



“Sobha Limited  
Q2 FY2021 Earnings Conference Call”

November 09, 2020



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**Moderator:** Ladies and gentlemen, good day and welcome to the Sobha Limited Q2 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, please signal an operator by pressing “\*” then “0” on your touchtone telephone. Please note this conference is being recorded. I now hand the conference over to Mr. Adhidev Chattopadhyay from ICICI Securities. Thank you and over to you Sir!

**Adhidev Chattopadhyay:** Good evening everyone. On behalf of ICICI Securities, I would like to welcome everyone to Q2 FY2021 results call of Sobha Limited. Today from the management we have with us Mr. J C Sharma, the Vice Chairman and Managing Director, Mr. Subhash Bhatt, the Chief Financial Officer, Mr. Ramesh Babu, Vice President, Finance, Mr. Vighneshwar Bhatt, 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. Over to you!

**J C Sharma:** Good evening friends. We are pleased to connect with you today post declaration of our unaudited financial results for the Q2 and half year ended September 30, 2020 so this concall hosted by ICICI Securities thank you Adhidev for doing the same. We wish all of you a very Happy Diwali in advance and hope that all of you are safe and healthy.

We have already shared the occasional update of the company in the first week of October 2020. The investor presentation based on the financial results adopted by the Board also is available on our website. As far as the metro outlook of our economy is concerned, at the outset I would like to begin this concall with a positive note that we are showing recovery from peak of congestion in economic activities. Our economy is in a better shape now than it was in the previous quarter although the pandemic situation is far from over consumer demand seems to be picking up and sentiments shifting towards ownership of a dream home, which is a welcome sign for companies like ours. Green shoots are emerging in the real estate space with customer enquiries now exceeding even pre-COVID levels and of more serious in nature with advanced stage of buying decision. Lower interest rates and rise in demand post peak of pandemic is yielding anticipated demand push. While many developers are offering discounts or customer friendly payment plan we have witnessed an increase in price realization quarter-on-quarter as well as Y-O-Y, which further strengthens our brand strength and trust shown by customers for a reputed builder.

As government and central banks search for the appropriate policy mix, economic recovery is still an uphill task in broad sense. Specific investments by large players and structural consolidation, which expected to increase efficiency of business operation. Small to medium players are facing financing and execution challenges, which will result in further consolidation in the real estate sector. We



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believe only a few large and trusted players with strong balance sheet and execution capabilities with pan India brand recognition like that of ours is expected to perform better in the coming quarters. We are happy to inform that despite all odds we have clocked 86% of the pre-COVID sales volume during Q2 FY2021 along with marginal increase of 1% in the total sales value as compared to Q2 of last year. This was made possible due to our digital marketing efforts, good demand across all regions and world class product offering, strong brand equity and unmatched delivery track records.

Demand was further complemented with low housing interest rates, increasing work from home concept and inherent desire for quality homes. In other operating cities especially Gurgaon, Kochi, Thrissur, and Chennai, we have achieved encouraging sales performance during the quarter, which showed customer strong belief in our brand in other regions as well apart from Bengaluru. We are witnessing good sales momentum currently across all operating cities, which should help us to post better sales performance in the second half of 2021 as compared to the last year second half 2020. With our continues focus on cash flow management we are able to achieve 75% pre-COVID level total cash inflows during Q2 FY2021 despite various operational challenges. Real estate and contractual cash inflows achieved during Q2 FY2021 stands at 86% and 56% of the pre-COVID levels. The project site operating nearly at pre-COVID levels currently billing in second half across projects is expected to improve, which will help us to post better cash flows during second half of FY2021, which should also help us to bring down our net debt level. As per new accounting standards we recognize the revenue upon completion of the project and handing over of the apartment to clients. Due to COVID, construction activities were also impacted at site, which may delay revenue recognition. Now I would request my CFO, Subhash to talk about the operations in detail.

**Subhash Mohan Bhatt:** Thanks, SharmaJi and once again a warm welcome to all of you. During Q2 FY2021 we have achieved a total sales volume of 891700 square feet valued at Rs.6.90 billion with a total average price realization of Rs.7737 per square feet this is despite the lockdown being imposed in Bengaluru in the month of July and more also during this quarter, uncertain macroeconomic outlook and the tough real estate sector scenario that all of us are facing.

