J.C. Sharma: Sorry. I take your point. We have been telling it, but as you know, last couple of years, while the overall volumes in our case still had grown, but still it had not grown to the level where we are expecting. But with the addition of four more cities, we feel, and the personal belief that the market can only move from here onwards in the positive territory and the kind of aggressiveness what we are showing, we feel that we should be doing 6 million to 7 million square feet in next three to four years' time. But then this is the reason for which we all are working. Hopefully, we should be achieving this time.

Mohit Agarwal: Sure Sir. Thanks a lot. That is all from my side.

Moderator: Thank you. The next question is from the line of Vivek Kumar from Blue Fin Capital. Please go ahead.



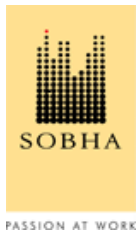
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Vivek Kumar: Sir, this is Vivek. So my question is on the same following the previous question. So in the last year annual report, you have given a guidance of or a vision of 2.5 x presales from 3.5. So it's somewhere around 7 million to 8 million. So how far are we from that target? And how many years do you think will we take to reach that given that we are moving into new cities? And which cities will play a greater role in that 7 million to 8 million or 6 million to 7 million that you have set?

J.C. Sharma: See, Bangalore will continue to give us, though, we are already doing reasonably well there. This is the maximum quantum of contribution. We have lined up good number of opportunities in the NCR market, and we feel that, that should also be adding a lot of numbers in achieving the 6 million to 7 million square feet of the target. In Kerala, also, we are entering into one more city that should also help us in improving the numbers. Similarly, the plotted development in Hosur and in Hyderabad should help. Now, these are the new markets. So individual city-wise, we are not giving any kind of review, but the basic idea remains that Bangalore can take us to 3.5 million square feet of annual sale and all the remaining markets put together can give us the balance 3.5 million square feet of new sales on a sustainable basis.

Vivek Kumar: Okay. Sir, given that we are the best brand in the country and kind of company that we have created over the last 15, 20 years, so my question is when things are bad, people like you should become normally more aggressive in their launches, like some of your peers are doing. So are you having some other view on the market? Or can you explain me why? Because the brand that you have, you can go ahead and be more aggressive, especially when things are getting consolidated and more players cannot launch because of the fear of the market. But I think how can Sobha, what you say, profit from all these things because of the efforts and the kind of brand that you have created over the last decade?

J.C. Sharma: See, we need to balance everything. We need to ensure that whatever we do, we can sustain, we can manage. We are operating in an environment where the RERA allows the customers nowadays to ensure that the developers complete the projects registered under RERA on time. So keeping that kind of scenario and keeping that as things stand today, you need to maintain the cash flows, you need to maintain the debt equity, you need to maintain the margins. One has to be in taking the new opportunity. And that is what precisely we are currently doing. And with the kind of inventory pipeline what we have, once the sales improve, what we are talking about, it can be seen on the ground as earlier maybe in next few quarters. But believing that things takes it's on time, entry into the new cities and the



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benefits to derive will take its own time. We see that much of years it will take to reach the 6 million to 7 million square feet.

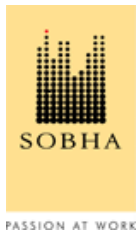
Subhash Bhat: Plus, we are very careful on these projects offered to us by the market. Also, there are a lot of projects going around in the market where we can lose our shirt, if we are not careful. So we are not aggressive on half-completed or half-done unlaunched projects as most of our peers are.

Vivek Kumar: Got it. No, no, I just wanted to understand because such a great brand you guys have created, so I just thought you will be more aggressive during these times. Thank you very much.

Moderator: Thank you. The next question is from the line of Sourabh Gilda from Karvy Stock Broking. Please go ahead.

Sourabh Gilda: Sir, a lot has been said about consolidation that is happening in the industry and the demand that is expected to be shifted towards the organized players. And I also believe that to be true. But if we look at the overall industry numbers since last one year, the organized industry has not seen much pickup in demand. And the lot is being done on the supply side, the government is supporting the stock projects, the better companies are launching new projects. But how do you foresee the demand scenario Sir? Like just wanted your thoughts on how demand will pan out from here?

