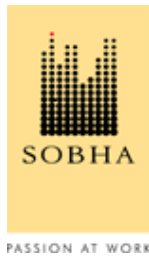




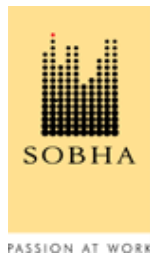
“Sobha Limited  
Q1 FY2021 Earnings Conference Call”

August 10, 2020



**ANALYST:** **MR. ADHIDEV CHATTOPADHYAY - ICICI SECURITIES LIMITED**

**MANAGEMENT:** **MR. J.C. SHARMA - VICE CHAIRMAN & MANAGING DIRECTOR – SOBHA LIMITED**  
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**MR. VIGNESHWAR BHAT –COMPANY SECRETARY & COMPLIANCE OFFICER - SOBHA LIMITED**  
**MR. RAMESH BABU – VICE PRESIDENT (FINANCE) – SOBHA LIMITED**  
**MR. TEJAS SINGH – HEAD (INVESTOR RELATIONS & FINANCE) – SOBHA LIMITED**



*Sobha Limited*  
*August 10, 2020*

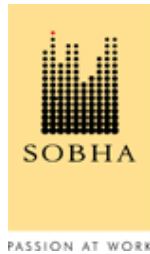
**Moderator:** Ladies and gentlemen, good day, and welcome to the Sobha Limited Q1 FY2021 Earnings Conference Call hosted by ICICI Securities. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. 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. Adhidev Chattopadhyay from ICICI Securities Limited. Thank you and over to you Sir!

**Adhidev C:** Yes. Good evening, everyone. On behalf of ICICI Securities, I would like to welcome everyone today to the Sobha Limited Results Call. From the management today, we have with us Mr. J.C. Sharma, the Vice Chairman and Managing Director; Mr. Subhash Bhatt, the Chief Financial Officer; Mr. Ramesh Babu, the VP, Finance; Mr. Vighneshwar Bhat, the Company Secretary and Compliance Officer; and Mr. Tejas Singh, the Head of Investor Relations and Finance. I would now like to hand over the call to the management for their opening remarks. Thank you.

**J C Sharma:** Thank you Adhidev for hosting this conference and good evening ladies and gentlemen. We are pleased to connect with you today post declaration of our unaudited financial results for the first quarter ended June 30, 2020 through this concall. We have already shared the details of operational update of the company in the first week of July 2020. The investor presentation based on the financial results adopted by the Board and approved by it can be downloaded from the website of our company.

The year 2019 was already a difficult year with low economic growth and palpable slowdown in business activity over multiple years. Our GDP growth of 4.2% in FY2020 was the slowest in 11 years and in such a fragile economic environment came the COVID-19 crisis. The pandemic emerged as the biggest societal concern of our times and everything else took a back seat. The Indian government did respond by imposing one of the strictest lockdowns globally barring essential activities, everything else had come to a screeching halt during this lockdown period. We are already in gradual unlocking phases across the country and the government has also announced fiscal stimulus measures to alleviate the economic pain. However, the rising number of COVID-19 cases in the country and re-imposition of lockdown in some major cities highlights the prolonged pain this pandemic will continue to inflict in lives and the livelihoods.

The real estate sector has been amongst the worst affected with demand taking a severe hit on account of job losses and pay cuts. The lockdown and subsequent reverse migration of labor has severely delayed construction work leading to extended project cycles and the dent on developer profitability. While the 6-month moratorium on term loan has provided a temporary breather to home buyers and developers, stressed NBFCs and risk awareness of banks has only exacerbated

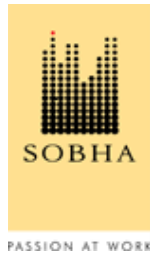


*Sobha Limited*  
*August 10, 2020*

the liquidity crunch for the sector. The COVID pandemic has brought the spotlight on exploring the benefits of digital platforms and has enabled the real estate industry to leverage different technologies to build an enriching experience for the customers. With the changing environment, customers keen on buying an apartment are more likely to go online to seek information, interact and even close the deal. The digital growth has acted as a savior to the industry and has helped us to tide over the liquidity challenge by ensuring new sales and collections. While home loan interest rates are all-time low, higher risk perception and consequent increase in interest spread by some banks has derailed the gains of 115 basis points repo rate cut by the RBI since March 2020. With such all pervasive uncertainty it is going to be a difficult period for the remainder of 2020 and recovery will hint on the time it will take to control and spread of COVID-19 infection in India. However, it is worth noting that listed and large players are set to benefit from the revival due to the brand recognition, product mix offers and adhering to quality norms and delivery timelines. Over the next few quarters, the situation will continue to remain challenging and dynamic. Developers will need to focus on timely execution and ensure that the sales volume momentum is preserved. As far as we are concerned, our focus on cost management, customer management, liquidity management and profitability management remain unwavering and it will get reflected in our performance as we move forward. I would now request Subhash, our CFO to communicate to you the financial performance of the company under this environment. Subhash over to you!

**Subhash Bhatt:**

Thanks SharmaJi. Good afternoon to everyone. We started the new quarter on back of one of the best annual performances witnessed during FY2019-2020 for the company. However, the quarter that has gone by also brought unprecedented challenges so far. The impact of COVID-19 and subsequent economic slowdown has turned the environment toxic, but we have maintained our sales momentum and project execution. Our project execution capabilities and the execution on the ground are gradually returning to pre-COVID levels. Sobha's focus on use of technology tools, advanced and constant use of various digital platforms has been a great growth driver for us in this difficult environment. The demand sentiments are skewed towards right product mix and pricing by reputed developers with good brand and delivery track record. With more and more companies opting for work from home the inherent demand for better quality homes with the low interest rates and other benefits extended by the government, the demand is likely to sustain in the coming quarters and organized players are expected to perform better. We would be happy to inform you that the levels of inquiries from customers are now back to pre-COVID levels. The demand has remained consistent in all the cities where we have operated in spite of uncertainties of the pandemic. We continue to enjoy sufficient liquidity from banks and financial institutions to meet all our financial obligations. With our continuous focus on sufficient cash flow management we are able to manage our cash flow, which resulted in net operating positive cash flow for the quarter.



