



“Sobha Limited Q3 FY2021 Results Conference Call”

February 15, 2021



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Moderator: Ladies and gentlemen, good day and welcome to Sobha Limited Q3 FY2021 results conference call hosted by ICICI Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference 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. Thank you and over to you Sir!

Adhidev Chattopadhyay: Good evening everyone. On behalf of ICICI Securities, I would like to welcome everyone on the call today. Today from the management we have with us Mr. J C Sharma, Vice Chairman & Managing Director, Mr. Subhash Bhatt, Chief Financial Officer, Mr. Ramesh Babu, VP, Finance, Mr. Vighneshwar Bhat, The Company Secretary & Compliance Officer and Mr. Tejas Singh, The Head of Investor Relations & Finance. Now I would like to hand it over to the management for their opening remarks. Over to you! Thank you.

J C Sharma: Thank you Adhidev. Good evening friends. We are pleased to connect with you today for declaration of our unaudited financial results for the third quarter and nine months ended December 31, 2020 through this concall hosted by ICICI Securities. We would like to thank Adhidev once again and his team for organizing this call. We have already shared our operational updates of the company in the first week of January 2021. The investor presentation based on the financial results adopted by the board can be downloaded from the website of our company as well.

As far as the outlook and Sobha's performance for the last quarter as well as for the last nine months is concerned we will see a key change in a way we have adopted this time to improve our selling marketing, execution, utilization of cash flows and protecting the margins. With we achieved in an environment where we believed that with the consolidation, the work from home, the constant in advancing new projects, the problems vis-à-vis the NBFC and the liquidity at the same time the lowering of interest rates while they have been working overall against the growth of the sector which also helped the consolidation of the large players as evident from the number has been reflected by most of this company in most of the place.

The big picture was that the market that the real estate residential space demand is back, the big picture was that the products from the affordable to luxury they have started selling and



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the big picture was emerged that almost all the cities are doing well and looking at the future with the kind of benign interest rates enough liquidity and the Sobha had ability to now launch good number of projects and stability to it that it manageable with working capital in a manner where we can buy on the one hand keep growing, on the other hand, we also ensure that our debts keep coming down even while the growth and the new launches do not get impacted, you would see this kind of a scenario emerging.

From the new launches perspective, we hope to launch in the coming two quarters including this quarter if you add few quarters about 9 to 10 million square feet of the new launches. We are now keeping on good cash inflows. We believe the projects are going to be completed as per the RERA guidelines and we also believe that despite some headwind on the input cost our EBITDA margin should be about 20% going forward and all such things augur well for Sobha as far as residential space is concerned. On the constructing side, we have seen some setback. From the peak of last year Rs.1400 Crores topline, we may be doing about Rs.800 Crores to Rs.900 Crores of topline which hopefully from the next financial year to start seeing some improvement, but the projects which we have taken up all are profitable and there are certain visibilities that some of the old clients have started engaging once again with us to keep the width with our order book inflows further.

We also see that the momentum what we have got in Bengaluru as well as in other cities should continue, this should help us to see that this quarter performance also after performing the last quarter's record performance from the new sales should be better and going forward with the kind of since we have achieved on the digital marketing and digital sales experience center should give us that kind of cutting edge what we have been looking for a long time. The detailed results our Subhash Mohan Bhatt will be sharing the view from now and thereafter we will take the question.

Subhash Mohan Bhatt: Thank you Sharma ji. Good evening to everyone. We would like to highlight that the company has achieved best ever sales falling during Q3 FY2021, we achieved a sales volume of 1.13 million square feet valued at Rs.8.88 billion with average total price realization of Rs.7830 per square feet.

The sales volume, the total sales and the Sobha's share of the wholesales value during Q3 FY2021 were up by 2700, 29% and 28% respectively as compared to the sequential Q2 of the current year. The price realization of Rs.7830 achieved during Q3 is the highest price realization achieved by the company as compared to the past six quarters. During the nine



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months of the current year, we have achieved a total sales volume of 2.67 million square feet valued at 220.65 billion with the average price realization of 7718 per square feet. We have achieved this about record performance despite no major new launches. We just launched Sobha Athena in Bengaluru with the residential SBA of 121606 square feet and a commercial area of 28863 square feet. We are working on planned launches and we should be able to launch considerable projects in the ongoing quarter as well as the remaining part of this calendar year.

