



**“Sobha Limited
Q3 FY2020 Earnings Conference Call”**

February 03, 2020



ANALYST:

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Moderator: Ladies and gentlemen, good day, and welcome to the Sobha Limited Q3 FY2020 Earnings Conference Call hosted by SBICAP Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, 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 Limited. Thank you, and over to you, Sir!

Sandeep Mathew: A very good evening to all of you. We are very happy to, I mean, have with us today the management of Sobha, represented by Mr. J.C. Sharma, Vice Chairman and Managing Director; Mr. Subhash Bhatt, Chief Financial Officer; Mr. Ramesh Babu, VP, Finance; Mr. Vigneshwar Bhat, Company Secretary and Compliance Officer; and Mr. Tejas Singh, Investor Relations, Finance. I now request Sharma Ji to open the floor with his remarks. Thank you.

J.C. Sharma: Good evening, and season’s greetings, to all our esteemed stakeholders for a happy and prosperous 2020. We are happy to get connected with you today post declaration of our unaudited financial results for the third quarter and 9 months ended December 31, 2019, through this con call hosted by SBICAP Securities. Thank you, Sandeep, for hosting it.

We already shared the details of operational update of the company in the first week of January 2020 and the investor presentation based on the financial results adopted by the board can be downloaded from the website of the company.

As we have seen the budget about two days back, and we have again seen series of announcements and structural changes which have been taking place overall in our economy and, in particular, reference to our sectors, we can say with confidence that our sector is in the cusp of transformation, and the last few years have really played a crucial role in shaping up the sector. It had witnessed so many reforms with the advent of RERA, GST, policy changes on affordable housing, which had resulted into industry consolidation and today, we feel that with the last budget, the visibility of this sector has become much more clearer to us from a growth perspective and we also believe that the kind of benefits, which the good corporate have got, first, in the reduction of the tax rate and now this evolution of the GDP, will allow most of the companies either to return the money to the shareholders or to invest it back in their businesses to earn superior returns and real estate sector will be needing this kind of a capital, as it moves ahead.

We have certainly moved now from a brick-and-mortar to a service-driven product offering, and the growth of the sector will be largely driven by ever-evolving customers' requirements, technological transformations and a favorable policy environment, allowing it to flourish in the coming years. The advent of co-working space, co-living space, senior citizen living, student



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housing, etc., augur well for this sector. As reported by the Indian Brand Equity Foundation, the real estate sector in India is expected to reach a market size of USD 1 trillion by 2030 and should contribute about 30% of our country's GDP by 2025.

Looking at this background, Sobha believes that it should be readying itself going forward with a good visibility on its existing portfolio and also to ensure that it has got, from now onwards, reasonably and better presence in the commercial segment also. We have uploaded 30 million square feet of new projects being planned to be launched in the coming quarters and we have also projected that at least about 0.5 million square feet of commercial space, we should be able to launch in the next quarter. We have successfully completed one commercial project in Bengaluru, from where the returns will start coming from the next quarter.

As far as the budget is concerned, while it may not directly benefit our sector, but it again paves the way where the consolidation, in my view, will be the order of the day and we believe that in that environment, with Bengaluru and some of the cities where our presence is there, expected to do relatively better. We hope to perform better and better in times to come.

With that, I will leave our CFO to give a brief account of the operational and the financial performance of the company for the last 3 months as well as for the last 9 months.

Subhash Bhat:

Thank you, Sharma Ji. We are pleased to announce the Sobha's performance for Q3 and for the 9 months FY2019/2020. Sobha has delivered encouraging performance during Q3, despite the tough economic environment which the sector phase continues to face and with the unmatched delivery track record and our unique backward integrated model, along with the product diversification that we have and our presence spread across the geography of India, we have managed to post all-time high presales volume, cash inflow, revenue, EBITDA, PBT and PAT for 9 months of this financial year.

The real estate business continues to grow at a very decent pace, with the contractual and the manufacturing business showing strong performance during these 9 months. We have a very good order visibility as on December 2019, and the contracts and the manufacturing business will continue to grow in line with our expectation.

Bengaluru continues to be a major contributor in our overall sale, with meaningful contributions coming in from other regions. Demand remains consistent in all the cities that we operate in.

Overall, we have unsold ongoing project inventory which is released and unreleased together at 14.85 million square feet, which we consider adequate in this given market scenario. We have seen good demand for residential products, priced between Rs.50 lakhs and Rs.2 Crores during the 9 months of this current financial year, which comprises 83,000 of our total sales volume for the 9 months.



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Sobha has majority of the unsold ongoing project inventory in this Rs.1 Crores to Rs.2 Crores price bracket, which will help us sell it at a faster pace and in order to grow our sales volume, dependency on new launches may be very minimal, as we have sufficient unsold inventory in the ongoing projects, as mentioned above.

Despite very few launches during this 9 months, we have achieved all-time high pre-sales volume of 3.17 million square feet and we continue to enjoy significant liquidity from the banks and the financial institutions for meeting our working capital requirement in the ongoing projects.

As of December 2019, we have delivered till date 106.8 million square feet of developable area, which is one of the highest in our sector.