Sales balance, sales value during Q2 FY2021 was up by 37%, 41%, and 35% respectively as compared to Q1 of the current year. The price realization of Rs.7737 per square feet achieved during Q2 FY2021 is the highest price realization that the company has achieved in the past five quarters. During H1 of FY2021 we have achieved a sales volume of 1.5 million square feet valued at Rs.11.78 billion with an average price realization of Rs.7636 per square feet. As a company we are committed to launch 14.22 million square feet of new housing projects in Bengaluru, Gurgaon, Delhi, Chennai, Hosur, Thrissur, Gift City, Hyderabad and Trivandrum and 0.36 million of commercial projects in Bengaluru in the coming quarters, which are at various stages of approval. We have strong



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presence in the residential real estate market and the contractual business verticals with very limited exposure to commercial and rental projects. We remain focused on our cash flow management and cost optimization measures, which have helped us, manage our cash flow efficiently during this quarter. The total cash inflow and the real estate cash inflow have increased by 25% and 50% on a quarter-on-quarter basis. We have also generated net operating cash flow of Rs.1.3 billion and Rs.2.22 billion during Q2 of this year and the half year of this year respectively and this is despite the tough operating environment that the industry is facing. Our cost of borrowing continues to fall from the last three quarters and as of September 30, 2020 it stands at 9.32% per annum. Our contract vertical continues to contribute to great extent to our overall business. During the quarter this vertical contributed 35% of the total revenue and as of September 30, 2020 we have completed contractual projects to the tune of 51 million square feet. Current ongoing contractual projects aggregating to 9.48 million square feet are under various stages of construction. Our order book as of September 30, 2020 stands at Rs.22.58 billion, it gives good visibility into our operational capability as well as plus shown by our contractual projects. As of September 2020, we have unsold inventory of 14.03 million square feet in the ongoing projects, which we consider to be adequate in the current market scenario. As of September 30, 2020, our unsold completed project inventory of 0.4 million square feet valued at Rs.1.96 billion is one of the lowest by the industrial standard and shows our capability to sell the inventory before the completion. Overall, we have delivered 109.74 million square feet of developable area, which is one of the highest in our sector. We have achieved 61% sales on the area, which is released for sale in the ongoing projects.

Committed receivables from sold units stands at Rs.32 billion as of September 30, 2020, which provides coverage of 82% of the balance cost to be spent on the ongoing projects offered for sale. In this backdrop I would now summarize our performance for the Q2, and the half year ended September 30, 2020.

Coming to the financial highlights for the current quarter, total income was reported at Rs.5.46 billion, which was 52% higher as compared to Q1 of the current year. Real estate revenue was reported at Rs.3.33 billion, which was 49% higher as compared to the Q1 of the current year. Contracts and manufacturing revenue was Rs.1.89 billion up 49% as compared to the Q1 of the current year. EBITDA was reported at Rs.1.28 billion, which was 17% higher as compared to the Q1 with the EBITDA margins reported at 23.6. PBT was at Rs.0.213 billion and PAT at Rs.0.17 billion. Our debt equity ratio as of September 30, 2020 stands at Rs.1.28 billion. The cost of borrowing came down in this quarter and now stands at 9.32% per annum.

Coming to the half yearly highlights, our total income was reported at Rs.9.05 billion with the real estate revenue at Rs.5.56 billion. The contracts of the manufacturing division delivered Rs.3.16



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billion as revenue and the EBITDA at a margin of 26% was Rs.2.37 billion. PBT was reported at Rs.0.28 billion and PAT at Rs.0.24 billion.

Coming to the cash flow, the total cash inflow for the quarter was Rs.6.86 billion, which was 25% higher as compared to Q1 of the current year. Real estate inflows stood at Rs.5.02 billion, which was 50% higher as compared to Q1. The contracts and the manufacturing cash inflows are reported at Rs.1.84 billion and we generated a net operational cash flow of Rs.1.30 billion, which was 40% higher as compared to the Q1 of the current year.

Coming to the cash flow highlights for the half year, the total cash inflow was Rs.12.33 billion with real estate inflow standing at Rs.8.38 billion and the contracts and the manufacturing inflow at Rs.3.94 billion and we generated a net operating cash flow for the half year at Rs.2.22 billion. We can now open up for question and answers.

**Moderator:** Thank you. Ladies and gentlemen, we will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. We have the first question from the line of Kunal Lakhan from CLSA. Please go ahead.

**Kunal Lakhan:** Good evening everyone. Sir on Bengaluru if you look at the sales contribution from Bengaluru was about 60% this quarter versus their normalized rate of 75% would you see this as a one off or will this be a new trend that Bengaluru will contribute less than what it has been contributing in the past considering like there has been a reverse migration of workforce out of metros like Bengaluru to work from home, how do you see this contribution going ahead Sir?