We have committed to launch 14.43 million square feet of new launches or new housing project in Bengaluru, Gurgaon, Delhi, Chennai, Hosur, Thrissur, GIFT City, Hyderabad and Trivandrum along with 0.31 million square feet of commercial projects in Bengaluru which are in various changes of approval. Our strong presence in the key market and the brand equity will help us with the better operational performance in the new cities like Hyderabad and Trivandrum and this will also help us to diversify geographical areas with our offering.

With regards to contracts vertical as on December 31, 2020, we have completed contractual projects worth to the tune of 52.6 million square feet since inception, current ongoing projects relates to 27.89 million square feet and are under various stages of construction. Our order book as on December 31, 2020 stands at Rs.21.26 billion to give a good visibility for the current operational capabilities and the trust that has shown by customers in Sobha. As of December 2020, we have unsold inventory of 14.33 million square feet in the ongoing projects which we consider is more than liquidating the current given market scenario. As of December 31, 2020, we have unsold completed inventory of only 0.33 million square feet valued at Rs.1.52 billion which is one of the lowest by the industry standard and it shows our ability to sell inventory much before the project gets completed.

Overall, we have delivered 111.35 million square feet of developed area since inception and which is one of the highest among the sectors. We have achieved 59% sales on the area which is offered for sales in the ongoing projects. The committed receivables from the sold unit today stands at Rs.31.27 billion which provide a coverage of 79% of the balance cost to be spent on the ongoing projects which have been offered for sale. In this backdrop, we would like to summarize our performance for Q3 and the nine months ended December 31, 2020 as forward.

Coming to the financial highlights, the total income reported was Rs.6.96 billion which was 27% higher as compared to the sequential Q2. The real estate revenue was at Rs.4.64 billion



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which was 39% higher as compared to the sequential Q2. The contract from the manufacturing revenue was at Rs.2.2 billion which was 16% higher as compared to the Q2 sequential. EBITDA margin was reported at Rs.1.38 billion which was 8% higher as compared to the Q2 number and the EBITDA margin stood at 20%. The PBT was reported at 0.32 billion which was 39% higher as compared to Q2. The PAT was 0.21 billion again 24% higher as compared to Q2. The debt equity ratio as on December 31, 2020 stood at 1.23. The cost of borrowing have come down sequentially for the last five consecutive quarter and now stands at 9.17% as on December 31, 2020.

Coming to the nine months highlight, the total income reported was Rs.16.02 billion with the real estate revenue at Rs.10.2 billion and contracts and manufacturing revenue at Rs.5.36 billion. EBITDA margin was 23% and was at 3.74 billion with the PBT at 0.61 billion and the PAT at Rs.0.45 billion. Coming to the cash flow highlight for the Q3 our total cash inflow at Rs.8.67 billion was 26% higher as compared to Q2, real estate inflows stood at 6.64 billion which was 32% as compared to Q2 and the manufacturing and contractual cash inflows stood at 2.03 billion which was 10% higher than the sequential Q2. We have generated net operating cash flow of Rs.1.82 billion which was 40% higher as compared to Q2 and despite the tough operating environment, we are managed to generate a positive cash flow for the full quarter at 0.74 billion.

Coming to the cash inflow for the nine months, our total cash inflows stood at 20.99 billion with the real estate inflow at 15.02 billion, the contracts and the manufacturing inflows stood at 5.97 billion, we generated a net operating cash flow of Rs.4.04 billion for the nine months and the net cash flow for the nine months stood at Rs.1.04 billion. We would now request for the question and answer session to start. Thank you.

Moderator:

Thank you very much Sir. Ladies and gentlemen we will now begin the question and answer session. We have a first question is from the line of Parikshit Kandpal from HDFC Securities. Please go ahead.