*Sobha Limited*  
*August 10, 2020*

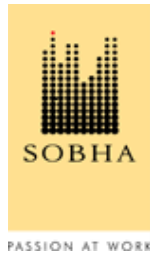
During the quarter, the real estate revenue has impacted since not many projects came into the completion mode and the new revenue recognition norms under AS-115 resulted in lesser number of deliveries being done to the customer. Contractual and manufacturing segments were also impacted during the quarter due to operation shutdown during the lockdown period. Now with the operations moving gradually towards the pre-COVID levels we expect to perform better. We expect that due to COVID, construction activities will be impacted at the site, which may result in delayed revenue recognition; however, this is only an accounting aspect in the near term. In the long run once the revenue of the project is recognized upon completion this reverse trend would get neutralized.

On the inventory front, we have an unsold inventory of 15.28 million, which is considered adequate in the given market scenario. As on June 30, 2020 we have delivered overall 109.74 million square feet of developable area, which is one of the highest in our sector. As of June 30, 2020 we have unsold completed inventory of 0.47 million square feet valued at Rs.2.56 billion, which is one of the lowest by the industry standard and also shows our capability to sell inventory before the project gets completed. We achieved 56% sale on the area, which is released for sale in ongoing projects. The committed receivables from these sold units stand at Rs.31.85 billion as of June 30, 2020 and provide coverage of 78% of the balance cost to be spent for the ongoing projects offered for sale. Our residential launch plan of 14.36 million square feet and 0.39 million commercial projects is under various stages of approval and we remain committed on the same we launched during the coming quarters.

With this backdrop we summarize the company's performance for Q1 FY2020-2021 as below. The financial highlights, total income was reported at Rs.3.59 billion, with the real estate revenue at Rs.2.23 billion and contracts and manufacturing revenue at Rs.1.27 billion. EBITDA margins were 30% and at absolute level Rs.1.09 billion. The PBT was at Rs.0.05 billion and PAT at Rs.0.07 billion. The debt-to-equity ratio as on June 30, 2020 stood at 1.24 with the cost of borrowing coming down during the quarter and standing at 9.64% as of June 30, 2020.

On the cash flow side, the total cash inflow during this quarter was Rs.5.47 billion, real estate cash inflow stood at Rs.3.36 billion and the contracts and the manufacturing inflow stood at Rs.2.11 billion. This helped us in generating a net operating positive cash flow of Rs.0.93 billion.

Coming to the operation side, as communicated during the first week of July 2020 we have sold 0.65 million square feet during the first quarter of this year valued at Rs.4.87 billion with Sobha's share in the sales coming in at Rs.3.93 billion. We have achieved a total price realization of Rs.7498 per square feet, which is higher as compared to Q1 of last year. We are committed to launch 14.36 million square feet of new housing projects in Bengaluru, Gurgaon, Delhi, Chennai, Hosur, Thrissur, GIFT City, Hyderabad and Trivandrum, and 0.39 million square feet of



*Sobha Limited*  
*August 10, 2020*

commercial projects in Bengaluru during the coming quarter. We have strong presence in the residential real estate market and a contract-based business vertical with very limited exposure to commercial or rental projects.

Coming to the contract and the manufacturing vertical, the contractual vertical continues to contribute to a great extent to our overall business. During the quarter, this vertical has contributed 36% of the total revenue and as of date we have completed projects to the tune of 51 million square feet since our inception. Currently ongoing contract projects aggregate to 9.48 million square feet under various stages of construction and our order book stands at Rs.23.66 billion as of June 30, 2020. This gives good visibility into our operational capabilities and the trust shown by our customers. I would request the conference to be now open for questions. Thank you.

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Puneet Gulati from HSBC. Please go ahead.

**Puneet Gulati:** Good job on the sales front, but can you give some comment on potential cancellations that you indicated last time and how have you treated them in your projected cash flow statement?

**Subhash Bhatt:** SharmaJi, I will answer it?

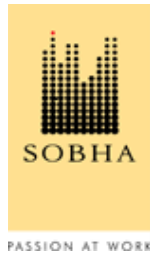
**J C Sharma:** Yes, sure, go ahead.

**Subhash Bhatt:** Puneet last quarter when we showed the potential cancellations, we showed it as a separate line item in our projected cash flow. We have dropped that now from the total sales that we had reported till March 31, 2020 and the current sales are now taken as ongoing sales and we have just gone ahead and computed as if the potential cancellations are no longer there since those have been taken off from the sales numbers and added to the stock levels for all practical purposes.

**Puneet Gulati:** Okay. So probable cancellations are now assumed to be actual cancellations?

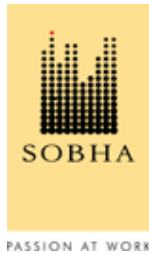
**Subhash Bhatt:** Yes, that is what we have done. We have opened up all those cancellations for sales to our sales team.

**Puneet Gulati:** Great and second on the same slide you mentioned Sobha's share of salable area, which was 17.34 ongoing that seems to have come down from 17.94 in the previous quarter why would that happen, is it something that you shelved as well?