We are pleased to announce the commercial project in Bengaluru, 1 SOBHA, being completed and this should start generating rental income from Q1 of next year. With the planned launches of 0.44 million square feet in the commercial portfolio in Bengaluru, we intend to build a good commercial portfolio in the coming years while keeping our debt equity at a comfortable level. We are also poised to launch 13.64 million square feet of real estate projects in various cities in the coming quarters, which will further strengthen our residential real estate portfolio. All these steps will help us post better operational and financial performance in the coming quarters.

You will be pleased to know that as of December 2019, our unsold completed inventory was only 0.27 million square feet valued at Rs1.6 billion, which is one of the lowest by the industry standard, and it shows our capability to sell inventory before project completion. Out of this 0.27 million square feet, about 0.08 million square feet is attributable to plotted development projects. We have achieved 58% sales on this area, which is released for sale in ongoing projects. The committed receivables from the units sold stands at Rs.42.82 billion as of December 31, 2019, which provides coverage of 92% of the balance cost to be spent on the ongoing projects offered for sale. We have additional cash inflow visibility of Rs.22.03 billion from the contractual and the manufacturing vertical, which supplements the overall cash flow visibility for the company.

With a good visibility on the future launches, focused on execution and delivery, and with the budget announcements to boost the demand in the real estate sector, Sobha expects to perform better in the future as well.

With this background, I would summarize the company's performance for the third quarter and the 9 months ended December 31, 2019 as follows.

For Q3 financial highlights, the total income got recognized at Rs.9.01 billion, which was up 12% as compared to Q3 of FY2019. The real estate revenue was at Rs.5.76 billion, which was up 15% compared to year-on-year. Contracts and manufacturing revenue recognized was Rs.3.06 billion, which was 8% higher on a year-on-year basis. EBITDA at Rs.2.16 billion was up by 21%



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with the margin coming in at 24%. PBT at Rs.1.16 billion was up 6% year-on-year, with the margin at 13% and the PAT coming in at Rs.0.74 billion, which was again 6% up year-on-year, with the margin at 8%. Both CRISIL and ICRA have reaffirmed our long-term credit rating at A+ stable. The debt equity ratio as of December 2019 stands at 1.3, and the cost of borrowing came down slightly and now stands at 9.76% as of December 2019.

Looking at the 9 months' financials. We had all-time high total income reported at Rs.28.98 billion, which was 38% higher year-on-year, with the real estate revenue at Rs.18.49 billion, which was 48% higher, and the contracts and the manufacturing revenue at Rs.9.94 billion, which was 25% higher year-on-year. The all-time high EBITDA of Rs.6.47 billion was 35% higher on a year-on-year basis, and the overall margin reported was 22%. The PBT was reported at Rs.3.52 billion, which was year-on-year higher by 29%, with the margin as well and the PAT reported at Rs.2.31 billion was higher, 26% year-on-year, with the margin at 8%.

Coming to the cash flow highlights for the quarter. The total cash inflow for the quarter was Rs.8.01 billion, with the real estate inflow standing at Rs.4.72 billion, and contracts and manufacturing inflow at Rs.3.29 billion. The contract inflow was 26% higher as compared to the same quarter last year.

With our continuous effort, we were able to post a net positive operating cash flow of INR 594 million, after posting operating cash flow for the last 2 quarters. We will continue to improve this further, which will help us maintain our debt equity ratio as committed to the market.

For the 9 months highlights, for the cash flow, all-time high cash inflow standing at Rs.24.42 billion, which was 6% higher as compared to the last year, with the real estate inflow at Rs.15.04 billion and the contract and the manufacturing inflow at Rs.9.38 billion, which was 32% higher as compared to the last year.

Coming to the operating highlights as we had communicated during the first week of January 2020, we sold 1.07 million square feet during the third quarter of the current year, total valued at Rs.7.26 billion, with the Sobha's share at Rs.6.07 billion. We have achieved a total price average price realization of Rs.6811 per square feet, with the overall growth of 17% in the sales volume during the Q3 as compared to the year-on-year same quarter last year and a 9% sales volume jump for the 9-months period. We have also seen a 4% growth in the total sales value during the quarter and a 6% total sales growth value for Sobha's share during Q3 as compared to the sequential quarter of Q2.

During the 9 months of this current year, we have launched Sobha Nesara, a super-luxury product, in Pune with a salable area of 0.5 million square feet, our Sobha Verdure, row house project in Coimbatore with the 0.1 million square feet, and Sobha Blossom, the plotted



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development, in Chennai with 0.18 million square feet so overall, during the current year, we have launched 0.79 million square feet of new launches.

During the Q3 of the current quarter, we had released new towers to the tune of 0.61 million square feet of saleable area in Sobha Royal Pavilion, a project situated in Bengaluru. During the quarter, we also completed Sobha Clovelly, a project based in Bengaluru with a total saleable area of 0.33 million square feet, along with the Wing 7 of SOBHA Silicon Oasis, which had a total SBA of 0.12 million square feet. In total, we have completed projects to the tune of 0.45 million square feet during Q3.

As mentioned by Sharma Ji, we are also planning to launch 13.64 million square feet of new projects in Bengaluru, Gurgaon, Delhi, Hosur, Thrissur, GIFT City and Hyderabad with 0.44 million square feet of commercial projects in Bengaluru during the coming quarters. This will help us diversify into commercial space, along with already strong presence that we have in the residential real estate market in these locations.