Parikshit Kandpal:

Congratulations for the decent performance during the quarter. The first question was on the sales, we have largely doing sustainable sales about a million square feet every quarter while in this quarter some of our peers have done Rs.1000 Crores or Rs.2000 Crores of sales, just wanted to sense that next two quarters we are ramping up your launches significantly, so do you see the market is there, the demand is there which can give us a significantly reduce our overall presales?



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- J C Sharma:** We are reasonably confident though we are not giving any kind of guidance, but whatsoever we have seen as far as the market response to the new launches is concerned, it is quite positive and that happens with the kind of affordability what we have also acquired and we have been able to sell even the existing projects the way we have sold that as price hopefully things should be better, but one-and-a-half months have already gone when we are talking to you based on whatever we have been done so far we remain quite positive that this quarter again will be better than the last quarter and the new launches can only make things better going forward.
- Parikshit Kandpal:** This 10 million for which you spoke about, in entirety is going or phased wise, this quarter are new launching?
- J C Sharma:** We will not be releasing all the inventory in one go, but roughly if you look at even in this quarter as we talked about 3 million square feet plus of new launches are being planned then even in the next quarter also if you look at again 2.8 million square feet of new project should be launched and by the second quarter another 3.1 million square feet of the project should be launched that is what we have looked at, most of the projects which will be launched in Bengaluru then Chennai then Thrissur and GIFT City then Hosur and Hyderabad these are the places where we should be able to launch the projects from now onwards till the second quarter of the next financial year.
- Parikshit Kandpal:** When you launch a project going by historically how the launch is affecting, so on an average within launch couple of months of the timeframe, so how much typically you would sell if you launch a million square feet, so how much do you sell from that going by your historical track ordered numbers?
- J C Sharma:** Historically what we have seen that we do not sell like the market witnesses otherwise, a significant portion of the inventory is not sold out at the time of launch, but we ensure that before the project is completed 90% plus of the inventory normally, it gets sold out, this helps us to mitigate the future inflationary cost also and manage both the cash flows and the margins relatively better. At the same time, there is also no restriction, but ability to realize better price, ability to have superior cash flows in the intention and normally the sales goes directly, the channel partners contribution in our new sales which used to be sometime about 50%, now it has come down significantly and going forward while there will be as an important contributor, we do not expect them to contribute good numbers that is why I say



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on the other cost also and protect my margin, so this model has good for us, let us see how it will work with these launches.

Parikshit Kandpal: Number like 30%, 40% you will be selling when you launch?

J C Sharma: No, because again you do not get good amount of cash flows at the time of launch, till you come to the base levels, the only money left is 25% and day after day the gap of about 8 to 10 months, which I am talking about and this does not help us a lot.

Parikshit Kandpal: Okay Sir. Thank you and that is it my question.

Moderator: Thank you. We have next question from the line of Abhinav Sinha from Jefferies. Please go ahead.

Abhinav Sinha: Good to see the sales numbers and the confidence there, so would it be hear that correctly that pricing has started improving and if you can give us some idea on what is the pricing increase your second or looking to take there?

J C Sharma: What we can say is that as the product range had become better and the products from the Gurgaon or from Kochi or from Pune, the average realization there is higher than that of Bengaluru, other cities is getting reflected in our average realization number one. Number two, quarter-on-quarter same projects realization has been improving, so going forward also I believe that if that kind of ratio remains may be yes, but I feel is good number of launches will be happening in Bengaluru plus a couple of BM projects are also there and in Hosur and GIFT City or in the Nagondanahalli affordable housing, so there the realization will be less, so on an average, the realization will be reasonably good, but may not be higher than what we have been talking.

Abhinav Sinha: Q-o-Q like-to-like projects some of the heights which I am talking about there would be about 2%, 3% range?

J C Sharma: May be more like one of the faster growing projects in Bengaluru, Royal Pavilion had witnessed about 10% increment in the price from the date it was launched.