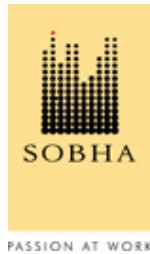
*Sobha Limited*  
*August 10, 2020*

- Subhash Bhatt:** Yes, one project in Chennai has got shelved. Chennai, we have shelved the project, which is Sholinganallur project, Sobha Palacia. There were some concerns about the landowner being unable to pay the stamp duty on the total transaction that we had done so the registrations were not happening. When we tried to go and register the agreements, in Chennai you have to register the agreement at the time of the booking itself, when we tried to register the customer agreement, the registrar insisted on stamp duty being paid by the landowner not only on our land, but on some 200 acres of the total amalgamation that we had done in various entities that he had, which is completely unpractical for him right now so it was not a big sale number anyway so we have shelved the whole project and that is it.
- Puneet Gulati:** Okay. My other question is to do with your balance sheet where you have reported investment property worth Rs.3.4 billion. Till last quarter it was Rs.1.8 billion of property and Rs.2.3 billion of capital work in progress, which should have totaled up to Rs.4 billion, now it is about Rs.3.5 billion is there any change there as well?
- Subhash Bhatt:** So basically, I think we have capitalized these for SOBHA 1 Mall, the one which is in Bengaluru.
- Puneet Gulati:** There is no work in progress anymore now?
- Subhash Bhatt:** No, no new work in progress is pending right now.
- Puneet Gulati:** Yes and then the total should have been Rs.4 billion, which is now Rs.3.4 billion so is Rs.0.5 billion depreciation that you have charged?
- Subhash Bhatt:** No, not depreciation. That mall was partly in our books and partly there is an investor with 29% in it so that transaction would have got recorded.
- Puneet Gulati:** Last question is on the EBITDA margin where you had reported 30% EBITDA margin so can you give some color although I know it is not really fair because it is a different numerator, but still it is substantially better EBITDA margin what is behind that?
- Subhash Bhatt:** Basically if you look at the SEBI results you will see the breakup of the expenditure there. We see almost Rs.30 Crores saving on employee benefit cost, which has completely moved into the EBITDA level these are fixed costs and we thank the senior executive directors who are on the Board who did not take salary during April, May and June, totally for this quarter and the other employees of Sobha did take a cut and a few of the project site people were on furlough, so salaries were not processed for them so that is what is the saving of Rs.30 Crores that has helped us in getting to this better EBITDA margin for the quarter.
- Puneet Gulati:** Okay and everything I presume has gone back to normal from Q2 or not yet?



*Sobha Limited*  
*August 10, 2020*

- Subhash Bhatt:** Q2 onwards, yes, it is not fully back to normal, but a good amount of people has started joining back so as we speak, I will tell you the number of people that are there on board right now.
- J C Sharma:** About 3100 permanent employees are working for the company, about 600 employees we are still keeping them under furlough.
- Subhash Bhatt:** Yes.
- Puneet Gulati:** That is all from my side. Thank you so much, all the best.
- Moderator:** Thank you. The next question is from the line of Abhinav Sinha from Jefferies. Please go ahead.
- Abhinav Sinha:** Just a couple of questions. So first if you can tell us what is the status of labor force and where are we on construction right now?
- J C Sharma:** The labors have started returning back that is the good news. When they come, they need to be kept in our biggest market Bengaluru for 14 days under quarantine and then they are being allowed to work. Right now the strength, which was about 30%, 35% in the last quarter when we resumed operations, it has gone back to about 60% now. We still believe that, yes, it will take a few months more for the normalcy to come back and the labor force to start working in a manner they were working at the time of the pre COVID sort of thing, but this no longer remains a cause of worry as things stand today.
- Abhinav Sinha:** You are confident that we will be at 100% in a few months now is that correct?
- J C Sharma:** Yes.
- Abhinav Sinha:** Is there any inflation in the wage, labor or anything like that that you would have seen?
- J C Sharma:** Yes, see bringing them back, keeping them under quarantine and paying little bit more than what we used to pay as an incentive to work only for us because they are in demand at this point of time, these people so that kind of a thing is there, but still in the overall scheme of things it is not that significant, which will move the needle from a cost point of view.
- Abhinav Sinha:** From contracting or execution perspective we would end up losing 6 months in the year is that still a reasonable estimate or if it has gone up a bit now?
- J C Sharma:** To come back to the normalcy I think the next quarter will be considered as the real quarter. Even in this quarter also we have been impacted in Pune, we have been impacted in Gurgaon, we have been impacted in Chennai, and we have been impacted in Bengaluru. Sundays have not



*Sobha Limited*  
*August 10, 2020*

been working days. The one week lockdown was there in Pune, more than one week lockdown was there, so all such things will be there, but at the end of the day what will matter according to our understanding is that you need to keep selling with which we are doing and we believe that momentum should continue. The overall profitability of the company's project should not get impacted, which hopefully should not get impacted. See from the compliance point of view of whether the projects will get delayed or whether we will get into some kind of legal issues we will not get into that kind of an issue. Fourth the most important thing the liquidity management part whether the banks are supporting, whether the customers who have been buying homes, whether they are entering into the agreement and are paying their dues or not, this seems to be working out perfectly fine. Those who are buying the apartments, they are making the payments also. The banks are also willing to lend the money and the interest cost keeps coming down. So you are in a scenario right now as I have spoken in my opening remarks the challenges remain. Just ignore the challenges, which are getting reflected in the production, which is getting reflected in the buildings, but at the same time the core sales numbers and the core liquidity and the margins, they remain reasonably protected and hopefully quarter-on-quarter our performance should be reflecting the same thing.

**Abhinav Sinha:**

Thanks sir, I have a few more, I will just come in the queue for that. Thank you.

**Moderator:**

Thank you. The next question is from the line of Kunal Lakhan from CLSA. Please go ahead.

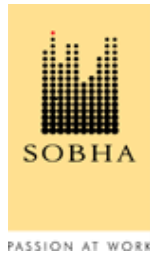
**Kunal Lakhan:**

SharmaJi if you can give some color on how the monthly sales momentum has picked up since May, June and in July and August now so far since you mentioned that inquiries are back to pre-COVID levels just wanted to get some sense on in terms of where are we in terms of sales and conversion?

**J C Sharma:**

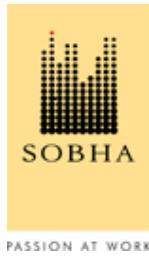
See Kunal actually the momentum on the inquiries front it is quite encouraging. The constraint is that the closure part because people would like to visit the site, we have created that virtual tour also of some of our projects and people are liking it also spending time on that as well, but somewhere the closure part is yet to come back to that pre-COVID level normalcy, moment that happens in my view the current inquiries are reasonably encouraging enough to declare that the normalcy more or less is there as far as the larger players are concerned. So we believe that this quarter's performance on the sales front should be better because 1.5 months was badly impacted in the last quarter; however, in the Bangalore market, which happens to be the core market, last month got impacted four Sundays we lost and one week we lost because of the shutdown, but fortunately the Kerala market has done very well, fortunately the Gurgaon market has done very well, so overall we still believe that this quarter should be better than the last quarter and the Bengaluru sales also in the month of August should be better than the month of July, but the July sale of Bengaluru was on a lower side than the June sale.