Coming to the contracts and manufacturing segment. This segment continues to deliver a strong financial and operating performance and is expected to grow at a steady pace. The contract revenue and inflow grew by 25% and 32%, respectively, during the 9 months of 2020 as compared to the previous year's 9 months. The current ongoing contractual projects aggregate to 10.51 million square feet and are under various stages of completion. The order book as of December 31, 2019 stood at Rs.22.03 billion, which gives us good visibility for the coming quarters. All these segments are contributing meaningfully, both to the top line and the bottom line and the cash flow of the company.

We can now open up for questions. Thank you.

Moderator:

Thank you. Ladies and gentleman, we will now begin with the question and answer session. The first question is from the line of Atul Tiwari from Citigroup. Please go ahead.

Atul Tiwari:

Yes. Sir, my question is on the debt. Over past 4, 5 quarters, your net debt has kept increasing from almost Rs.24 billion to Rs.31 billion now so what is the level of debt that you guys are comfortable with and why is the debt going up and an associated question is that, especially in this quarter, your real estate collections have dipped, both year-on-year and quarter-on-quarter so why are collections kind of weak in this quarter?

Subhash Bhat:

So Atul, to take your question, as we had mentioned during our earlier commentaries during the quarterly Q1 and Q2 results also, we are continuing to spend on projects, and there were specific projects again in Q3 where we had to spend over and above the collection where it is like a investment so about Rs.21 Crores this quarter was spent on Global Mall, which is the commercial component of Sobha Indraprastha for the landowner so we have got till date, we have spent



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almost about Rs.61 Crores on this single project where the inflow has already come in when we sold Sobha Indraprastha and handed over SOBHA Indraprastha to our customers. The Global Mall is the commitment or the JDA part of the project where we have to hand over a mall, 8 lakhs square feet mall, to the landowner. Going forward, during this quarter also, we will have a similar kind of spend on this project singularly. But we expect collections to be improving plus, if you see, we had first time operating cash flow positive during this quarter so the efforts are there, want to collect at a pace which is far superior than what we had achieved during the last 3 quarters and a control on the spend at the project site also.

At the same time, as we mentioned, we completed Sobha Clovelly during this quarter. This is a pre-RERA project and on a full year basis, we had to spend almost Rs.22 Crores extra on this project because, if you would remember, in the pre-RERA days, almost 80%, 85% of the sales value would be collected by the time the structure is completed so we had these risk matches which was happening over projects which were pre-RERA, which we had good sale achievements and collections had come in earlier quarters so and during Q1, I had mentioned that we have spent almost about Rs.14 Crores on Sobha City for the substation so these are the major trends where we had to spend extra money as compared to the normal collections.

Atul Tiwari: Sir what level of debt you guys are comfortable with I mean should we expect this increase for a few more quarters or is there some maximum value where you want to cap it?

Subhash Bhat: So, I think we have peaked on the debt equity right now so going forward, we will see this coming down. This quarter, we should be closer to Rs.1.2 billion if whatever we have planned goes through.

Atul Tiwari: Okay and then just the last one so this real estate collection, it is Rs.4.7 billion in this quarter. Is it in line with whatever you guys planned and in line with the contracts that you have with your customers or are you seeing some kind of delay in submitting installments, construction-liked installments from your customers' side?

Subhash Bhat: No. We are not seeing a delay. You have to remember that if you compare last year to the current year, till last year, we had products which were having per square feet value realization of par greater value so we had Palladian handover. We had Indraprastha handover, which were sold at Rs.10,000 per square feet and more, whereas the current ones that we have sold are, the luxury products are in the range of Rs.7,000 and the Dream products are in the range of about Rs.5,500 so the collection is in line with the particular project time lines that we have planned.

Atul Tiwari: Thank you. Thanks a lot.

Moderator: Thank you. The next question is from the line of Swagato Ghosh from Franklin Templeton. Please go ahead.



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- Swagato Ghosh:** Sir, why did not we see any major launches this quarter what was the reason?
- Subhash Bhat:** Yes, so there are no specific reasons. As we mentioned, we feel our inventory which is there today in area released for sale as well as the area not released for sale is sufficient for the run rate that we are achieving on the sales side at the same time, the planned launches of 13 million square feet, they will take their own time. There were 1 or 2 quarter delays for approvals in, in few of the projects, but they are online for launches in next 15 to 18 months.
- Swagato Ghosh:** Okay so correct me if I am wrong. My understanding is there were no approval-related delays this quarter. It was just a function of how you are seeing the market demand panning out?
- Subhash Bhat:** Kind of. We are not pushing the approval team for approvals right now.
- Swagato Ghosh:** Okay, but you have the RERA approvals as per your slide, you have all the RERA approvals, right?
- Subhash Bhat:** So those are part of my per-area which is approved and not released for sale so we are quite comfortable, that is what I said. We are comfortable with the current thing.
- Swagato Ghosh:** Right. No I am trying to clarify, if the forthcoming projects, they also have the RERA approval?
- Subhash Bhat:** No, 13 million square feet of forthcoming launches, they are not approved for the RERA purpose.
- Swagato Ghosh:** Yes. Okay so you have not even applied for the RERA on those?
- Subhash Bhat:** No. They are still in various approval stages with the municipal authorities and fire department and pollution control department. It is only after we have all the approvals that we can approach RERA for the final approval before we launch.
- Swagato Ghosh:** Okay, okay. No. Because the applied to RERA number has not moved much so I was expecting that all of these have already been applied for because you would expect that number to gradually move up. But for the last 2, 3 quarters, the Bengaluru number, especially I am looking at, that number is not moving so, like that kind of equates to you have not applied for the RERA approval for new projects for some time so I am wondering why it is taking so much of time for the projects which are already in your pipeline to get to that stage.
- Subhash Bhat:** So, if you look at my Slide 38, the unsold area which is not offered for sale is almost 7.2 million square feet and the unsold area offered is 7.67 million square feet so together, we do feel we have sufficient inventory to sell right now and if you look at Bengaluru itself includes looking at projects which are split into various phases, we have 67 projects which are approved with RERA.