**J C Sharma:** We look at in a very positive manner. We believe that Bengaluru market as well as our market share both should keep growing in the near foreseeable future and we are also proposing to have maximum number of launches also in Bengaluru, but at the same time where we feel extremely pleased is that outside Bengaluru market to us has started paying off, which is a welcome sign, we are doing very well in Kerala market, we have started doing well in Gurgaon market and we are seeing some improvement in Pune and Chennai market also. So, keeping that into mind our belief is that the other market should be growing at a faster pace than the Bengaluru market whereas Bengaluru market also should keep growing.

**Kunal Lakhan:** So let me ask this a little differently, so we did about 5 lakh square feet in Bengaluru 540000 odd, which is about say 30% lower than our pre-COVID and when do you expect the Bengaluru run rate to come closer to our pre-COVID run rate?



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- J C Sharma:** We had explained while giving the rationale behind this operational update it is good point Kunal. Out of the three months in the last quarter almost 15 days in the month of July we could not achieve what we were supposed to achieve even it was worse in the June month, we had the one week of lockdown and five Sundays also we could not function it affected our sales because sales closures normally happen on the weekends, so there was a small impact as far as the Bengaluru market is concerned. Thereafter it is back to normal and you will see a good amount of growth in the coming quarters as far as the Bengaluru is concerned, but what is more again I repeat important is this that we have been having almost 50% of our ongoing projects in other markets where performance was not up to the mark and here by achieving 40% of the sales if this trend continues we are rather more happy because this allows us to focus on these markets by bringing more projects and investing more as we move ahead.
- Kunal Lakhan:** Thank you SharmaJi and just you touched upon a point on the market share so if you look at the Bengaluru volumes are down like almost 50% for the industry whereas we are down say about 25% to 30% and we have gained market share, how much of this market share gain will sustain going ahead you think?
- J C Sharma:** To me it is like this. A, the demand more or less should be coming back in the coming quarters to the pre-COVID level that is clearly visible to us, at the same time the liquidity challenges and the funding issues remain for most of the developers, so keeping that thing into mind I do not believe that most of the developers will be ready at least in the near future to launch new project, so you will have a supply side constant on the one hand and the demand coming back to normalcy as soon as than what we expect, so in that environment only handful of developers should be able to make that consolidation process visible and gain the market share.
- Kunal Lakhan:** Sure, thank you so much SharmaJi. Just one last question to Subhash, Sir the other income was slightly higher at about Rs.24 Crores this quarter what was it about?
- Subhash Mohan Bhatt:** Yes, that was line transaction that we did where we had to show it as an investment phase.
- Kunal Lakhan:** Which land was this?
- Subhash Mohan Bhatt:** This was the land, which was next to our office on Bengaluru on the Outer Ring Road.
- Kunal Lakhan:** Any details on the acreage?
- J C Sharma:** No not much at all. It was something less than an acre 33000 to 34000 square feet.



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- Kunal Lakhan:** Okay alright. Thank you so much for answering my questions and a very Happy Diwali to you. Thank you.
- Moderator:** Thank you. We have the next question from the line of Puneet Gulati from HSBC. Please go ahead.
- Puneet Gulati:** Good evening and thanks for the opportunity. A few questions, number one your price realization was up this quarter would you attribute it to any price increase that you would have taken or is it largely product driven?
- J C Sharma:** It is the combination of both Puneet. Even we are selling more in Gurgaon market and Kochi market the price per square feet realization is relatively higher than the other markets, at the same time the kind of discounting or the benefits, which we are passing on in the Q1 that is getting subsequently reduced, so a combination of both has resulted into this average price per square feet realization. Also if you look at of the total new sales in the Q1 as well as in the first half including the last quarter only 18% of the new sales is coming out up to Rs.1 Crores bracket, 82% of the new sales is happening above Rs.1 Crores bracket and about 30% is above Rs.1 Crores bracket kind of a thing, so the products across all categories are getting sold, which is one of the most satisfying performance we can say and it augurs well for a company like ours from sustaining the per square feet realization.
- Puneet Gulati:** What you are saying you have not taken any price increase the reduction in discounts would have been to the extent of 3% is that the right way?
- J C Sharma:** You are right absolutely.
- Puneet Gulati:** My second question is to do with the new launches while the new launch pipeline looks quite exciting, but over the last three quarters we have not seen much what is holding you from launching these projects and is there still a risk of being delayed by a few more quarters?
- J C Sharma:** No. I think the delay has been both somewhere the approval related process also has been delayed and somewhere we have also not pushed ends gone ahead with the new launches, but we have already now applied for RERA registration in case of funds project 1.5 million square feet in Bengaluru known as Sobha Windsor, our own key hold land Whitefield, Nagondanahalli and from that launch onwards we will see good number of launches from this quarter onwards.
- Puneet Gulati:** So, it should be fair to expect 3 million square feet kind of launch in this Q3 itself?



