



“Sunteck Realty Q1 FY2020 Earning Conference Call”

August 13, 2019



**MANAGEMENT: MR. KAMAL KHETAN - CHAIRMAN & MANAGING
DIRECTOR
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Moderator: Ladies and Gentlemen, Good day and welcome to the Sunteck Realty's Earnings Conference Call for Q1 FY2020. We have with us today Mr. Kamal Khetan the Chairman and Managing Director of the company. Along with the senior management team of Sunteck comprising of Mr. Manoj Agarwal – Chief Financial Officer, Mr. Prashant Chaubey -- Head of Corporate Finance and Mr. Raunaq Rathi – AVP (Investor Relations). Please note this call will be for 60 minutes and for the duration of this conference, all participant lines will be in the listen-only mode. The conference is being recorded and the transcript for the same maybe put up on the website of the company.

After the management discussion there will be an opportunity for you to ask questions. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ and then ‘0’ on your touchtone phone.

Before I hand the conference over to the management, I would like to remind you that certain statements made during the course of this course may not be based on historical information of facts and maybe forward looking statements including those related to general business statements, plans and strategy of the company, its future financial condition and growth prospects. These forward-looking statements are based on the expectations and projections and may involve a number of risks, uncertainties and other factors that could cause actual results, opportunities and growth potential to differ materially from those suggested by such statements.

I would now like to hand the conference over to Mr. Kamal Khetan -- Chairman and Managing Director of the company. Thank you and over to you, sir.

Kamal Khetan: Good Evening everybody and welcome to the Earnings Call for the first quarter of the financial year 2020. Thank you for joining us. Before I begin, I would like to share with you a few quick updates. Related to execution at our Naigaon project - Sunteck Westworld, out of total 7 towers with 20 wings RCC works for almost more than 50% of the towers have been fully completed in the short span of 7 to 8 months. This pace of progress reiterates Sunteck's in house execution capabilities and not only in the uber luxury segment, but also in aspirational luxury in terms of both speed and quality. Simultaneously we also remain focused on completion of all the other ongoing projects.

In terms of presales and collection we continued our strong momentum clocking presales of Rs. 186 crores. While we sold a unit in Signature Island this quarter, we have healthy pipeline of inquiries for Isles and Pearl as well .

Despite of NBFC liquidity crunch, our collections have been strong at Rs. 189 crores versus Rs. 161 crores for the corresponding quarter in FY19 because of the sales delivered in the last financial year. Further through this consolidation phase Sunteck being an organized developer is continuing to clock strong presales complemented by healthy collections.

Now in terms of P&L, revenue for the quarter has been balanced across all our projects - approximately 40% from BKC, 35% coming from ODC and 25% from Naigaon. We had no activation in the Q1 when compared to the last quarter ODC activation was there. We expect revenue recognition for our ongoing projects to grow further from here from strong sales and execution. Now regarding the business development, we all know that Indian real estate sector is currently going through its own set of challenges and reforms, regulatory reforms, lack of liquidity and ongoing consolidation are setting the stage for sustainable growth for organized players such as Sunteck. Taking the opportunity at hand, we aggressively are evaluating multiple business development proposals in line with our asset light strategy to aggressively scale up our business while maintaining attractive ROE. We are already in advance stage of closure of few transactions which we expect to share with you all in the current quarter itself.

I would now like to hand over to our CFO – Mr. Manoj Agarwal who will take you through Q1 numbers. I will be happy to answer any of your questions that you will be having during the conference call. Manoj Please

Manoj Agarwal:

Thank you sir. Good Afternoon everyone and thank you once again for joining us today. I would now like to run you through the financial and business performance numbers for the first quarter of financial year 2020. I will begin with the operational performance numbers. Presales in the first quarter stood at Rs. 186 crores with an increase of 2% from year-on-year as compared to Rs. 182 crores last year. In terms of distribution mix of quarterly sales of Rs. 186 crores is sold 44% in BKC, 20% of this is in ODC and 34% is in Naigaon and balance 2% in other projects. Unit wise we sold one unit in BKC, 18 units in ODC, 176 units in Naigaon and 2 in Signia Waterfront. We also achieved collections of Rs. 189 crores in first quarter which is an 18% growth as compared to Q1 financial year 2019. In terms of financial highlights, we reported consolidated revenue of Rs. 175 crores in Quarter 1 of financial year 2020. This is decrease of 35% quarter-on-quarter against Rs. 270 crores of Quarter 4 financial year 19 and decrease of 17% year-on-year against Rs. 211 crores of Quarter 1 financial year 2019. On the EBITDA front the consolidated EBITDA for Quarter 1 at Rs. 61 crores as against Rs. 89 crores of Quarter 4 financial year 2019.