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- Jagdish Sharma:** Swagato, yes, on top of this, right, you have a point. In Bengaluru especially, BDA have got 2 phases of development for the projects which come under the BDA catchment area, where the BDA meetings to approve the projects have not taken place for last many months, as they did not have the chairman, the commissioners, both changed so those things happen. What CFO is trying to communicate is that the company has got a reasonable quantum of approved projects, out of which 58% is sold out, the remaining 42%, 7 million, also is approved, majority of them are RERA approved, with 13.6 million square feet of the projects. First, they need to get approved by all the authorities. Then the RERA will be approving them, and then they will be launched.
- Swagato Ghosh:** Got it. Sir and yes, that is a very helpful clarification and my second question is, for the commercial project, what can we like assume to be our quarterly run rate for these entire 4, 5 forthcoming projects?
- Jagdish Sharma:** Right. These are not many projects. One project, CVS Tech Park, it already has started, which is near to our office, which is about 65,000 square feet. There is another one in the mixed development, which should get started, if not this quarter, with RERA approval, definitely at the next quarter, but it is more or less approved. Then there are 2 more projects, out of which 1 project of 74,000 should also get started, if not in the next quarter, maybe in the second quarter of the next financial year.
- Subhash Bhat:** So, these are small projects. These are not large projects like 1 million square feet plus. We would rather do a string of pearls here rather than have one large project.
- Swagato Ghosh:** Right, Sir, any guidance, on the capex, quarterly capex, on commercial projects now going forward for the next, say, 2, 3 quarters?
- Jagdish Sharma:** See the earlier question, what is the relation to the cash flows many people will observe that in the first 9 months, we have spent more, 9 months than we have collected from the real estate, whereas we have sold more so somewhere, this kind of imbalance is now getting adjusted from this quarter onwards. As the cash flow starts becoming better and the sales also start sustaining the momentum what so far we have shown, we will be reinvesting or reusing this kind of money back into the commercial project also.
- Swagato Ghosh:** Right. But Sir, like a direct question from my side because it is an important topic still, first quarter, we had an elevated run rate because of our St. Mark's property, which had come down in the last 2 quarters. I am just trying to understand if this capex for commercial real estate number can again shoot up to those, Q1 FY 2011s?
- Subhash Bhat:** It will not shoot up. Depending on the cash flow that we have at the operating level yes, keeping the debt equity in mind, we will moderate our spends on all these projects.
- Swagato Ghosh:** Got it. I will come back in the queue. Thank you, Sir.



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

Sameer Baisiwala: Sir, I am on Slide 25 just one quick question from my side. On Slide #25, where you have had net operating cash flow, I am not so sure whether it is a good idea to compare it with your EBITDA, which is the accounting profit so for 9 months fiscal 2019, you did Rs.382 Crores of last year, net operating cash flow versus Rs.470 Crores EBITDA so roughly about 80%. But if I see this year, your net operating cash flow for 9 months period is Rs.55 Crores versus reported EBITDA of Rs.647 Crores. You are under 10%, Sir so what is it that is so dramatic this year that your accounting EBITDA is far from what your operating cash flows?

Subhash Bhat: So, Sameer, this is the impact of the IFRS coming into play so yes, with the handover only being a criteria now for revenue recognition, you will see a very large divergence between the EBITDA reported in the financials and the net operating cash flow. This will continue. There is no straightforward relation between these 2 numbers.

Sameer Baisiwala: No, Sir, see it this way. The 9 months last year, you had net operating cash flow, forget comparing with accounting number. If you compare Y-o-Y, with Rs.382 Crores of net operating cash flow over 9 months period, this year, it is Rs.55 Crores. We are roughly Rs.330 Crores short in this year. While the pace of new sales, the pace of the contractual business, all of that momentum is sustaining. Y-o-Y, there not big divergence but in terms of getting net operational cash flow, it is significantly lower, Y-o-Y basis.

Subhash Bhat: Yes, so Sameer, as I mentioned, basically, the projects that got handed over or all of them are mostly pre-RERA days, and with the handovers being criteria for revenue recognition against percentage completion. In percentage completion days, it would be almost in line with what we spend at the site so spend in the books, in the P&L and the spend in the cash flow would be in sync, so you can always apply some kind of percentage to it. But going forward, I would not suggest this being used for a comparison because it is like comparing apples with oranges going forward. We have been giving out the specific reasons. Yes, during the current 9 months, we had to spend extra on the projects, our real estate projects. If you look at Slide 48, there is a detailed breakup of the operating cash outflow, which, clearly, during the Q1 and Q2, were on the much higher side as compared to the inflows.