J.C. Sharma: I do not know that the basis on which you are telling that the organized players have not shown. If you look at last two, three years' performance of the organized players, definitely, they have significantly outperformed the smaller and the medium-sized players. The people who do not have access to the liquidity, they are suffering the most currently. At the same time, because of that, the people whose projects for any reason has got delayed, they are also suffering significantly either in selling or in launching new projects. And it is clearly visible. The destruction is literally speaking, wholesale. The government efforts to ensure that to some kind of a support is provided, though welcome, I believe that a bit delayed because initially, they wanted to give the projects where 60% completion, while the criteria and the projects would not have been referred to either at NCO or to the NCLT sort of a situation. Now, they have gone ahead more practically. They need to implement it. Once it implements, definitely the sentiments will improve because right now, it is probably the sentiment, which is causing in our review, the real issues. No sooner these projects which are start to get completed and handed over to the customers, I believe the fresh set of buying



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will happen. The people's confidence, who have been otherwise waiting in the wings, to buy an apartment, they will start seeing let us see come what may like fixed deposit, the government is so careful and cautious that any house, which is registered with RERA, if it is not getting completed, some kind of a benefit government will provide, will be a great morale booster. So what we find is that the intention of this government needs to be converted into somewhere the ground level physical actual action. Once this happens, we feel that we are for the better times.

Sourabh Gilda: Okay. Sir, like my point that the organized industry is not, I was just looking at the quarterly run rate that we have been doing since last four, five quarters. The run rate is around 1 million square feet. So I just wanted to understand your point on that. So like I think I have got my answers.

Moderator: Thank you. The next question is from the line of Rajesh Disale from SBI Mutual Fund. Please go ahead.

Rajesh Disale: Just a very basic question. In your contractual segment, over the last two quarters, your cash flows have gone negative. So is there any reason because historically, like their delta has always been positive?

Subhash Bhat: Basically, there are two large projects where we had received a substantial advance in the earlier quarters. And those two quarters during these last 2 quarters, we had to spend that money. So overall, our contract business still delivers an EBITDA, which is closer to 10%.

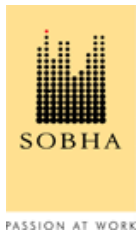
Rajesh Disale: So will we be expecting this negative delta to continue over some time or...

Subhash Bhat: Most probably second half of the year.

Rajesh Disale: Thank you.

Moderator: Thank you. The next question is from the line of Manoj Dua from Geometric Securities. Please go ahead.

Manoj Dua: Sir, this is a question bit of a longer net term in nature that our products are more premium as compared to our competitors and our product is of highest quality. So these kind of things are more suited for a premium market like Mumbai and the kind of consolidation happening in Mumbai is much more than other part of the city. It is like becoming new



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NCR where the stress is very high. So do we have a plan to enter Mumbai in longer term where the quality is more being appreciated because of the land cost being more high and the more quality products are being appreciated?

J.C. Sharma:

At least I have been visiting once in a month to look for a certain opportunity, but the fact is what we find that the equity not there in most of these projects. The recent quarter sales, you also noticed that at the end of the day, the kind of money which had already been spent, let us say, what should have been spent, give some kind of a fear. Even when we are talking to you, we have got one WhatsApp message about one opportunity in Mumbai, but the context is not ours to taking these kind of opportunities provided, like our CFO was telling. The kind of a clean transaction, what we are doing in Delhi, there we are confident that we are limited to our limited margin. Under this case, with the existing landlord or the financier or the both and we can demonstrate the highest quality as well as the higher realization and timely completion in that market. And probably thereafter, maybe we will start taking a little bit extra risk. But at this point of time, a bit of risk hovers in that market.

Manoj Dua:

My last question is that fundraising through equity market, it also has become a very great tool in these kind of situation where the capital is resourced and RERA has made more capital-intensive because the money being locked in there. So why do not we raise some equity through financial market because now the capital is clear, and it is very useful for us, for a brand like this to take advantage.