Our consolidated EBITDA margin for the first quarter of financial year 20 is at 35% which is higher by approximately 200 basis points compared to last quarter. With respect to profit after tax we recorded Rs. 36 crores in Quarter 1 against Rs. 63 crores in the previous quarter. Now I also want to touch upon our cash flow utilization for this quarter from our collection of Rs. 189 crores we have spent Rs. 156 crores in the construction and related expenses which has resulted in gross operating cash flows of Rs. 33 crores. Now we can open the forum for questions from the participant.

Moderator:

Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Adhidev Chattopadhyay from ICICI Securities. Please go ahead.

Adhidev Chattopadhyay: Thanks for the opportunity, I have couple of questions sir firstly we had given a press release couple of months back where you have said that we are looking at an investment of over 5,000 crores on the commercial retail properties in four years and 6 million square feet total space you are looking to construct. So, two parts to that question like how are we going to fund all of this construction of 5,000 crores considering a current balance sheet size and lot of these properties will be up and running in next in three 3-4 years, so how do you intend to take care let us say there is a slowdown in the leasing demand by then how do you plan to counter the same?

Kamal Khetan: **Thanks Adhidev.** Adhidev this property what we are talking is across BKC, ODC and Naigaon and other properties we are planning to develop 4 to 5 million square feet and any additional is around 5 to 6 million square feet. So, over a next 4 years if you see BKC itself will throw a cash flow of plus almost 2,000 crores. Further Avenue 1 & 2 plus further launch of Avenue three will support the upcoming commercial of Avenue 5 and 6 in ODC which is a part of what we are talking about 6 million square feet. Also in Naigaon we will develop retail in phase manner like in the first phase what we have launched Westworld and plus in the second phase which we are going to launch from there obviously what kind of cash flows we are generating. So, from that cash flow we feel we are talking about only looking at current cash flows and the upcoming cash flows which are very comfortable and just at the cost of repetition 2,000 crores itself will come from BKC and you have been seeing the steady sales quarter-on-quarter the sales happening from across all the three main projects and we are looking majorly commercial in these three locations commercial and retail or retail only in Naigaon. I can only assure you we have been maintaining a physical discipline and we will continue to do that as we build this commercial portfolio and we are aware and we have always maintain our debt level lesser than 0.2 and we will be maintaining near that levels only.

Adhidev Chattopadhyay: Sir second part if this is the funding part you have addressed on the demand side just as how would you plan to mitigate the risk like let us say you do all this build out and then there is some slowdown in overall market rather than I am not talking specifically on your projects, but specifically on the overall market there is some slowdown?

Kamal Khetan: Overall market slowdown I cannot obviously we have to whatever we will have to deal with the market. So, we are telling all this we are not starting today Adhidev so we are spreading over the 4 to 5 years so obviously we will not start everything at one go obviously we have to start let us say 3 million square feet we are talking about in ODC. We will not start entire 3 million square feet obviously we will do first tower of half a million square feet or one million square feet together and then may be the retail of half a million square feet. So, we will go in phases so we understand your concern and will definitely we are looking into that concern and we are confident that we will go looking at the market conditions obviously if the market god forbid goes bad and we feel that absorption is not there obviously, we can always phase it instead of 4 to 5 years may be 5 to 6 years.

Adhidev Chattopadhyay: Sir, just two things what is the status of approvals of all these project just if you can tell whatever we plan to now do within this year or next year whatever you plan to start which projects are these and what is the status of approval?