Sameer Baisiwala: Okay. But I was comparing cash to cash, Sir, when I sort of updated my question. That is fine. I will take it in off-line.

Moderator: Thank you. The next question is from the line of Puneet Gulati from HSBC. Please go ahead.



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Puneet J. Gulati: Just trying to understand here. There is, in this quarter, again, a land purchase of almost Rs.56 Crores, land payment. Why are we still buying land when we have a huge amount of land portfolio?

Subhash Bhat: If you see the balance amount which is payable for land, now this land is not only land payment for the buying land. This includes even the JD deposits. So, if you look at it, we had last quarter about Rs.180 Crores of land payment pending. So Rs.19 Crores that has come down. Okay? And if you look at the overall cash invested in land over last 5 years, we have launched 85% of that, and only about 15% has gone into land banking, that is to complete the co-joint areas in Hoskote. We have not done any land purchase for land banking reasons in the last 5 years.

Puneet Gulati: Okay. So, this is whatever you are buying, you are launching it all together?

Subhash Bhat: Yes, yes. Within a year, 15 months, the launch is happening, the normal time it takes for launch in India.

Puneet Gulati: Then you have also talked about 13 million square feet of new launches, while over the last few quarters, the launches have been slow. So, this 13 million square feet, is it the target for this fiscal year, this calendar year? Or how should we think about the 13 million square feet?

Subhash Bhat: Yes, yes, by financial year, so in the next quarter and the 4 quarters of next year, we should see this 13 million getting launched.

Puneet Gulati: So, there will be a significant uptick in new launches versus what we saw in the previous year?

Subhash Bhat: Yes, yes. So, it will go and sit in my area, not release for sale, and as we keep releasing towers, it will come into area release for sale.

Puneet Gulati: But once you launch, some part of area would be released?

Subhash Bhat: Some part, some part. 1 or 2 towers we have released for sale depending on the basement footing that is required for that particular tower.

Puneet Gulati: So, the 13 million square feet may not actually be fully launched. Some part of it will be launched?

Subhash Bhat: For sales purposes, yes. So, we will have all the approvals in place for the 13 million.

Puneet Gulati: Second, the construction spend run rate in this year has also gone up versus last year, which is what I think Sameer was also trying to refer to. The real estate project expenses used to be about Rs.300 Crores a quarter, has gone up to now Rs.400 Crores plus for the last 3 quarters. What is changing here?



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- Subhash Bhat:** It is a one-off. Of that, almost Rs.21 Crores, Rs.22 Crores every quarter is on account of the landowners' part in Sobha Indraprastha. So overall, we have spent about Rs.60 Crores there. On the rest, yes, Sobha Clovelly, and we have got other projects which are now coming up for completion, which were pre-RERA day's project, so the Silicon Oasis, there, the collections had happened in the earlier year. So, this is not something that we expect to continue going forward. Going forward, Q1 onwards, we will see spends in line what we used to spend earlier from the collections.
- Puneet Gulati:** Okay. So, the spends will come back to Rs.300-odd Crores?
- Subhash Bhat:** In line with the collections.
- J.C. Sharma:** So as collections improve, spends also will be there, but not this kind of confusion will be created.
- Puneet Gulati:** Can you give some sense of what is the capex plan for the balance area to be constructed?
- Subhash Bhat:** Capex planned for the balance area, see, right now, we have only about 4 lakh square feet, which will start construction for the commercial feet, okay? It is our own land. It is not a JD. So, we will take our own time depending on how the cash inflow is?
- Puneet Gulati:** Okay. So, this is all meant for sale?
- Subhash Bhat:** No. This will be rented out.
- Puneet Gulati:** Yes. So how much do you intend to spend? By what time would you intend to complete this 0.4 million square feet?
- Subhash Bhat:** St. Mark's, we took almost 3 years to complete. Since this is our own land, there is not too much of pressure. So, it depends on the cash outflow and the debt equity that we want to maintain.
- J.C. Sharma:** About Rs.1.8 billion is expected to be spent on 440,000 square feet.
- Subhash Bhat:** 4 lakh square feet.
- Puneet Gulati:** Over a period of 3 to 4 years?
- Subhash Bhat:** Yes.
- Puneet Gulati:** What should one assume about the rental income from the projects that has been completed, the Thrissur mall and the Bengaluru one, 1 Sobha?