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**J C Sharma:** Cannot say. Sometimes again registration and other things you need, but yet possible because similarly one project is at the advanced stage in Chennai also and one is in Bengaluru also, so if we put all these things it exceeds the numbers what you are talking about.

**Puneet Gulati:** My third question is on the cash flow so while the cash flow did improve quite impressively and the land payments have also come down is it fair to assume that land payments will remain at these levels or should we expect it to go back to Rs.20 Crores to Rs.30 Crores level again?

**J C Sharma:** See as far as the operating cash project situation is concerned, we believe that even going forward also we should be able to manage and maintain. The Rs.90 Crores plus is welcome, we are also equally pleasantly surprised. As far as the outflow is concerned, we are very clear that it is our focus on our debt is much more sharper and we believe that whatever we have to do we have to do with these parameters, so keeping both things into mind the investment plans also and the other things also will be carried out.

**Puneet Gulati:** Lastly on the margin front can you give more colour on whether these margins will likely go up from here or is there a risk of it going down at all given the way construction cost would have behaved in the near term with high lever and other material prices and commodities also going up?

**J C Sharma:** See what is clear is that despite whatever we are seeing the destruction of so many sectors and so many industries except the base level price reduction on most of the products what we use or consume it has not come down, so neither material cost nor the wage cost they had come down, at the same time like we talked about that once you have again the same level of operations what we were doing during pre-COVID levels you are in a position to negotiate or bargain relatively better because when he accordingly plans his production and his cash flows based on the certainty and the continuity of his order book. My sense is that yes neither the selling price nor the cost price per se expected to come down and whether we will be in a position to manage our basic margins yes we do believe we should be able to manage our margins at the operating level.

**Puneet Gulati:** That is great. All the best. Thank you so much.

**Moderator:** Thank you. We have the next question from the line of Swagato Ghosh from Franklin Templeton. Please go ahead.

**Swagato Ghosh:** Thank you for taking my question. Sir one clarification in the Q1 we had 1.9 million square feet of cancellation just want to understand if any of those cancelled units have come back as sales in the last six months to the previous buyers, I am not looking for any exact numbers, but if there is anything significant or any relative comments it will be very helpful?





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- J C Sharma:** Of course, yes Swagato to be very clear none of the sales, which got cancelled has been added back as new sales right, so whatever sales, which we have done these are to the new customers who have done their booking. Of course some of these guys they have again gone ahead with the request that my units need not be cancelled I will be making the payment, but we live in an uncertain environment so while good number of sales have been confirmed that they will go ahead with the sales still we do not see the pattern of the payment we are not considering them as sales, so as such they are under the cancellation category, but there has been some revival in those cases, which we will not be considering as the new sales. I hope it answers your question.
- Swagato Ghosh:** Yes. That is a very clear interpretation. Sir the second question is if I look at your presentation you give this buyers profile so one takeaway for me is that the percentage of people who have taken bank loans is up significantly it was 66% last quarter's presentation it was 73% now and if it is 12th month rolling numbers then I am assuming the last three months we are heavily tilted towards bank loan customers, so please help me understand if that is indeed happening, whether we are seeing more incremental service, which are backed by bank loans?
- J C Sharma:** It is indeed happening. If you talk to State Bank of India, if you talk to HDFC, they have gone publically on record that the month of September and October has been exceedingly good for them and they are doing better than what they used to do, so the reduction in the interest rates definitely has triggered the demand back and which is a good and welcome sign. I believe that till the interest rates remain at the level at which they are this industry is in for better times.
- Swagato Ghosh:** Right and does it also mean that if you have more of these bank loans backed sales for us also cash uncertainty will be lesser?
- J C Sharma:** I think that is the point I would also like to maintain. Of course when you lose the job there are again challenges on that front also, but prima facie looking at that most of the people they are staying in rented apartments at this kind of lower rates now with the banks at least minimum asking 20% to 25% contribution from the buyers it is a welcome sign.
- Swagato Ghosh:** Right. Last question from a broader strategy perspective from the forthcoming launch pipeline we have quite a bit coming from non-Bengaluru markets and this kind of goes back to your comments on the first question I asked that you are seeing some traction on non-Bengaluru markets as well, but generally your performance in non-Bengaluru has not been as good as your Bengaluru performance, so for these new launches what kind of differentiated strategy, product commissioning you might have to like to have as good as performance as your Bengaluru market?