- Kamal Khetan:** In terms of BKC you know there are two commercials which contributes almost half a million square feet which are already under construction, approvals for both the projects are fully there and we look to complete both these projects over a period of next 12 to 18 months ,lets say 18 months and looking at now ODC we are waiting for some approval to start the first phase of commercial, in terms of Naigaon we are already in the first phase. We have already started the retail part and it is a high street retail in which 50% of the almost retail is already pre leased so that is how it is.
- Moderator:** Thank you. The next question is from the line of Kunal Lakhan from Axis Capital. Please go ahead.
- Kunal Lakhan:** So, it has been more than one and half years since we did our fund raising, just wanted to understand like in part of the fund raising was for development of our commercial portfolio and of course growth capital, just wanted to understand what has been the reason for like delay in launch of ODC phase II can understand the residential part because we still have some inventory left in phase one, but on the commercial front what took us so long to get this started?
- Kamal Khetan:** I think there are obviously you know number of approvals unfortunately we all require there is environment clearance then there is a high rise approval and all those things then definitely this is the approval part obviously otherwise there is no reason why we should not start. So, the reason I can only say Kunal is approval has been delayed otherwise if you see both the BKC commercial projects are up and at full speed they are under construction with full approvals. Naigaon whatever retail we have planned retail is almost constructed and 50% is already preleased. So, the concern definitely we are equally concern about this that we are looking to get these approvals in this quarter and maybe hopefully next quarter we will be able to launch even the commercial and the retail part of ODC as well.
- Kunal Lakhan:** And has there been any changes in the sizes of the commercial and the residential portion that we are envisaged back then versus now?
- Kamal Khetan:** No I do not think we have maintained same but we have definitely try to phase it out so that we do not take the risk and we put all the money and we start all the commercial together so we have phased into three phases the entire 3 million square feet so that the risk is mitigated so the risk is as less as possible.
- Kunal Lakhan:** On the residential bit when can we expect the launch for ODC project?
- Kamal Khetan:** So, we are looking at two launches in the two quarters so obviously one ODC Sunteck city Avenue-3 ODC and the second the Phase-2 of the Naigaon which is Sunteck Westworld. One we are looking in this current quarter and one of the launches you will see in the next quarter. We are just looking for the final approvals in both this case. So, Avenue-3 and at least Phase-2 of the Westworld in Naigaon launch both will happen in one will happen in this quarter and the other will be happening in next quarter.

- Kunal Lakhan:** Just one question on the BKC sales what configuration was this because it looks like a little higher than our usual 7,000 square feet apartment?
- Kamal Khetan:** So, yes this is a Signature Island unit which is the larger unit of Signature Island.
- Kunal Lakhan:** So, this 13,000 square feet unit.
- Kamal Khetan:** That is right the larger unit.
- Moderator:** The next question is from the line of Biplab Debbarma from Antique Stock Broking. Please go ahead.
- Biplab Debbarma:** I have two questions one is related to your commercial portfolio commercial retail portfolio another is on the BKC project I just wanted to know in the presentation and from the interaction I know that you have two projects under construction in BKC around 0.5 million and you have another commercial plus retail in ODC, could you please enlighten because in the press release that I read you also mentioned of adding another 1 million square feet of office space in BKC and retail and retail as we mentioned 50% which has been leased in Naigaon what is the status of those have that 1 million office space in BKC what is the status of land or agreement and what is the status of Naigaon retail that is my first question?
- Kamal Khetan:** I think in the press release what I tried to say is 0.5 million is already under construction and just in my opening remark I said we are negotiating lot of projects on a BD side so that may add in one of those project that may add half a million square feet maybe in and around BKC that is how it is?
- Biplab Debbarma:** And about the retail in Naigaon?
- Kamal Khetan:** Naigaon retail I told you in the phase one whatever retail we have planned 50% is already pre leased and 50% we are going to prelease maybe in this current quarter and we may start the retail before completion of even residential.
- Biplab Debbarma:** And second question sir on that BKC projects I remember you were mentioning around 2,000 crores of inventory in 2.5 years, 3 years' timeline looking at the past 2-3 quarters the sales velocity how in three years would those be could be achievable in three years and looking at the real estate we have been noticing especially in this Parel, Worli large inventory high-ticket inventory and looking at this do you think in three years you would be able to do 2,000 crores of sales in BKC projects?
- Kamal Khetan:** So, Biplab if you see from last 5 years on quarter-on-quarter we are able to sell 10 to 12 apartments a year and which contributes to almost 300 to 400 crores every year and you can also notice that in spite of the market changes whether downward or upward we have been able to maintain our prices also so some of the inventory has gone up in value not in volume, so volume wise the number of apartment obviously we are selling 10 to 12 year-on-year and even in this