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- J.C. Sharma:** See as far as this 1 Sobha is concerned, I was hinting we will be getting north of Rs.150. We should be ending up getting about Rs.175 or more on an average from the leased out spaces, whatever we have been able to so far out lease it out, sort of a thing. At this place, the new leases in Sobha City Mall, it is happening between Rs.75 to Rs.90 per square feet.
- Puneet Gulati:** How much has been leased out at Sobha City Mall?
- J.C. Sharma:** Sobha City Mall, it is about 93%, 94%. In case of 1 Sobha, we have about 35,000 square feet yet to be leased out, out of 156,000 square feet what we are supposed to lease out.
- Subhash Bhat:** Our share, our share.
- Puneet Gulati:** That is helpful. Secondly, if you can comment a bit more on the affordable housing strategy, I thought at one point of time, you were moving quite rapidly towards it. Now we have not heard anything on the affordable front. Is there a change in stance? Or how are you thinking about this part?
- J.C. Sharma:** There is no change in stance per se. One project in Bengaluru, it is further planned within this category, which is about 2 million square feet. At the same time, we have been hoping that this budget will redefine the definition of the affordable housing, which is not restricted to only 60 meters square, but which will also allow say Rs.75 lakhs or Rs.65 lakhs per apartment for the affordable housing portfolio. Unfortunately, this has not happened. But irrespective of that, in that category, whether we get the income tax benefit or the customers get the income tax benefits out of a thing, with the new projects, whatever we are launching, theoretically, they may not qualify, but with 2-bedroom apartments, and as Subhash was telling, mostly the inventory is between Rs.75 lakhs to Rs.2 Crores category, nowadays with us, where about Rs.75 lakhs, 30% of the sales is taking place. This is in the markets we operate, is reasonably affordable.
- Subhash Bhat:** For the segment that we target.
- J.C. Sharma:** For the segments we target. So prima facie, we will continue to have a product mix which will be within Rs.75 lakh to Rs.2 Crores, and that is where the maximum sales will happen.
- Subhash Bhat:** That is great, that is all from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Vivek Kumar from Blue Fin Capital. Please go ahead.
- Vivek Kumar:** Sir, my question is on launches. So, is it that demand and the market scenario, which is making us a little bit hesitant in launching? Or is it approval related? Because we have guided good launches even last year. So, if you can share your thinking on what would make you launch much higher this year? Or it is all dependent on the market?



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J.C. Sharma: See, I will just step back and try to make my points clear as far as the launches and its impact on the business is concerned. First of all, this information of everyone, the Sobha Dream Acres, which we launched about 4.5 years back, continues to remain the fastest-selling project of Bengaluru, which is the fastest-selling city in residential as well as in commercial states in India for the last 40 years. About 4 quarters back, we launched Sobha Royal Pavilion which also, in my view, it probably now, in value terms, it is the fastest-selling project on a month on basis for about last one year. So, 2 of the best-performing projects we have got in our portfolio and this is giving us a sustainable performance. That is why we say that unsold inventory is only 260,000 square feet, and out of the released inventory, 58% is already sold, and 7 million square feet also remains approved projects to be released or launched as and when we find that keeps 60% to 70% from those existing projects, the inventory is already sold out. So, we do not have that much of a worry that we launch, we sell, then we stop, and then, again, we sell after the OC is done. We work on a basis where the projects should sell on a regular basis and the inventory should more or less be sold out around the time the project is getting completed, and this is how we wish to continue to function in the future as well. This is the visibility we are giving, where 185 acres of our land bank has been earmarked where the planning is complete, and the project is under multiple approval phases or stages, whatever you may say, sort of thing, should happen, but not unduly pushing them also because most of the markets where we currently operate are reasonably well serviced. At Hosur, Delhi, Hyderabad and Trivandrum, these are the 4 new markets where we believe that next year, we should be able to get all the approvals and get it done. In these new markets, our competency also is not as great as in the existing market. So maybe we are taking a little bit longer time than what normally others take in getting these projects approved.

Vivek Kumar: But you are confident that all these approvals will be coming means because Subhash Sir hinted that they are not pushing for approval, so I was just trying to understand, is it like perhaps common in the market?

Subhash Bhat: Yes, yes. Let me clarify. When I am saying, I am not pushing for approvals, not for the 4 new cities. 4 new cities, we are pushing for approvals because we do not have anything to sell in these locations. Where I am saying that we are not pushing for approval is where, as Sharma Ji said, the BDA meetings have not happened in Bengaluru for last about 6, 7 months now. So there, we are not pushing for approvals because we have enough to sell within Bengaluru right now.

Vivek Kumar: Your Bengaluru is doing extremely well, so are you in a track to grow to 1 million square feet only from Bengaluru in the next 1, 2 years? Can we assume that or it is an aggressive assumption?

J.C. Sharma: No, why not, why not. You must assume it. We are working towards it. Yes.

Vivek Kumar: So, what are the other things, sorry, Sir?