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**J C Sharma:** We need to look at all such things in the context in which the markets have been operating. If you really look at whether it is Bengaluru, whether it is NCR, whether it is Ahmedabad, whether it is Pune, whether it is Chennai, whether it is Kochi, all these cities got impacted with COVID except Mumbai I think the top five, six rankings, so there have been disruptions if you look at in our case also company wise we have had more than 370 cases of COVID both management staff 60 plus and 300 plus our workers, so you have been going through with good amount of disruption and good amount of this COVID management-related issues with lockdowns on and off happening. It has not taken away the market share or per se that the demand aspect of the Bengaluru market. We are doing reasonably well and you will be seeing because from September onwards things have become normal from the COVID perspective the sale numbers are reasonably good, but what we are emphasizing that overdependence on Bengaluru market while it was good for us with investments in other nine cities we were not happy. Now at least from the last quarter onwards we are clearly seeing the patterns that other markets have started doing well and hopefully they should sustain that kind of a moment, which really augurs well for us when things reach to the normalcy.

**Swagato Ghosh:** Right okay so what I also wanted to understand what are we started doing differently if anything in other markets that our performance has picked up there or like a market wide thing that the entire market has picked up and hence we are also getting a benefit of that?

**J C Sharma:** I do not know when we look at the entire market the entire market is still down in most of the places, but yes, the sentiments have definitely improved, and we are trying to take some benefit out of that. For us what we have done has been that with the focus on digital marketing as well as deepening our relationship with the channel partners, a combination of these two things it has helped us a lot. Today we have got a beautiful central marketing team working in house, which generates good number of enquiries and that is why when we are talking today the enquiry levels are even higher than what they used to be, the quality is better, the attending of those enquiries is better from our side, our competency levels have gone up, so all these things I think has started helping us in generating good quality demand, which is also getting converted into sales numbers that is why in my opening remarks I have communicated that we do believe that the second half of this year should be better than the last year second half, so that is on an optimistic note. From where to where we have come such a sharp recovery, but we have not anticipated, but having seen the sustained momentum there is a feeling that this recovery is going to sustain the momentum what we have witnessed, it may get beyond the festive seasons and this should be one of the relatively big beneficiary.

**Swagato Ghosh:** Okay Sir. Thank you. Thanks a lot.

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



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**Sameer Baisiwala:** Thank you very much and good evening everyone. Sir on the first side which is as per the cash outflow side if you look at the real estate project cost and contract project cost we are still running at roughly about half of what we were doing pre-COVID is it not at Rs.220 Crores and Rs.160 Crores, so when all sides are operational, etc., then why are these costs still so low and what is the outlook on that?

**Subhash Mohan Bhatt:** Sameer if you remember during our last year concall I was saying that there were some advances that were received from customers were pending now and therefore this year that is 2021 **(inaudible) 34:15** we would have extra outflows, which would **not** get repeated in the next year we are seeing a part impact of that and certainly some amount of impact during Q1 because of labor not being available and we are focusing on slab activity in our real estate and in the real estate side we had completion happening at globally where we had to invest money upfront. We had some old substation cost coming up at Sobha City in Bengaluru and those were discussed in detail during those concalls, so those are not getting repeated this year and therefore we are saying the normalization of the cash flow with the secular trend over the last five to six years.

**J C Sharma:** In addition to that what Subhash has communicated even you do not have the full labor force certain activities you would only like to do, which you believe is required for the progress of the construction of that particular project and to also have higher cash flows so the finishing activities you try to defer and the focus has been primarily on putting slabs one above another sort of a thing so that is also one of the reasons for this kind of a cost, but everything will get equalized. Now things are coming back to normalcy. Post Diwali I think the construction will pick up the pace, which was there before the COVID level and next four to five months should be the normal level of construction activity.

**Sameer Baisiwala:** So how would the construction spend for real estate with just Rs.220 Crores in 2Q and Rs.167 Crores for contract business how would these two numbers trend as we go forward over the next two to three quarters?

**J C Sharma:** See the real estate spend will keep increasing significantly, the construct cost will continue to work at the level at which we have been currently operating.

**Sameer Baisiwala:** Okay great. Second question is when I look at your slide 15 ongoing, which is not offered for sale roughly 7 million square feet we have put the execution cost at Rs.27 billion so roughly about what Rs.4000 per square feet is it what your construction cost I thought it was more closer to Rs.3000 plus sort of range?