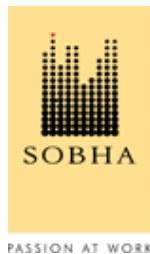
*Sobha Limited*  
*August 10, 2020*

- Kunal Lakhan:** Sure. That is helpful, but would it be safe to assume that we will be back to that 3, 3.5 lakh square feet kind of sales run rate on a monthly basis for maybe August and September?
- J C Sharma:** See, 10 days are gone we are working towards that only, but let us see, cannot be 100% sure on that.
- Kunal Lakhan:** Correct. My second question is on the cash flow front. So we had a positive cash flow this quarter and there was no interest payment as such because of the moratorium, also like there were the land-related payments were quite muted or rather like mainly in this quarter, but on a sustainable basis we see these numbers coming through and where do you see your cash flows in the subsequent quarters especially once the moratorium ends going ahead?
- J C Sharma:** We believe that the next focus of the company after these new sales is on the cash flow management only and on that front we are working very hard and we believe that we are reasonably clear and confident that this year we should be in a position to bring down our overall debt exposure that is the statement we are making. To what an extent we should be able to do we do not know, we are not giving any kind of a guideline, but committed to bring it down and when we are bringing it down we are also committed that projects also continue to get completed the way we are contractually obligated to complete them so this is what we will be doing and as things stand today we are on the right track.
- Kunal Lakhan:** That is very helpful Sharma Ji. My last question is on the margin side. Subhash you mentioned for the earlier question that the margin expansion has primarily been because of reduction in employee costs and overhead, but if you look at the P&L the decline in the employee cost and the fixed overhead is actually lesser than the decline in the revenues and what I see is like the impact is more so on account of like improvement in the gross margin so is there some change in the project mix, which was recognized in this quarter versus previous quarter?
- Subhash Bhatt:** See Kunal project mix is there, but that is not something which is related to the quarter it all depends on what handover has happened. Most of the handovers that happened during the current quarter in the real estate are our own projects so that is Silicon Oasis, Dream Acres, so that has certainly helped in having a better margin in that sense, but that is not what is driving the improvement in EBITDA from 20% to 30%, the 10% increase is mainly driven by savings in expenditure.
- Kunal Lakhan:** Again like if you look at say Y-o-Y the revenues have declined by like maybe 60%, 60% plus, but my employee cost and other expenses actually declined by maybe about 50%, 55% so had it been on account of these two line items then probably a decline in those line items should have been higher than the decline in the revenues?



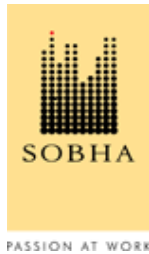
*Sobha Limited*  
*August 10, 2020*

- Subhash Bhatt:** Kunal it is mathematical so I can explain to you better offline.
- Kunal Lakhan:** I will take it offline.
- Subhash Bhatt:** Yes, but it is clearly the decline in expenditure, which has helped us to achieve this, going from 20 plus to close to 30.
- Kunal Lakhan:** Alright Subhash. Thank you so much and all the best.
- Moderator:** Thank you. The next question is from the line of Swagato Ghosh from Franklin Templeton. Please go ahead.
- Swagato Ghosh:** Sir on the cancellations that we recorded last quarter I had a couple of clarifications, so the 1.93 million square feet, which went back into stock can the original buyers still come back and pay the rest of the amount and actually have ownership or are they totally out of the picture?
- Subhash Bhatt:** Not exactly out of the picture. If the sales guys are able to revive the person that means persons who when we called up said, we are not interested in continuing we would want to cancel and get back our booking amount that we have paid. If the guy is interested certainly, he can fill up the form again and he can rebook. We are not precluding them from doing it, but we have informed them officially that we have undertaken cancellation of their bookings because they have not continued with their payment terms.
- Swagato Ghosh:** Fair, but has any of that happened in the last quarter?
- Subhash Bhatt:** Probably during this quarter about 5 or 6 have got revived.
- Swagato Ghosh:** 5 or 6 units?
- Subhash Bhatt:** Yes, 5 or 6 units.
- Swagato Ghosh:** When we sell any of these units to a new customer the money collected has to be given back to the old buyer?
- Subhash Bhatt:** Once the collection crosses the old buyer's amount, we are paying that back so the collection that you see here is net of those refunds.
- Swagato Ghosh:** Like what was the like number of units to new buyers from these canceled sales this quarter, ballpark number?



*Sobha Limited  
August 10, 2020*

- Subhash Bhatt:** Yes. Swagato, we are not disclosing that right now because we have taken the whole thing as adding to our stock available for our sales team.
- Swagato Ghosh:** Got it. Fair Sir and next question is on the current quarter sales if you can just give some colour in terms of percentage of sales to NRI you give a 12 months rolling number, but specifically for the current quarter if you can give like similar numbers, percentage NRI, percentage self funded, etc.?
- Subhash Bhatt:** We have not been sharing that Swagato because it is difficult to do it on a quarter-to-quarter basis and it will skew, and it will unnecessarily lead to questions which are not relevant. When you look at it on a rolling basis it is the right way to look at that is why we disclose that.
- Swagato Ghosh:** Just a directional guidance on the 12-month rolling number that we have like NRI is only 6%, was it significantly higher in the June quarter that is what I want to understand?
- Subhash Bhatt:** No, I think it will be in the same range because the problems that were there, which were faced by NRIs in Middle East have not changed.
- Swagato Ghosh:** One last clarification if I may. Similarly to the last question that gross margin I am not going below gross margin, but gross margin itself was much higher compared to last few quarters, you mentioned sales from your own projects, but I am also trying to understand if there is any accounting thing, which we should actually...
- Subhash Bhatt:** No, not accounting thing, just the fact that you had sales happening mostly from our own units where the land margin also comes into your P&L whereas when it is a JD the land margin goes to the landowner.
- Swagato Ghosh:** Right, but if it is a JD whatever goes to the landowner that also gets reported in one of those line items, only right?
- Subhash Bhatt:** No, it is net. The revenue is net. If you see when we adopted AS-115 we moved back to our net accounting at that point two years back.
- Swagato Ghosh:** Understood, thank you Sir.
- Moderator:** Thank you. The next question is from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.