market we have sold even in this market if you see this unit which has been sold in the larger unit in the Signature Island is at a higher rate than the last sold price which is close to Rs. 62,000 square feet because obviously it is a unique product in BKC no one has such a unique product in and around BKC there are different product but not something which matches. So, this competition for us we do not get much competition this is a person who wants to be in BKC would definitely there is a too much of a supply we all know in Lower Parel, Parel, so-called Upper Worli and Worli areas that macro market is too much of supply, but as far as BKC we all know that there is a limited supply and with this limited supply we will get the best value and we are confident that we will exhaust this inventory in next three to four years.

Moderator: Thank you. The next question is from the line of Adhidev Chattopadhyay from ICICI Securities. Please go ahead.

Adhidev Chattopadhyay: Sir from what I understand we will be delivering Avenue 1 by the end of this financial year and possibly Avenue-2 also by early half of next year, so now we will be launching Avenue-3 as you said so how do you intent to now dry the sales in these projects and considering that subventions schemes are also out of the picture from the NBFC side, so how do you look to drive the sales there?

Raunaq Rathi: In terms of driving sales across 3 Avenues I think we are in a sweet position because as Avenue 1 & 2 to move towards completion complemented by the Avenue-3 launch I think it provides optionality to the customer who wants to buy a ready product versus somebody who wants to plan their purchase over 3 to 4 years. So, I think we will be in a unique position to cater to all types of customers. In terms of subventions I just want to give you some flavor one in ODC only 7% of the sales have come through subventions in the past and all those disbursements has happened so there was no impact. Further you might be aware that you know we have always marked up the pricing for the interest component so we were never taking a hit on our margins. Now what will happen in I think with the recent NHB circular it has put the onus on the customer to be more vigilant while selecting a product and when purchasing an apartment. So, I think what will happen is people will become more and more cautious and they will only opt for organized players with strong balance sheet who will give them comfort that they will see the project no matter what the market dynamics are. So, I think given our track record, our brand, our financial strength I think we will only benefit going forward from you know the changes that are happening in the market.

Adhidev Chattopadhyay: And just to tell now Avenue 1 & Avenue-2 we have been looking to do around sales of 150 to 200 even over past couple of years, so are we looking at to do something higher this year or are we comfortable with again in the 150 to 200 range this is excluding the Avenue-3 launch I am talking about?

Raunaq Rathi: So, I think the momentum will continue as we move towards you know as we are nearing completion, I think the pace will only pick up from here. I think it gives more comfort to any customer when he sees that the product is just so close to possession so I would not be concerned I think going forward it will only pick up.