Abhinav Sinha: Alongside pricing we have heard about lot of these material cost increases particularly that the steel is higher and there are some issues in cement in the south, so any impact of that



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have you thought of readjusted the project cost in P&L to take into account that or anything like that?

J C Sharma: One good thing about the completion method is, you are booking the profit only when all the cost is booked, yes somewhere the impact of the crude, cement, cables, wires, the plastic items definitely have been gone up, but so far it seems to be within the tolerable limits from the overall margins point of view because as I had been telling that quarter-on-quarter on the similar projects we have been able to improve our realization margin.

Abhinav Sinha: Finally, on the net debt front we saw a good decline in this quarter, but what is your guidance there, is this a good face to look at or how should we look at gearing in the next 8, 12 months odd?

J C Sharma: There will be certain partners where some investments or some expenses we have been disproportionately higher and there may be some quarters where you may have become the higher selections from the projects where the completion was a bit more, all these things will be there, but still when we talk about the quarter-on-quarter basis expect the quarter in which the dividend is paid normally we will try to see that we have been down the debt in almost all the quarters.

Abhinav Sinha: Thanks and all the best.

Moderator: Thank you. We have next question is from the line of Kunal Lakhan from CLSA. Please go ahead.

Kunal Lakhan: Good evening Sharma Ji and good evening Subhash. Just on the demand side, I have just seen some pickup in demand even in plotted development side in Bengaluru, in that context side, how we looking at our Hoskote land would be contemplate during plotted developments over there or any of our other land prices?

J C Sharma: We will be launching at Hosur a plotted development. We have taken up recently on BM basis, chartered housing projects Woodpecker which is again a plotted development of Rs.250000 square feet, I believe Hoskote will be primarily huge integrated township, but in an around in last four to five years, good development has happened, but before that we will be seeing certain good launches from our existing land banks in Bengaluru and as I was telling may be in the previous this concall may be two quarters ago, within two years time,



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there will be a good visibility about the control of the Hosur development, how stage wise with what kind of product in the first stage we proposed to launch.

Kunal Lakhan:

When can we expect Hoskote to be launched technically?

J C Sharma:

As I said two years from now we need to have a waiting. Before that we will have good numbers other important properties which we will be monetizing via development process.

Kunal Lakhan:

Sure and you had guided for EBITDA margins of 20% sustainable going ahead, what are the drivers for this like because considering the cost inflation is going on and our overheads are reasonably high, so how we will be able to restrict it to 20%?

J C Sharma:

One need that the debt has to keep improving from a topline point of view, if we look at the way we have been able to manage our sales and marketing cost, the channel partners cost with the overall salaries in this financial year or the other overhead cost of things, there are certain long term gains which have been achieved because of this pandemic and it is likely to remain that way, so those efficiencies should help us to see to it that with the kind of input cost increase which we have seen gets mitigated, at a gross level when we look at our ongoing projects as well as the future projects, the Sobha land bank cost will come into play, the gross margins should be even better than where we are, so that should take care any increase in the input cost.

Kunal Lakhan:

That is helpful and lastly Sharma ji, Kochi have been clocking about Rs.100 Crores of sales to couple of quarters, do you think this is again I think Marina One project, we think this is sustainable going ahead also considering the ticket side of that product?

J C Sharma:

We should not be only depending upon Marina One at the same time as we progress the visible right that word-of-mouth has started helping us anything able to sustain this kind of volume. At the same time, next financial year there will be one project launch in Thrissur which will be also adding lot of new sales and may be two specific quarters from now in Trivandrum, all seven projects should be launched, so net-net Kerala contribution will not be less that what we have seen at least that much is clear. If at all the possibility will be to improve, of course we have to see that there are seasonal benefits as well because Kerala sale also dependence on the NRI customers, the visit of the NRIs to Kerala also helps, so that way during Onam period as well as during this New Year has much period kind of we



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the sales normally pickup in other months, it is basically a normal pace not as good as what we see during these periods.

Kunal Lakhan: Thank you so much. Congratulations on the good quarter and all the best Sir.