*Sobha Limited*  
*August 10, 2020*

**Sameer Baisiwala:** Sir, looking at your cash inflow of roughly Rs.335 Crores for resi and Rs.210 Crores for contractual, it is pretty healthy roughly 60% or even more versus the preceding quarters so what is really driving this, was it all construction linked or was there something else over here?

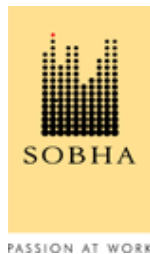
**J C Sharma:** We did a good amount of billing up to March 31, 2020 especially on the contracting side it was one of the best quarter so while the new billing was to the tune of Rs.120 odd Crores the collection from the contract side was Rs.210 Crores so the billing what you did in the month of March came in the subsequent months and it got reflected in superior collections on the contracting side. Similarly on the real estate side also whatever billings you had done the consistent push, push sort of a thing that is why somewhere the cancellation part also we had to take the call, we kept doing that, and that is where this COVID-19 learning has been primarily if I can say so is that our understanding of the cash flow management, vis-à-vis our customers has definitely improved and going forward we will be much sharper and much smarter in collecting the money and the overall period of delays, which used to run beyond 90 days also it is getting reduced significantly, time to enter into an agreement from the day the sales happen it had been compressed significantly, earlier it used to take about 2 months to get an agreement executed now we are not doing that so that the ability to figure out the customers' willingness even sometimes small online payment of Rs.50000, Rs.100000, which we keep getting we are not disclosing that as a sales till we get the full booking money so sometimes certain sales which we used to report and then it will get accumulated. Now we are not getting reflected in the sales number till we receive the booking money, so some discipline, some kind of a superior followup should get reflected in superior cash flows going forward against the sales what we do.

**Sameer Baisiwala:** This is very helpful, but if I use the same logic that there was some spillover of billings in March quarter, which was collected in June quarter by that logic in the September quarter your cash inflow should actually be lower?

**J C Sharma:** Cash flow should be?

**Sameer Baisiwala:** Cash inflows can be lower because in June you had much lower billings.

**J C Sharma:** Yes, you have a point, right. What happens as far as the real estate is concerned you get two billings one from the existing customers for the progress you make and from the new customers to the extent whatever progress you have made so sometimes sheer sales numbers may not reflect but yes it will have its own impact. The overall cash inflows in this financial year will be definitely much less than what we had shown in the last financial year, but within that constraint the actual construction cost as well on-site, be it contracts, be it real estate will also be restricted. The labor problem as we talked about was also there, so money to be spent also will be less and then as our CFO was pointing out that the strict control over and the digital way of marketing and



*Sobha Limited*  
*August 10, 2020*

other control over other fixed costs all such things will ensure that even on a restricted cash flow company remains cash flow positive in the coming quarters.

**Sameer Baisiwala:** Okay. Great and one more from my side and this is regarding moratorium. If I am not wrong, I think out of Rs.80 Crores of typical interest outgo in the quarter you had moratorium on Rs.47 Crores, right?

**J C Sharma:** Right.

**Sameer Baisiwala:** So why Rs.47 Crores, why did you not take for the whole amount and what debt you took and what debt you did not take, any colour on that thinking on this would be great Sir?

**J C Sharma:** We are dealing with roughly 20 plus banks and financial institutions and you have different level of understanding, expectations from both sides kind of a thing so keeping and taking that thing into account and knowing fully well that is why we have got huge undrawn sanction limits. Also the uncertainty enforced that trick will be go for first the comfort zone by going for the moratorium, as and when things started beginning to look better and better, we have started repaying the loan also and started paying the interest also sort of a thing. So as such there was no what you call definitive policy that you need to do this way or that way, sometimes bankers requested please do not do we complied with, sometimes bankers requested still we insisted so likewise without a comprehensive policy.

**Moderator:** Sir, this is the operator we are not able to hear you. Mr. Sameer are you done with your question?

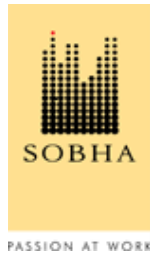
**Sameer Baisiwala:** Yes, I am done. Thank you so much.

**Moderator:** Thank you. We will take the next question from the line of Abhishek Bhandari from Macquarie Securities. Please go ahead.

**Abhishek Bhandari:** SharmaJi, I had a question again on this interest part. So if I go to Slide 8 and 9 first of all what is our rate of interest because if our total gross debt is 3100 Crores with roughly 10% interest cost, that is roughly Rs.31, Rs.32 Crores so what is the breakdown of this remaining Rs.50 Crores in the finance charges that is one and secondly government is now proposing restructuring of debt for everyone probably do you think you will want to use that to elongate the tenure of our loans?

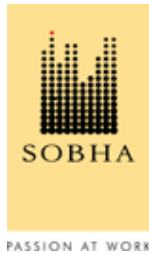
**J C Sharma:** I will answer the second question. You answer the first question Subhash.