- Kamal Khetan:** And also looking at Avenue-3 as a launch coming up it will only pick up from here.
- Adhidev Chattopadhyay:** Sir just one last follow up sir just wanted to clarify on this 5,000 crores number, sir could you just give us a sense how this cost it will be equally spread over 4- 5 years or because I know at the time of QIP we had said we will spend 1,500 crores with the FSI approval and construction at ODC alone, so just wanted to understand for a modeling purpose how does one do the assumptions on this?
- Kamal Khetan:** Adhidev you have to understand obviously the 1,500 over the entire 3 million square feet. So, this includes the premium which has to be paid also. So, the first phase out of the 1,500 crores mean 3 million square feet that does not mean 500 crores, 500 crores and 500 crores as in each million square feet because in the first phase we need only construction cost not even the premiums to be paid because the Base FSI is fully paid a land there is a zero debt on the entire land which is today worth more than 2,500 crores. So, we do not have to pay any money for any premium. From the first phase 1 million square feet what we believe by putting just let us say minimal only construction so that money will definitely start generating the rental also from that phase plus we will have the cash flows coming from the residential segments which is Avenue 1, Avenue-2 and Avenue-3 all three put together. So, considering all this I think we are in a very comfortable situation and we will take a call obviously to launch before Phase-2 of the commercial we will see that obviously we are very clear I can understand your concern that we are very clear that we will not stretch our balance sheet and we have been always I think most conscious about this looking at and today also we have almost kind of a least debt and the strongest balance sheet today in the industry. So, I think your concern we really appreciate, but do not worry we have that in mind and we will go that is why phase manner.
- Moderator:** Thank you. The next question is from the line of Parvez Akhtar from Edelweiss. Please go ahead.
- Parvez Akhtar:** Good afternoon Sir, couple of questions from my side what would be status of construction on the Naigaon projects I mean when do we expect to deliver that considering the very good execution rate that we have delivered over the last two quarters?
- Raunaq Rathi:** Sure, you know Parvez the progress side at Naigaon side has been very very good. Of the 7 towers, 50% of the towers RCC work has already been completed. Today as we stand, we are ahead of schedule and the projects is planning out as we had envisaged. So, we remain confident that we will continue this traction going forward and I think that is reflected in a number as well.
- Kamal Khetan:** Also, just to mention obviously while in RERA we have put I think close to 3.5 years and while taking considering the subvention which is although only 7% of the sales have happened subventions. We have considered the interest component as 2.5 years to 3 years, but I can confidently say that the speed at which we are going I think we will deliver much before less than 2 years in fact that interest component whatever we save will be the additional profit only to the company.

- Parvez Akhtar:** Second thing is I mean when you mentioned about the Naigaon retail space which is a part of phase 1, what will be the total area out of 1.67 million square feet that we have launched in terms of the retail space?
- Kamal Khetan:** That is close to approximately 1,25,000 square feet it is a high street and this is a phase one high street and we will be launching now the phase two high street also.
- Raunaq Rathi :** And Parvez just to give you an idea you know the concept is to add value to our overall development of the project. So, we are doing this support retail basically so that the overall profile of development it is a value added for the customers as well who will be living you know 2500 families will be coming and staying so this is to ensure that they have all the facilities.
- Kamal Khetan:** And the kind of like 2,500 houses family coming and staying there this will only create retail asset will further create value to the company and stable rental income which we want to build up in Sunteck going forward.
- Parvez Akhtar:** And last question from my side what would be a net debt at the end of Q1?
- Kamal Khetan:** I think net debt at Q1 is same 0.17 debt equity.
- Raunaq Rathi:** So, may maintain healthy debt level in and around 0.2 you know that is the number you should be looking at.
- Moderator:** Thank you. The next question is from the line of Kunal Lakhan from Axis Capital. Please go ahead.
- Kunal Lakhan:** Just quickly trying to reconcile the margins this quarter of 35% EBITDA so I am presuming that 81 crores of sales that we did in Signature Island would have contributed in a revenue would that be right?
- Raunaq Rathi:** So, 81 crores is the presale number in terms of revenue contribution is close to 66.
- Kunal Lakhan:** So, that is like almost one-third of a revenues which are at almost 50% plus EBITDA margin, so would it be safe to assume that the balance contribution which should be coming from say ODC and the Naigaon are in the range of about 25 odd percent to get that blended margin to 35%.
- Prashant Chaubey:** As we have been always communicating that our margins from Signature and Signia brand is upward of 40%. On the City brand we look at a margin of 30% and 35% and at a World brand we are looking at a margin of close to 20% to 25%. Based on this if you do the math your blended EBITDA margin for the quarter will come to around 36%.
- Moderator:** Thank you. The next question is from the line of Raj Rishi an Individual Investor. Please go ahead.