J.C. Sharma:

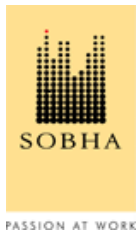
Thank you. We have taken your note. At the same time, this is the belief that this 20 million square feet of ongoing projects, a reasonable amount of visibility on the contracts and manufacturing, the underlying margins and the belief that definitely, we can take our new sales from the current 4 million square feet to the higher levels give just comfort that, yes, we need to definitely work on our cash flows and this kind of equity, sometimes is important and maybe the really differentiating factor. But we will be focusing more on improving our operational performance right now.

Manoj Dua:

Thank you.

Moderator:

Thank you. The next question is from the line of Rajesh Disale from SBI Mutual Fund. Please go ahead.



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- Rajesh Disale:** Sorry, I just have one more follow-up question from earlier about the contractual segment. So you said two projects, like where you received advance and that is why your cash flows are negative. Would you be able to tell us which two projects?
- J.C. Sharma:** Yes, Azim Premji and Lulu in Trivandrum where milestone buildings will bring them back to normal in Q3 and Q4.
- Rajesh Disale:** Okay, perfect. Thank you.
- Moderator:** Thank you. The next question is from the line of Manish Jain from GormalOne. Please go ahead.
- Manish Jain:** Yes, Sharmaji, I just wanted to understand for new projects, what is really your appetite right now? And if your appetite is there for good, highly risk, low-risk projects, what are the kind of changes in deal dynamics that you have seen? And if something is offered to you, which meets your criteria, which are the cities where you will go ahead and commit to taking over a new project, either through land acquisition or a joint venture?
- J.C. Sharma:** Thank you. First of all, you would definitely prefer the cities where currently we are in. We would also explore Mumbai because definitely, here, per square feet benefit is significantly higher. Our CFO has communicated in today's concall that in Gurgaon, the kind of project what we have taken, 25 acres, it did not have the kind of risk, which is normally associated when you buy, when you go for approval or when you do a normal JV with significant amount of refundable deposit or nonrefundable deposit. Here, it is a clear-cut DM model, structure may be a bit different where the given margins are assured and even the investments what we make will give us some kind of an interest return. So while we are responsible for execution, responsible for selling, responsible for approvals, responsible for managing the project, we find that this kind of an arrangement will give us high reward, with least amount of investment and lowest risk.
- Manish Jain:** And my second question was alluding to the statement that you made earlier that at current selling prices, it is not really worth your while to be in the business. So real estate is a cyclical business, all of us know that. So when do you see the supply side disruption has been very aggressive. Majority has been focused on the demand side, but supplies have been getting cuts quite sharply. What kind of price increases will make it worthwhile for new players to come into the market where, let us say, if you are looking at Bangalore and



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NCR, in your view, at what price levels you expect new players and new projects to become remunerative?

J.C. Sharma:

See, basically, when you look at a project viability, there are many moving parts. What has been on the positive side in the last few years, the basic material cost has remained more or less stable, which is normally not the case we have witnessed otherwise. So what I would like to communicate is that if a developer today has got, at the project level, above 30% or so gross margins, he should be comfortable to take up those kinds of an opportunity. Of course, place to place and developer to developer, things may change. And when I was talking about the current status, most of the projects, which we have reviewed, and we have reviewed more than 100 projects in the last, say, 12 months alone, more than 80% of those projects, we have not seen any kind of an equity left for the developer.

Manish Jain:

Got it. Thank you.

Moderator:

Thank you. That was the last question. I now hand the conference over to the management for their closing comments.

J.C. Sharma:

So good evening once again. We believe that this financial year also, we should be able to sustain and maintain the upward trend what we have been showing so far, both in our operational results as well as in the financial results. We also hope that the second half will be better from the cash flow generating perspective; we also believe that the second half should be better for the sector as a whole with the kind of efforts this government has been taking. In few months from now, we should start talking about the budget and budgetary expectations where the real estate should be playing again a key role. And all such things in our view is creating a good groundwork for a company like ours to perform significantly better than where currently we are. Thank you once again for your participation.

Moderator:

Thank you. Ladies and gentlemen on behalf of SBICAP Securities that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.