**Subhash Bhatt:** Yes.



*Sobha Limited*  
*August 10, 2020*

- J C Sharma:** So till we have clarity that what kind of what you call restructuring this government or the RBI or the banks will be permitting it is premature right now to respond. As such we are not looking for any kind of restructuring. We believe that post August 31, 2020 we will start repaying our loan and interest to the banks but let us see about how the policy is announced. I think you can answer the question on this overall interest and other things or percentage part.
- Subhash Bhatt:** Yes. Abhishek, can you repeat the question because the numbers did not matter, yes, Rs.3100...
- Abhishek Bhandari:** Yes. So your gross debt is Rs.3100 Crores, if you took a 10% roughly the interest cost 9.8%, I am rounding it off to 10% that is around Rs.31 Crores.
- Subhash Bhatt:** Rs.310 Crores per year. So monthly it will be Rs.26 Crores into 3 months so that is Rs.80 Crores.
- Abhishek Bhandari:** Sorry Sir I got something wrong in my math. Sorry for that and Sir lastly what will be the treatment of this interest what you have not paid because will you have to pay this in the second half under the RBI regulation that the interest, which is not paid for the first half gets converted into a term loan, which has to be paid off before FY2021?
- Subhash Bhatt:** So we are not sure as to how the banks are going to look at this, so we are in discussion with the banks. I think clarity will emerge only in first week or second week of September on this and whatever call we take will be dependent on what, if it is a loan then at what rate of interest will the loan be extended, if it is cheaper than my current cost of borrowing why not, I will take it for the period, if it is higher than that then probably we will repay.
- J C Sharma:** Abhishek per se one is the policy part, one is the company's ability to pay part. What I am focusing on is yes, we are well prepared to honor our commitments as and when it becomes due whatever may be the policy. Then as CFO was telling if it is in the interest of the organization why not, at the same time our interest cost now has further come down to approximately 9.5%, and we believe that going forward this process of bringing down the interest cost will continue.
- Abhishek Bhandari:** Thank you Sir, thank you and all the best.
- Moderator:** Thank you. The next question is from the line of Parikshit Kandpal from HDFC Securities. Please go ahead.
- Parikshit D. Kandpal:** Sharma Ji congratulations on decent performance. Sir earlier in the call Subhash I think had mentioned that the inquiries are back to pre-COVID levels, so now pre-COVID and post-COVID are the two scenarios, so how do you measure inquiries here and when you say it is back to those levels so what does it imply?



*Sobha Limited*  
*August 10, 2020*

**J C Sharma:**

We follow the sales force that is where about Rs.1 Crore and the inquiries are routed through this level so the number of inquiries, which it used to report on a daily basis and what it is reporting today it is same or sometimes even better that is what we are trying to give a message. That on the inquiries front we remain completely clear that they are back to the pre-COVID levels. Then when it comes to the completion of the sales from that while the inquiry is of superior quality the restrictions, sometimes restrictions in the locality or in the building or the Sunday restrictions, all such things it does play its own role in completing the sales booking sort of thing that is what we are trying to figure out a solution and from that angle as I said that virtual tour and nudging we are doing, somewhere certain bookings have happened completely where the customers have not visited the site like in case of NRI customers it has happened and some local customers also some people have booked, but the site visit still remains one of the key factors to take that final call. Site visits have started happening, month-on-month it is significantly better than what it used to be and hopefully that is giving us that comfort and confidence that quarter-on-quarter definitely we should be doing better. How much better it is still not very clear because the COVID impact is there.

**Parikshit Kandpal:**

Sir, my question was that someone who comes to the site and does the inquiry I would assume that he is a more serious buyer than someone who is doing it online and with restrictions in place if the inquiry levels are similar to what it was pre-COVID, so I would assume that lot of inquiries are coming online, but how do you really test the sanctity or just the sanctity of these inquiries though they may be the similar both put together would be similar to pre-COVID levels, but while when we convert it our conversion ratio may be much lower than what it would have been at pre-COVID levels when you combine both the things.

**J C Sharma:**

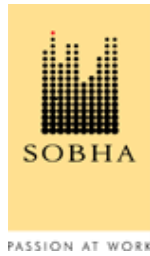
I would not say the conversion ratio became right now itself. Normally it decreases by **(audio cut) 47:43** so it is still premature to say that those inquiries do not get converted. What we are trying to communicate had it been a normal scenario sort of thing without restrictions things would have been significantly better with this kind of an inquiry, but with restrictions it is taking its own time where site visits are not that much as it used to be, for them to come back to the pre-COVID levels we are still a few months away.

**Parikshit Kandpal:**

Coming to the collections now, are the collection in the resi segment now normal to the pre-COVID levels now, so whatever deals you have done let us say 100 flats have been booked, so entire 100 flats the collection is coming or there is still a constraint on both on the banking side and the flat side where people do not have jobs so what would be the collection efficiency now for the sales, which has already been done on a cumulative basis?

**J C Sharma:**

Parikshit this is whereas we say, as far as our company is concerned, we have done better than what we used to do in the previous years. No sooner the sales happen the way we have created an



*Sobha Limited*  
*August 10, 2020*

internal process agreements with such customers within few days and the demand letter is generated, the banking support is provided where as I said that HDFC and SBI they have been doing an excellent job except that KYC part everything is happening nowadays on a digital platform, which is quite reassuring. The quality of improvement we have witnessed on the customer collection side it is better than what it used to be on a pre-COVID level. Of course we are selling less than what we used to sell, and this will definitely be reflecting overall collections, but the debtors on the build customers, days wise maybe when a couple of quarters pass you people will see a significant improvement.

**Parikshit Kandpal:** Okay. Just lastly on the Chennai project, which you have basically canceled, or you have moved out of the project so how much was the expenses incurred in that project?

**Subhash Bhatt:** Expenditure incurred was miniscule, so not too much of work was done on the site, the area sold was about 25000 square feet and reductions were not much it was only the booking amount.

**Parikshit Kandpal:** Thank you, that is all from my side.

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

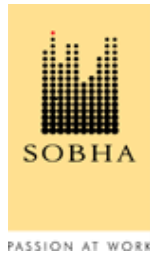
**Mohit Agrawal:** Sir my question is on the launches, so you have mentioned about 14.5 million square feet of launch pipeline could you guide what timeline is it and like the next 2, 3 quarters what kind of launches are you seeing?

**J C Sharma:** See as Subhash was telling Mohit that we are working on these projects at various levels. From the approval point of view in Bengaluru one small project, Athena Subhash what is the name?