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- J C Sharma:** Sameer out of this 7.2 million almost 1.6 million plus is Marina One and International City is almost 2 million plus both of them get us almost 10,000 plus, so those are different leaps of projects, these are not standard Sobha projects.
- Sameer Baisiwala:** If you look at the realization also is higher at 55?
- Subhash Mohan Bhatt:** Almost Rs.10000 realization per square feet is happening in both these projects.
- J C Sharma:** This also includes the GST cost 18%.
- Sameer Baisiwala:** For these two minor ones, which I believe is Kochi and the International City in Gurgaon so what is your construction cost in these two preejects?
- Subhash Mohan Bhatt:** Marina One is almost Rs.4200 to Rs.4300 and International City is also Rs.4000 plus.
- Sameer Baisiwala:** Okay great, but still the average is working out to Rs.4000 that is the reason why I was asking?
- Subhash Mohan Bhatt:** That is why in that particular column you are seeing the average on a higher side.
- Sameer Baisiwala:** Okay I will take it offline. Sir the other question is on the forthcoming launches you mentioned five projects for Bengaluru totalling 6.7 million square feet so I just wanted to check what is the size of the top two projects just to see if it is a single phase or multi phase projects?
- J C Sharma:** I think that Windsor is about 1.5 million; the other one at Nagondanahalli is also about 1.5 million.
- Subhash Mohan Bhatt:** Both of them are 1.5 million.
- Sameer Baisiwala:** These are the top two projects over there?
- J C Sharma:** Yes.
- Sameer Baisiwala:** Great with your permission one final question. When I look at your customer profile and you have in the bracket of Rs.1 Crores to Rs.2 Crores and Rs.2 Crores to Rs.3 Crores what is the sort of affordability is your best guess with the customers over there do they earn Rs.50 lakh and therefore they can buy five times so Rs.2.5 Crores sort of a rule of thumb affordability or your numbers are any different?
- J C Sharma:** I do believe yes most of them do earn much more than Rs.50 lakh per annum kind of a salary now.



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- Sameer Baisiwala:** So, your guess is affordability is actually less than five?
- J C Sharma:** If you look at other way of looking at as well see the 21 to 30 years age group is 17% and below Rs.1 Crores is also 18%, if you look at Rs.1 Crores to Rs.2 Crores it is 50% plus, the age group there also is 47%, if you look at above 41 to whatever the age is kind of such thing is 36% and there we have about 30% plus of the customer's base, so higher the age the higher the income kind of a thing will come. Am I clear?
- Sameer Baisiwala:** Yes, that is right, but what is that rough ratio between the income and the home value?
- J C Sharma:** That is the point I wanted to make it. With people up to 30 years they can afford to buy below Rs.1 Crores and above 30 they can afford to buy above Rs.1 Crores is our belief at the current interest cost.
- Sameer Baisiwala:** Okay great thank you so much Sir. Very helpful.
- Moderator:** Thank you. We have the next question from the line of Abhinav Sinha from Jefferies. Please go ahead.
- Abhinav Sinha:** Few questions so you have talked about second half sales could be better than first half can you give us an idea how October has trended so far October and November?
- J C Sharma:** The basic comfort we have derived it from the October sales only, it has been one of the best months in our history and that gives us the comfort that it may be one off, but every new project launches and with other cities doing well with Bengaluru coming back to the normalcy we have been encouraged to communicate all are confident with whatever environment we have around us that we should be doing better in this second half and what we achieved in the last year same half and that is where I think the change of sentiments become critical and important from complete despair and despondency in the Q1 to some kind of comfort in the Q2, the Q3 has begun relatively better and if that trend continues we definitely should be doing better.
- Abhinav Sinha:** Good to know that Sir. Secondly on the constructing business I am not sure if I followed the previous answers, so do you think the current revenue run rate will also increase substantially or let us say back to back last year's level in the next two or three quarters or we are just a little bit off from there?
- J C Sharma:** No whatever revenue we have lost, we have lost one way of looking into as far as the constructing revenue is concerned and we also find that still the large offices right they do not start functioning whether the developers or whether the clients the leases are getting delayed not that they are not going to take it, along with that the construction progress also is not happening at the same pace it is my



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view, so from the construct point of view this year we may not be able to achieve what we have achieved in the last financial year due to the six to seven months of loss of revenue.

**Abhinav Sinha:** So basically, towards the year we will continue to lag substantially or at least the real estate side of the business?

**J C Sharma:** Real estate side recovery will be reasonably very good; on the constructing side recovery will take its own time.

**Abhinav Sinha:** Understood thanks. Sir just one last question this is more on the accounting side so the notional interest part has come down substantially over the Q-O-Q basis from Rs.903 million I guess to Rs.499 million what explains this and what is the level we are looking at going forward?