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

Sameer Baisiwala: Thank you so much and good evening everyone. Question one is, what is your marginal cost of borrowing and how much if you think you can refinance over next may be three or four quarters?

Subhash Mohan Bhatt: Marginal cost of borrowing today is what we have declared 9.17 that is the current cost of borrowing of weighted average market that we have. We had borrowing today construction finance at 8.5 depending on PSU or private sector banks and going forward I think this will probably drop closer to 9% by the end of this year, beyond that we have to take the call because interest seems to be now getting stabilized, the interest cut.

Sameer Baisiwala: You have seen that your weighted average cost can bottom out at around 9%?

Subhash Mohan Bhatt: It looks like, but as I said more better to give you a flavour at the end of next quarter.

Sameer Baisiwala: Second question is, how much are your demand drivers in presentation and in your comments, but how much is the low margin rate creating this demand?

J C Sharma: I believe that the revival could be made possible because of two reasons. One I keep repeating that the supply side constraint is clearly there, but somehow because so many projects are still registered in RERA and that inventory keeps getting repleted again and again, so it looks like an inventory overhang, otherwise more or less there is a significant supply constraint I see because very few developer projects are ongoing on ground. Number two, the way these two large financial institutions, State Bank of India and HDFC, they have depends their presence and going ahead with owing the customers supported by that affordable housing also when you look at on an all India basis such of a thing has helped in reviving the demand. That is why we are very clear that this time the demand is not restricted to within cities, it is visible almost in all the cities. I have also seen as and when the large offices, will start functioning, there will be one more positive cycle this will be impacting us in a superior way, because the people who are currently operating from Tier-2,



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Tier-3 or from their hometowns once they come back, again there will be sort of a demand revival on the residential space, so net-net my view is low interest rate aggressive marketing by the branch supported by a supply constraint has helped the large developers to clock higher sales number.

Sameer Baisiwala: This is very helpful Sir. Thanks and just final one to clarification you mentioned three numbers for new launches, just wanted to show, so 3 million square feet for this quarter 2.8 and then 3.7 by second quarter next year?

J C Sharma: Roughly 10 million square feet by the second quarter of 2021 out of 14 million square feet plus, we should be in a position to launch.

Sameer Baisiwala: This is the overall number or what is only available for marketing?

J C Sharma: Overall number.

Sameer Baisiwala: Thank you so much. I will get back in the queue.

Moderator: Thank you. We have next question from the line of Girish Choudhary from Spark Capital. Please go ahead.

Girish Choudhary: Thanks Sharma ji and Subhash for taking my question. Firstly, on the cash flow if I look at the construction expenses for real estate segment in the slide #7, your overall construction expenses on 44% for the nine month, so even if you look at the third quarter run rate is Rs.290 Crores versus Rs.400 Crores quarterly run rate seen in the past, so generally asking any reason for very slow ramp up in the construction activity and we are also seeing substantial inflation in raw material cost, just to like to know the thought from this?

J C Sharma: What we have done during this pandemic primarily is to rationalize our construction activity depending upon the resources available and at the same time looking at that stress from the RERA perspective, the project must be completed within the timeframe, we have agreed with our customers, so there was a control in not going too fast on new launches and at the same time, there was an emphasis that view only sell the projects which had already been announced and launched and keep doing the construction there and collect money from the customers as much as you can and this means a focus concentrated approach to maximize our cash flows without investing the progress on any of the projects, so you need the projects from your existing inventories that they begins and thereafter you need to dilute



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the construction spend as well, so what we have optimized it no loss on sales momentum at the same time, no fear on not in a new project where the cost is going up and needs to be aggressive to get the customers and at the same time they will give us good amount of progress, keep processing, keep investing there, so that the risk of what you called input increase it minimize as and when with the new inventory is released it is released that higher price than the existing inventory which takes care of the input cost increase to see that our overall margins remains protected.

Girish Choudhary: Similarly again on the cash flows if I look at the land payments nine months it is Rs.20 Crores only and versus Rs.230 Crores last year and generally we have seen Rs.250 Crores to Rs.300 Crores of spend annually, so anything which is expected to come in the very near to medium term and any deals or any pending payment is there?