**Subhash Bhatt:** Yes, Sobha City Athena.

**J C Sharma:** Sobha City Athena where all approvals have come. Then on Nagondanahalli the building plans have been approved, the environmental thing still remains to be approved once that happens that project also will be more or less done with. Then one project near Jaraganahalli in Bengaluru again a large project, the environment also has been approved, the development plan has been also approved, but the building plan is yet to be approved, that project also is at an advanced stage. At Hosur also the project has progressed reasonably well. At Chennai also the projects have progressed reasonably well. At Gurgaon also the project has progressed reasonably well. At Hyderabad also the projects had progressed reasonably well. At Trivandrum and Delhi it is at still infancy stage. At GIFT City also it is still at initial stage, may take some time, but from the launches perspective we will be careful. We do have 15 million square feet plus equivalent to Rs.11000 Crores of unsold inventory and during these times we would like to be clear that when we are launching that add value to both our sales numbers and also gives us comfort on





*Sobha Limited*  
*August 10, 2020*

completing the construction because right now we are operating at about 60% of our labor force and to reach 200% still we are a few months away. Still the existing projects of ours and that of our clients it does not reach to that normalcy. Adding more projects and not having the labor also may not be a right strategy is what we believe, so all such things we are factoring, but like CFO was telling the clarity is there for all these projects will be launched and timing part will be probably more clarity will be given next quarter concall when we have the new people.

**Mohit Agrawal:** Sure Sir that is clear. Sir, the other question is on the sales mix I was looking at the data that you shared on the pie chart on sales mix in terms of price brackets I see that the sales under Rs.1 Crore is about 16%?

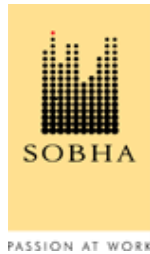
**J C Sharma:** 16%. Yes.

**Mohit Agrawal:** This number for FY2020 I was seeing that number was 34%, now just want to understand is there anything to read into in terms of change in any preferences that customers have had during COVID or post COVID or is it just a change in sales mix and nothing much to read into it?

**J C Sharma:** Nothing much to read because one quarter will not determine the trend, but one thing is clear that the people who are buying now with the lower interest cost definitely they are going for the larger apartments, so the people who were expressing some kind of a fear I am talking about especially the Bengaluru market, that larger size apartments will get impacted and affordable is the future India has got that inherent strength that it should be able to absorb higher value products also and lower value products also. In our case the reduction in the lower value product has been quite sharp it was also surprising for us and I believe that in the coming quarters this ratio will change little bit without hurting the sales above Rs.1 Crore.

**Mohit Agrawal:** Sure and just one last clarification on, you clarified on the cancellations bit that 5 to 6 units got revived in this quarter could you also share if there were any fresh sales within that 1.93 million square feet cancellations or does this 5, 6 units include that also?

**J C Sharma:** See when we gave you this March 31, 2020 results, we have done it when this quarter was over almost. So the March 31, 2020 quarter reflects all the cancellations where we believe that notices have been served and the customers are not forthcoming with their payments, which had become overdue. Coming back to this quarter's sales what we are communicating is that some of the customers to whom we have sent notices in the last month they have come back and said yes we would like to continue with the bookings, those bookings were not sold and we have retained those bookings, but the overall sales numbers of last quarter also includes the sales, which we had declared once and then had gone for cancellations. We are not distinguishing and



*Sobha Limited*  
*August 10, 2020*

differentiating between this booking and that booking as it will always have some kind of confusion and treat them as new sales only.

**Mohit Agrawal:** Okay. Great. So these 5, 6 units if I understand correctly is the ones would have happened after you reported the last quarter numbers, let us say, July and August?

**J C Sharma:** July only.

**Mohit Agrawal:** Okay great Sir. Thanks a lot and all the best Sir.

**Moderator:** Thank you. The next question is from the line of Dhaval Somaiya from Phillip Capital. Please go ahead.

**Dhaval Somaiya:** Congratulations on good performance during these challenging times. Sharma Ji I just wanted to understand the broader nature of impact on our manufacturing vertical and what is the kind of revenue and cash flow expectation that we would have for the rest of the year?

**J C Sharma:** See, as far as the manufacturing vertical is concerned the smallest among them used to be and continues to remain is our mattresses division where we used to do about Rs.15 Crores, Rs.16 Crores of topline. We are doing online sales of mattresses and within the city of Bengaluru we have started selling about Rs.1 Crore because it is being sold through showrooms or malls and they are closed but recovered reasonably well. As far as the interior division is concerned, we are almost back to 60% of our pre-COVID performance. On the glazing side also we are back to two third of our normal performance, which means if last year we were doing about Rs.18 Crores, Rs.19 Crores now we are doing Rs.13 Crores, Rs.14 Crores of sales. On the concrete product division we were doing about Rs.5 Crores of new sales we are at about Rs.2 Crores, Rs.2.5 Crores of new sales, here we have been impacted bit more because the product where it goes those guys have also been impacted, so very careful in giving credit, wherever the cash is coming only the order is serviced and this had its own impact on the CP division.

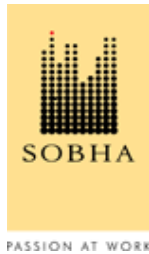
**Dhaval Somaiya:** Are we facing any challenges on the cash collection front from any of the divisions?

**J C Sharma:** I could not understand.

**Dhaval Somaiya:** Are we facing any challenges in terms of cash collections from any of the 3 divisions?

**J C Sharma:** Not at all wherever cash is coming only order is serviced prima facie.

**Dhaval Somaiya:** The next question was regarding the 1 SOBHA Mall so when can we expect the rent to start?



*Sobha Limited*  
*August 10, 2020*

**J C Sharma:** A couple of clients have started giving the rent; from the next quarter hopefully the things should look much better.

**Dhaval Somaiya:** What is the annual rent expectation?

**Subhash Bhatt:** About Rs.60 Crores.

**Dhaval Somaiya:** Thank you Subhash. Thank you very much and all the best.

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

**Sameer Baisiwala:** Sir what is the demand outlook for the contractual business for 1 year, 2-year out are those people still expanding or not?