**J C Sharma:** See the notional interest is basically from the customer advances, which are sitting with us okay, so basically it is an interest rate, which is applied so there is a change in the interest rate also because the interest rate that we are paying is going down, so when you start applying the interest rate on the total amount of money that the customer has paid it is till your date kind of interest that we apply, so it is a part of that but it is not an item that we actually focus on because it is completely just before the results and just added up. As I have told you earlier also you know this is something, which is just a pass through it is just added up in the P&L and it has no impact on the topline or on the bottomline.

**Abhinav Sinha:** Okay but you will see that current Q1 is more of an adjustment of the previous one as well?

**J C Sharma:** Yes because of the sharp drop in the interest in the market. If that interest does not drop much going forward yes you can continue at probably slightly higher than the current levels, but almost similar.

**Abhinav Sinha:** Sir one last question. On the capex and land price any substantial pay out, which we can expect in the next let us say even four odd quarters that you can flag to us?

**J C Sharma:** On the land side we have always had that Rs.170 Crores, which was payable. The biggest chunk of that was Gift City almost Rs.76 Crores to Rs.77 Crores where we have negotiated with them and pushed it back by one year, so those small pay outs will happen during the current quarter and our next quarter, but the major payout has been pushed by almost a year, so we should get the good amount of release there.

**Abhinav Sinha:** On the capex bit?



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- J C Sharma:** Capex would continue in the normal range, so basically other than commercial capex, which is hardly anything the normal Capex should be back to see last year we did almost about Rs.38 Crores full year capex most of that will be related to contracts also, but going forward yes we would probably range about Rs.30 Crores a year.
- Abhinav Sinha:** Okay thanks and all the best Sir.
- Moderator:** Thank you. We have the next question from the line of Mohit Agrawal from IIFL. Please go ahead.
- Mohit Agrawal:** Sir my first question is now that we are tracking in terms of both enquiries and sales above the pre-COVID levels, would you like to guide us on what kind of volume we see in the medium term we will be doing Rs.4 million so where do we go in the next two to three years?
- J C Sharma:** See we are not giving that kind of guidance we have stopped it since the last four years. We will continue to stick to this dynamic environment keep updating at the events unsold. Since one-and-a-half months, six weeks have gone for the Q3 there is a basic comfort that this quarter should be better than what we have achieved in the same quarter and since the last year last quarter last fortnight got impacted because of this COVID we should be doing better this year in the next quarter also is the basic assumption. At the same time the new launches also do bring some kind of an incremental sales, so roughly with-it little bit less than 2 million square feet of new sales equivalent to Rs.1420 Crores in the second half last year we hope to do better than that.
- Mohit Agrawal:** Sure, Sir but broadly like even if not guidance then broadly like a double-digit growth is easily doable you think going forward?
- J C Sharma:** This simple equation kind of a thing whatever you achieve. The basic thing I repeat is Bengaluru is doing well, outside Bengaluru is doing well, across all products we are doing well, and the sale numbers are better month-on-month vis-à-vis the last year for the last two months that is the big picture.
- Mohit Agrawal:** Sir on the debt numbers you know you said that second half you expect the debt to go down again any desired level of net debt to equity that you target by the end of the year and then a medium term target that you are able to do?
- J C Sharma:** See we are focusing on cash flows. You have seen a significant improvement despite whatever has happened by ensuring that vis-à-vis the RERA vis-à-vis the customer's timeline we are well within that timeframe to complete our projects. At the same time huge cash flows judiciously to see to it that we generate positive cash flows, which we have done in the last two quarters, maybe the only



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company whose debt levels has gone up and remain unaffected from the RERA perspective and from the customer's perspective. Going forward also we believe that the increased number of sales should result into improved cash flows at the same time we are planning to spend more money on our construction activity that I was telling in the previous questionnaire's response, so you cannot anticipate because you are always operating at touch and go level sort of a thing, but the basic idea is both the debt equity level and the overall debt will be kept under control at the same time the bank support remains reasonably very good. The interest cost had come down to 9.32% as on September 30, 2020 and it is likely to come down further in this quarter and by the year end right it should be around 9% or so, so managing the liquidity, managing the banks, managing the cash flows, managing the margins, and managing the enquiries all such things I think we have done very well during this crisis time and the impact of that will be visible on a sustainable basis then to look at on a quarter-on-quarter basis.

**Mohit Agrawal:** Sure, Sir and Sir just a last one from my side that the share of premium projects with higher realization has gone up this quarter could you share what proposition of sales could have come from NRIs is that possible?