J C Sharma: Not much that has been where again this business model for tends to the BM model where now we have got two ongoing projects not spend Rs.1 by the refundable advance towards the land cost. On top of this, 10 million square feet of the launches what I am talking about in this quarter and the coming two quarters, except in Gujarat in most of the cases, the payments have already been made, in our property 100% in case of JV what we have been required to paid, it has been primarily paid, so we do not foresee much of the payment, small payment here and there, Rs.1 Crores, Rs.2 Crores, Rs.4 Crores does not matter in the scheme of thing but that is the big picture, may be thereafter it is something we see, we will come back so that is why we say that all the operations except the dividend payment process should lead to generating superior cash flows to bring down the debt further. You also need to keep in mind that company had got more than 4000 Crores of customers advances which has not been considered from the benefit of that kind of an advance which will not to be repaid to the customers, but the benefit has to accrue, we also would see that 79% of the construction cost has been covered with the strategy where we have been able to both conserve the cash also and install that the construction does not get impacted because of uncertain environment.

Girish Choudhary: Lastly, in terms of the upcoming launch pipelines specifically in Bengaluru market we have six projects and salable area of close to 7 million square feet, if you can just highlight two or three key projects or sizeable projects which we need to know and on the timelines?

J C Sharma: Of course, we will be having about 1.3 million square feet of the project which we call it as Sobha Windsor, Nagondanahalli likely to have RERA approval any time this month and it



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will be launched, marketing office is ready then it will be followed with two projects in Nagondanahalli, one affordable housing, one super luxury, where the super luxury of about 9100 square feet should be launched hopefully in the next quarter and thereafter the affordable housing of about 1 million square feet should be launched in the second quarter, these are the three large projects which we should see at the light the day.

Girish Choudhary: Thanks a lot Sir and all the very best.

Moderator: Thank you Sir. We have next question from the line of Chandrasekhar Sridhar from Fidelity International. Please go ahead.

Chandrasekhar Sridhar: Good afternoon. Just wanted to know Sharma Ji, just a Panathur land cost which you have, how far away you from developing that that is the first question. Second is, just a corporate overhead there now substantially lower at Rs.35 Crores, Rs.37 Crores per annum versus Rs.50 Crores Rs.55 Crores and that sort of helped obviously you from a cash flow perspective, but how sustainable are these low corporate overheads and thirdly as of the end of last year, your letters of credit payable were about Rs.178 Crores and you had non-interest bearing trade payables of Rs.956 Crores, can you just give those numbers what they are may be right now and are there any acceptance which are there sitting in the payables? Thank you.

J C Sharma: Thank you. As far as the Panathur land costs are concerned, there will be one project of 7.5 acres which hopefully we should be able to launch in the next financial year, it may be followed up another large project which we have not yet put in our forthcoming real estate, but the difference to one analyst enquiry either I said we would like address some better land parcels where we believe that the demand will relatively better than at Hoskote, so that project also should be launched by the end of the coming financial year. Then we have got some other real estate at Bellandur, the land parcel where we should be during the planning. So 40 to 50 acres of land in and around Sobha Dream Acres, we hope to monetize in next four to six quarters is what we believe.

Chandrasekhar Sridhar: What would be the average land cost in this?

J C Sharma: If we do not disclose the land cost per se, but I have mentioned in my concall that once the project comes for launches then the margins will be better than what arise. We have on JV or any BM model. As far as the corporate I will request, our CFO.



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Subhash Mohan Bhatt: On corporate overheads I think what we have done is they have looked at our structures and during COVID, we have managed to bring down the corporate overhead, it may slightly go up, but it will not reach the levels that was there last year clearly, so the kind of reduction that you have seen on quarter I think is something which is sustainable probably not for nine months one because Q1 was really low, but Q2 and Q3 averages would continue. Coming to your question on letter of credit, it is maintained at a similar level, we will be to do you letter of credits to ensure that the projects gets completed at the site and withdraw the money from the RERA accounts and then even claim to repay the from letter of credit as and when it becomes due, so that is the model that we have followed and that non-interest bearing credits will continue.