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- J.C. Sharma:** Pardon me?
- Vivek Kumar:** Go ahead, Sir. You were saying something.
- Subhash Bhat:** If you see half my projects, which have been shown as future launches, 6.5 million out of the 13.6 million, is in Bengaluru.
- Vivek Kumar:** That is why I was asking. So, we can safely assume that we should be in the next 1 to maximum this year, the next financial year should be reaching 1 million mark just in Bengaluru. So, is it a fair assumption?
- J.C. Sharma:** You can assume it. We are not giving now guidance per se. But we wish to remain, right, very, very significant and relevant player in the Bengaluru market with the kind of land bank and certain opportunities what we have or we are likely to tie it up. So, this market will remain the key and the crucial market for our growth in the future.
- Vivek Kumar:** Sir, so my last question is on the business development plans. So, what are other areas or the cities where you think can meaningfully add to the growth part because Bengaluru is already contributing a large part. So, what will be the next 2 or 3 cities or areas or states, whichever way you look at the market which you think the business development plans are?
- J.C. Sharma:** In this financial year, right, we should be doing in excess of more than 1 million square feet in the other markets, except Bengaluru except the Kerala market, where, again, due to the external factors, most of the markets have done relatively better, and in most of the markets, we are working out to have new products, new projects also launched. So, we remain confident that the NCR market should continue to do significantly better in times to come with Dwarka Expressway progress nowadays happening at a much faster pace. We also have seen some improvement last month, that is January and in the month of December in the Pune market, which you just spoke that this market we can regain. The Chennai market also, we have got a couple of good launches lined up, and we would like to make that market also reasonably relevant. In the GIFT City, more than 100,000 square feet already we have sold and there are also lots of traction on the commercial space is visible. A couple of benefits we are asking from the government. If that happens, the sales will accelerate there also. So, we remain clear and confident that all the markets that we are in, we are there for the long-term haul, and we should be the relevant player in the market.
- Subhash Bhat:** Yes, so this financial year, we should enter Hosur, we should enter Delhi, we should enter Trivandrum, and Hyderabad. These are the places where you will see Sobha launching new residential projects.
- Vivek Kumar:** Sir, I was asking in terms of business development, which would be the next big after Bengaluru, like which will be the main areas where you would like to concentrate for future projects?



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- J.C. Sharma:** Yes. NCR, I said.
- Vivek Kumar:** Sharma Sir, any comments from your side, your personal views on Chennai markets, Sir. It has been suffering from the last decade, I think, decade now?
- J.C. Sharma:** See you have a point. You have a point. Somewhere these markets when we otherwise look at, we do not find per se any issues, but still they are not performing to their potential, but we have seen how commercial space market in India has behaved beautifully. We have seen how Hyderabad has bounced back beautifully. So, the core demand and the prospects of these markets remain as beautiful as they were. It is just a matter of time, and we have not given up our confidence in this market.
- Vivek Kumar:** Thank you very much Sir.
- Moderator:** Thank you. The next question is from the line of Biplab Debbarma from Antique Stock Broking. Please go ahead.
- Biplab Debbarma:** I have two quick questions. First thing is, again, going back to the collections, you explained the operating cash flow. I am just noting the collection. Collections, despite your construction expenses, the collections seem to have fall down this quarter.
- Subhash Bhat:** So Biplab let me answer this question again because I have been clarifying this over the last 2 quarterly con calls. We had to spend money on Sobha Indraprastha's landowners' area share, about Rs.61 Crores spent over 3 quarters. So that is one reason why there is no collection in front of that spend because those monies have already come to us last year itself. As I mentioned, there was the substation at Sobha City, which was about Rs.14 Crores. On Clovelly, which is a project, which is a pre-RERA project, so most of the sales collection happened the time the structure was over, whereas the finishes have happened in the current year so these were the explanations that we had given earlier also so we do not expect this kind of spend to the collection ratio in the coming year.
- Biplab Debbarma:** I know. I just wanted to mean absolute terms because you have so much sales velocity and barring those non or barring those 2 projects, you might have been spending a lot in the normal real estate projects. I am just wondering in absolute terms. Your collection seems to be going down since like 4Q FY2019. It was Rs.5,767 million. This quarter, it is Rs.4,719 million. Like last quarter, it was Rs.510 Crores. I am just wondering if you know the collection increase, as you keep on constructing your real estate projects because incremental buyouts would be there and you have a milestone. As you go on constructing, you will be collecting more based on the milestone. I am just trying to understand, why the absolute numbers is going down in real estate cash inflow? Was it about the spending?
- Subhash Bhat:** Yes, yes. It is a one-time Biplab, and it should improve in the upcoming quarter.



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Biplab Debbarma: Okay. Second question, Sir, is related to the recent budget announcement. I am just wondering that the government seems to be giving much emphasis on data center and warehousing. I know it is not your scope of business, but it seems to, in my opinion, it would benefit people who have a land bank in and outskirts of the city. Do you intend to take any opportunities, warehousing and data center because this seems to be a new flavor for many real estate player.

J.C. Sharma: See as far as the logistic parts are concerned when we got engaged with few inquiries from some of these people who take this space, even if the land cost is low, with the kind of FSI, low FSI, and the superior, that engineered building requirements with the low rentals they are asking, initially we do not find that we will be able to recover our cost vis-à-vis the alternatives available of either monetizing the land or selling them as a plotted development. At the same time, these kind of things what you just now has spoken, definitely, we will be looking at, and if you find that viability is there, why not we should explore? We are open to.

Subhash Bhat: We are open to it. We have explored almost 4 to 5 of this over last 2 years, but none of them financially work out.

Biplab Debbarma: Sir, one final. This is just wanted I mean including ongoing and future, what is the total rental assets that you wanted to build, 4 lakh or 5 lakh square feet, the commercials?

Subhash Bhat: Right. Yes. So right now, we have what have declared the Sobha City and the 1 Sobha Mall, and going forward, 4 lakh square feet, we should build. That is what is visible right now.

Biplab Debbarma: Visible is, going forward, 4 lakh square feet?

Subhash Bhat: Yes.

Biplab Debbarma: Rental assets or you would not be selling, not for sale, rental assets. Right, Sir?