- Raj Rishi:** Last time I think you had talked about partnering may be some private equity guys for specific projects so can you comment on that?
- Kamal Khetan:** We have never mentioned that we will be partnering with any private equity player I do not think.
- Raj Rishi:** No if I remember like last concall like you said that this kind of possibility exist for specific projects private equity guys are interested?
- Kamal Khetan:** Possibility is always there obviously why not if there is any opportunity, we see that we are very clear that we want to be asset light and if there is a big opportunity to acquire something which is in the distress markets. So, we will not like to stress our balance sheet which we are very clear and which all of you everybody all of you are concerned equally. So, at that point we will not like to leave the project, but we would like to loop in some private equity who will be very happily joining us and that time we will definitely look at.
- Raj Rishi:** Sir just wanted one clarification I did not get the debt equity like you target not more than 0.2 right even in future?
- Kamal Khetan:** It is a more of cash flow which is more important. We can say that we can be always maintaining less than 0.25. So, debt at current level Q1 that was is closer to between 0.17 and 0.2.
- Raj Rishi:** And sir about the market itself do you see any recovery this calendar year, can you give some comment on how do you see the residential in the commercial side in Bombay?
- Kamal Khetan:** So, we all know that commercial market Raj has been really good in fact there is a huge demand in commercial market and we are seeing the supply getting lesser and lesser ready supply and definitely this demand we continue to see over at least three to four years and in line with that our strategy is to slowly build current rental yield portfolio for the company and that is how the strategy of putting some CAPEX in the commercial and the retail, but in terms of residential let us accept we dont see any prices to fall from here, but definitely we do not look at prices to even appreciate or something the market will be stable and I feel the sales volume for the good developer with a right pricing and a good location specifically. So, if you are in a location which is already there is an oversupply then no matter what happens that market will definitely it will be difficult to sell, but if you look fortunately Sunteck's three biggest projects are in BKC, ODC and Naigaon where we are the leaders in all the three locations and we hardly have any competition in all those three locations and we have created a unique market in all this three locations and we also have the first movers advantage so that is how Sunteck is quite isolated from that side.
- Moderator:** Thank you. The next question is from the line of Biplab Debbarma from Antique Stock Broking. Please go ahead.

Biplab Debbarma: Sir I just wanted to just have two queries one is regarding visibility we have on the commercial side we have two projects Icon and Gateway that is under construction and in ODC there are two upcoming projects, do we have any timeline tentative when these projects in the ODC rental projects would break the ground, when the construction would commence I mean any timeline and second question is on the Naigaon retail I mean in Naigaon you have around 1.5 million under I was under the impression entire thing is residential, is this retail in Naigaon in addition to those area or part of that area?

Kamal Khetan: It is a part of that area.

Biplab Debbarma: And the office in ODC?

Kamal Khetan: So, coming to your first question so both the sides this is the repeated in fact the BKC both the projects are fully under construction meaning at a full speed they are under execution and both these projects we are looking to complete over a period of next 12 to 18 months whereas ODC which we I think someone else again asked this same question I believe Kunal asked I believe so we have answered that very frankly we are waiting for some approval. So, we are looking to start that ODC commercial and retail in next quarter or two and once we start obviously accordingly the rental will start flowing in.

Moderator: Thank you. The next question is from the line of Adhidev Chattopadhyay from ICICI Securities. Please go ahead.

Adhidev Chattopadhyay: Just one accounting clarification now all the new projects which you are launching Avenue-3 in Naigaon Phase-2, do they start revenue recognition immediately in the quarter they are launched and would they have to reach a 20% construction threshold under the IndAS 115?

Kamal Khetan: See Adhidev for me it will be hard to answer this question right now. This is all depends on the auditor so as we all know that 5 years is getting over the term of the auditor is getting over this year we will be having new auditors as per the guidelines and whatever is appropriate whatever is correct obviously we will have to that process it is not in the hands of Sunteck that what we will follow, whatever statutory norms allows us we will follow that way.

Adhidev Chattopadhyay: Sir just on the BKC the one unit you sold it is gathering it is at the end of the quarter that is why I think the collections would come in this quarter for that said?

Kamal Khetan: Yes, very true Adhidev.

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

Kamal Khetan: Thank you all for taking out time from your busy schedule in any case if some of your queries have been left unanswered you can get in touch with me or my team. We look forward to your continued support hence thank you once again for joining us today and have a pleasant evening.



*Sunteck Realty
August 13, 2019*

Moderator: Thank you very much sir. Ladies and Gentlemen on behalf of Sunteck Realty that concludes this conference. Thank you for joining us and you may now disconnect your lines.