**J C Sharma:** Some way we have not been able to gather the data, which we can talk about, but generally speaking the Kerala market almost 50% of the sales is happening through the NRI market as far as the Kerala market is concerned. In case of Bengaluru markets also it is about 20% or so, but in other markets it is basically the local driven.

**Mohit Agrawal:** Sure, Sir that is very helpful. Thanks a lot and wish you all a very Happy Diwali.

**Moderator:** Thank you. We have the next question from the line of Parvez Akhtar from Edelweiss Securities. Please go ahead.

**Parvez Akhtar:** Good afternoon Sir. Just one question from my side, how is our collection efficiency now especially after all the disruptions that we have seen so how is it likely to be in Q3 and Q4?

**J C Sharma:** Parvez it is a very good question. If you look at we have achieved Rs.500 Crores plus of collections in the real estate where we had in the Q1 a sale of about Rs.388 odd Crores if I remember it correctly, so looking at the low volume of sales the kind of collections what we achieved speaks volume about the way we have managed the overall cash flows and going forward as the billing improves with new number of customers getting added up and existing customers we are billing for the incremental slab wise construction activities wise billing I think the overall cash flow should be better in the coming quarters.





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- Parvez Akhtar:** Sure, Sir thanks. All the best for the future and Happy Diwali to everyone.
- Moderator:** Thank you. We have the next question from the line of Dhaval Somaiya from PhillipCapital. Please go ahead.
- Dhaval Somaiya:** I just have one question. Subhash Sir these interim overheads continue to remain contained to the levels of around Rs.36 odd Crores can we expect the same for H2 or should we expect it to go back to back pre-COVID levels of around Rs.45 Crores to Rs.50 odd Crores?
- Subhash Mohan Bhatt:** I believe overheads will be a bit higher as the things become more and more normal right. We had gone ahead with the 10% reduction we are thinking of restoring it. We had gone ahead with such things, follow certain other rationalization kind of a thing, a little bit of easing we may have to do, but this all will be within the norms we have set internally ourselves it will not have any kind of a negative impact on our overall margins.
- Dhaval Somaiya:** Thank you and Happy Diwali.
- Moderator:** Thank you. We have the next question from the line of Sreesankar Radhakrishnan from J B Arsen. Please go ahead.
- S Radhakrishnan:** The first one is new thing people who have actually bought the apartment what is the ratio of the first-time buyers in that?
- J C Sharma:** I think more than 90% of our customers they are first time buyers.
- S Radhakrishnan:** Okay the second question is see you mentioned about your raw materials scenario you have not seen must of an increase, but if I understood clearly that was the message that came about, but when I look at the cement companies and steel companies, etc., everybody has given a very strong quarterly numbers in terms of realization increase and the spread, etc., so do you think this is going to have a further pressure on the pricing for steel and cement basically your raw materials or you think it is going to have a much more of a subdued outlook going forward?
- J C Sharma:** No. I do believe that there is going to be a tightening pressure going forward. At the same time I do believe that we have been also releasing the discounts what we used to offer every month there has been some rationalization on that front, so small, small what you call reduction in the discount allowing a per square feet realization inching little bit, little bit more should help us to offset this kind of a price increase, but mentally we are prepared because even during pre-monsoon the way the



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cement prices and the steel prices were kept firm has given us that kind of belief that we may not be able to do much on these two fronts.

**S Radhakrishnan:** Okay going forward the kind of because you are more like large buyers rather than retail buyer so this probably would have got much more discount, right?

**J C Sharma:** Because of that we think that in case of cement about (audio cut) 56:12, but still it is not sufficient because this year we have been otherwise also getting this in the past.

**S Radhakrishnan:** Okay Sir my last question is with regard to your inflation on the wage front so because of COVID probably have you seen many of your unskilled people actually leaving and for coming back you have to pay extra, etc., or it is fairly normal?

**J C Sharma:** It is fairly normal it is basically the human touch. As I said 370 plus cases, touchwood God has been kind no fatality and there has been no unrest. Of course, whenever such things happen, we have created our own SOP a kind of expert and consider them that you have been taken care of.

**S Radhakrishnan:** Thank you very much Sir.

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

**J C Sharma:** Thank you once again for your patient hearing. We do believe that the Q2 basically has been the quarter, which had given us lot of hope, lot of confidence and going forward we look forward to the next few quarters and relatively good quarters on all parameters. We hope that this trend continues. We wish you all of you a very Happy and Prosperous Diwali. Stay healthy. Stay safe. Thank you.

**Moderator:** Thank you gentleman. Ladies and gentlemen on behalf of ICICI Securities that concludes this conference. Thank you for joining us and you may now disconnect your lines.