Subhash Bhat: These are rental assets. We will keep shifting that going forward now. If you see Slide 6, we have put out the data.

Biplab Debbarma: Thank you. That is all from my idea.

Moderator: Thank you. The next question is from the line of Vinit Manek from Karma Capital. Please go ahead.

Vinit Manek: Yes, Subhash Ji, just understanding on the realization front. Our realizations have drastically come down from the last 7, 8, 10 quarters. It might be just because of the large chunk of Dream Acres that we have sold within this period. But going forward, how could we expect the realization to turn out for the next quarter or the financial year based on the launches and the sales velocity that we could go for?



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- Subhash Bhat:** Yes. As I mentioned, the spend ratio to the collection would go back to the normal that Sobha had in last 2, 3 years. Okay? This year is an aberration. I would not comment on the specific inflow number because, as you said, so collections would improve very clearly over next year...
- J.C. Sharma:** What let me say, what he is telling is about the realization part. So, if you go only a year back, about 30% of the new sales what we used to achieve, it used to be above Rs.2 Crores. Now it has come down to 13%. So, on a quarter-on-quarter basis, there has been small improvement in our realization per square feet. But because the product mix has changed, we are above Rs.2 Crores products what we are selling now versus what we used to sell about a year back. That composition has changed significantly. So, you are seeing a lesser realization per square feet. But when you look at from the overall margins point of view, whatever sales we are doing or the sales we are booking in our books, these margins remain intact for all the projects more or less uniformly.
- Vinit Manek:** Okay. So going forward, we would expect a similar realization run rate for the future 13 million square feet of the launches that we are talking about?
- J.C. Sharma:** See except one project in Bengaluru, most of the projects will be of a price point which will be about Rs.7,000 or so in per square feet realization.
- Subhash Bhat:** Yes.
- Vinit Manek:** Okay. On the execution spend of another business. So, we would expect a similar run rate for contract and manufacturing execution at Rs.300 Crores sort of quarterly run rate?
- J.C. Sharma:** Because we have got a reasonable amount of visibility. Last quarter also, we have won one large order. Couple of more orders, are in the pipeline and this is one business which keeps growing without much of an effort, and this is benefiting our backward integration model also. Next financial year also, we have visibility that we should be doing better than this financial year, and this financial year will be a record financial year from both revenue point of view, collection point of view, as well as profitability point of view on this contracting and the manufacturing side.
- Vinit Manek:** Thank you.
- Moderator:** Thank you. The next question is from the line of Swagato Ghosh from Franklin Templeton. Please go ahead.
- Swagato Ghosh:** Sir, I am looking for guidance on 2 specific things. First is, because we spoke about the strong pipeline we have, both unreleased area and forthcoming projects, is it fair to expect that no new major deals need to be done at least in Bengaluru?



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- J.C. Sharma:** Rather, we are on the verge of doing 1 or 2 deals where the cash outflow will be minimal, and we will have certain projects where we can improve further in our sales momentum in the Bengaluru market. So, going forward, prima facie besides these 13 million square feet, couple of opportunities we definitely will be looking at in most of the market. As and when they mature, we will be sharing it with you. At the same time, we are clear that, yes, now onwards, all such things, they need to fit in within our guided debt-to-equity ratio, which the CFO has been talking about.
- Swagato Ghosh:** This land payable amount, which is Rs.161 Crores at the end of this quarter, can you give us some color around that? Like what is the time line we are looking at? Like over how many quarters is this amount need to be paid?
- Subhash Bhat:** See, of that, the biggest chunk about Rs.70 Crores is payable to GIFT City next 1.5 years. Okay? That is the biggest chunk in it. All the rest are small.
- Swagato Ghosh:** Got it. No, that is helpful, and Sir, one last quick question is, about 3 quarters back, we had this Sobha International City commercial part, which I no longer see in the pipeline?
- J.C. Sharma:** Yes. That also should, Swagato, yes that also should get added when we give this next quarter's report. Some kind of arrangement we are doing with the landlords. Once it is finalized, we will be declaring that as well.
- Swagato Ghosh:** Thank you.
- Moderator:** Ladies and gentlemen, that was the last question. I now hand the conference over to the management for closing comments.
- J.C. Sobha:** Thank you, friends, for your joining this con call. As I was telling in the beginning of my opening remarks, that we look at this sector now more confidently than ever before, which is getting reflected with our confidence of launching new projects, highest ever, 13 million square feet visibility, with some kind of a clarity on the commercial space also. We are conscious about the cash flows. At the same time, whatever new banks which we have got in our portfolio in the last couple of quarters, we are continuously in engagement with them, and most of them, they believe that directionally, we are moving in the right direction, which is reflecting in that 9.76% of the average interest cost. Even in this quarter also, we hope to bring it down to further lower level. Of course, this kind of debt, sometimes, it hurts us. But looking at the opportunities, the growth momentum and, sometimes, the special circumstances in which you need to complete the projects on time and the payments to be collected from the customers, without having any obvious issues, that get delayed or does not come the way they have been coming in the previous years, will get all normalized, and we look at our company and the sector's prospects much better in 2020 than 2019. Thank you.



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Moderator:

Thank you very much, Sir. Ladies and gentlemen, on behalf of SBICAP Securities, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.