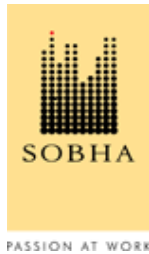
**J C Sharma:** I have bought one large contract from a Hyderabad guy and he remains reasonably bullish as far as the office space is concerned, he has not slowed down. I also worked for another one large client this Azim Premji University hopefully they will also go for expansion sort of a thing. There also as things stand today the work visibility remains reasonably intact. We have not been working with many developers on the contracting side, so may not have a right perspective from that angle. As far as the Infosys contract is concerned last year was one of the great years, this year they have not yet started in a big way and we will get impacted to that extent while doing the billing on the Infosys side.

**Sameer Baisiwala:** Great and one final one from my side. Not only last 3 months but say, 6, 9, 12 months have you been seeing any very precise data points on industry consolidation, we all talk too much about it, but are you seeing those people exiting, what happens to those projects or those land parcels anything that you cannot share in your micro markets?

**J C Sharma:** Of course Sameer. We need to see this restructuring part because this may again give some kind of a lifeline, we have to see the contour of. Keeping that part aside in my view the destruction is quite large, quite widespread, quite significant sort of a thing, to the best of my knowledge most of our fraternity members they do not have access to liquidity and their sales also have been reasonably impacted so I believe consolidation is only going to be the way forward as far as our residential space is concerned.

**Sameer Baisiwala:** I have one last part, but I will get back to you. Thank you so much.

**Moderator:** Thank you. The next question is from the line of Parvez Akhtar Qazi from Edelweiss Securities. please go ahead.



*Sobha Limited*  
*August 10, 2020*

**Parvez Akhtar Qazi:** One question from my side. This quarter obviously our land-related payments were pretty muted, but how do we see these payments shaping up over the next couple of quarters I think last quarter we had mentioned that we had some Rs.140 odd Crores still to be paid on this side so how are we likely to see this particular figure moving ahead?

**J C Sharma:** See, Parvez, if you read our response, we have been able to manage with 0 payment on the land account, which for us itself was a pleasant surprise. The landlords also appreciate it at current times, and they accommodate, at the same time you cannot keep such things indefinitely vague or uncertain in the minds of the landlords. We got some payment comfort also wherever the institutions are involved like GIFT City had given us some kind of a payment deferral, so that will also have some kind of a positive impact. Net-net the idea is that whatever payments we will be making on the land account it should be from our operations and it should not increase our debt. Keeping that thing into mind some payments here and there you will be seeing in coming quarters, but it will not have an impact like we got impacted in the last financial year.

**Parvez Akhtar Qazi:** Sure Sir, thanks, that is it from my side and all the best.

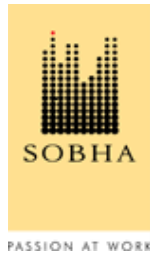
**Moderator:** Thank you. The next question is from the line of Puneet Gulati from HSBC. Please go ahead.

**Puneet Gulati:** A bit more colour on these cancellations, so you reported 1.93 million square feet cancellations did this number change as you moved into July or has it remained the same?

**J C Sharma:** See 1.93 million got added into our inventory as on June 30, 2020, thereafter when we will be disclosing the sales numbers as on September 30, 2020 we will be revising some of the bookings as Subhash was pointing out and we would have sold something as well also from this inventory.

**Puneet Gulati:** Is there a risk of this number?

**J C Sharma:** I was telling you what we have done from this quarter onwards, the bookings, which we get up to Rs.1 lakh in the good olden days we will be declaring and it was perfectly alright to have disclosed such bookings. In our sector with expression of interest itself sales numbers are being declared so we used to also declare as a fair practice, but during difficult times we realized that these are the people, which they are not being able to pay the full booking money to them to go forward is increasingly a difficult task so what are we doing from this quarter onwards we are not declaring them as sales numbers itself sort of a thing to begin with. So the money is there in the system, but sales are not disclosed till we get our booking money, till we get our agreement done sort of a thing. Hopefully these measures will ensure that this kind of a scenario does not recur. At the same time the environment is always supreme if we had collected the kind of money what we had collected and still we had to disclose the cancellations sometimes in a certain difficult



*Sobha Limited*  
*August 10, 2020*

environment if customer opts for it you cannot deny his fundamental right on that, we have to honor, we will be disclosing the same.

**Puneet Gulati:** This number of whatever booking somebody gets reported as collections in your cash flows, right?

**J C Sharma:** Of course yes. Whosoever who gives that money will get reported and booking gets revived also thereafter. If you are paying money, why should I keep it on a canceled front?

**Puneet Gulati:** No, I meant for the sales since you have recorded this prudent practice of not reporting bookings until you get the full booking amount does your collection number include whatever Rs.1 lakh?

**Subhash Bhatt:** Yes, but those are very minor amounts.

**J C Sharma:** But Rs.50000, Rs.100000 credit card swiping all such things, if that happens to see to it that the salesman is comfortable that the customer does not go out of his hand sort of a thing, which is perfectly alright, but for us to declare that I just said we have taken that conscious call that we will not report it till we have got our booking money.

**Puneet Gulati:** Okay and my last question is having you been offering any discounts to customers now?

**J C Sharma:** See, had it been so, my average realization would not be 7498, at the same time the marketing guys they do device their own ways and means to look things attractive sort of a thing so how do they do it sometimes you do make a call, you will understand what we are talking about sort of a thing, but on an average the bias will be to improve the realization than to give more discount.

**Puneet Gulati:** Because you also mentioned buyers are looking for larger-sized properties given the need for working from home?

**J C Sharma:** Absolutely right, very clear, very clear that the low interest rate has made the same set of people to go for bigger homes.

**Puneet Gulati:** That is great, that is all from my side. Thank you so much.

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

**J C Sharma:** Thank you once again to hear us out patiently. We would like to reiterate that residential space, real estate sector in India has got a much brighter future. Of course there will be some challenges in the immediate next few quarters, we are well equipped to handle the challenges also and well



*Sobha Limited*  
*August 10, 2020*

equipped to capitalize on the opportunities, which this environment will offer that is how this company is working, that is how we talk about projects to be launched, ongoing projects, collections, cancellations, margins, liquidity management, and we believe that we have got a beautiful role to play in this residential space real estate sector in times to come. Thank you. Thank you once again for your patient hearing.

**Moderator:**

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