Chandrasekhar Sridhar: What is the trade payable right now?

J C Sharma: It has come down significantly.

Subhash Mohan Bhatt: Rs.715 Crores.

Chandrasekhar Sridhar: Okay and all of this is non-interest bearing, there is nothing?

Subhash Mohan Bhatt: This is the number which you spoke 956 is down to 715 Crores.

Chandrasekhar Sridhar: Thank you.

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

Parvez Akhtar Qazi: Good afternoon Sir, congratulations for a great set of numbers. Sir, you gave some details about the upcoming projects in Bengaluru, how would it be possible to get the status of the project outside Bengaluru especially as far as the RERA registration is concerned and how confident we are about meeting this launch guideline of about 10 million square feet over the next three quarters and the second question is on, what would be your expectation level one year down the line once we have launched all these projects?

J C Sharma: What was your second question, what will be?

Parvez Akhtar Qazi: Where do we our debt level 1.5 down the line once we have launched all these projects?



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J C Sharma:

Coming back to the new launches in other cities that one property is Sobha Arbor. Again the last phase of the fixing and then RERA registration is pending. It is a 440000 square feet of the project. We hope to launch this project in this quarter only. Similarly in case of Kuttanellur, we have already paid the final building plan approval sheet. The project name is called Sobha Metropolis. It is 1.27 million square foot of the project. Hopefully this also should be launched in this quarter. Then GIFT City we hope to launch the project in the next quarter which will be about 300000 square feet and then in Hyderabad and Hosur we hope to launch project which will be about 2 million square feet. As far as the second question on the debt is concerned, as I repeat it has been ongoing exercise in a different context I said, the liquidity is reasonably good, we do have good amount of advances from our existing customers and going forward we believe that things can only improve and which also giving us the comfort that somehow more than the possibility with ability to reduce the debt needs to be demonstrated have put lot of control because of that you have seen the discipline on the new investments, the discipline on the corporate overheads which as CFO was telling on a percentage basis, we would like to maintain like till December quarter, there is a reduction was 10%, this quarter be restored, next year we may have to give implement also, but then we also hope that the topline and the cash flows will sustain that kind of thing on an overall percentage basis where the gross margin and the EBITDA margin should not get impacted. So the ability to generate free cash flow, the ability to repay and ability to launch projects, all the three things we hope to optimize and structurally we feel that we are in a much better position now than when we are at any point of time in our history both from controlling the fixed costs as well as the variable costs and also ensuring that the cash flow mechanism of getting the money from the customers, also it is probably now much better than what we have used to be till the COVID level.

Parvez Akhtar Qazi:

Thank you Sir and all the best.

Moderator:

Thank you. We have next question from the line of Manoj Dua an Investor. Please go ahead.

Manoj Dua:

Good morning Sharma ji, good morning Subhash ji. I have one question. What is the learning from us from the last decade? I had one interview when the Sharma ji said the market is telling us something, so what are our learning from last decade where we should be more aggressive, where we should be less aggressive for hypothetically, where we can launch more as compared we have launched less earlier, how to manage financially better, so what are our learning of last decade which we should can take forward?



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J C Sharma:

The learning will be continued. It will be there in this decade as well, but I will start from what we learnt post this COVID part first and then we go back to the history. The importance of technology, the importance of digital marketing and having created a huge infrastructure where 80% plus of the new recruitments has been happening in our marketing setup where marketing got decentralized and the sales continues to remain under the control of the regional heads, sales head, and this has helped us to look at the business at a much lower cost. Also the ability to complete the project in all respects while the policy was always good, but now the way is we are competing and handing over, I think it is something which we have learnt and in due course the industry will also follow that practice where you not only complete the project from an occupancy perspective point of view but we complete the project from a new ability point of view, so till the last 15 you get improve with the completion part. I think the better cash, cost management, the better cash flow management and the learning of having this was done during 2006, a large land bank but the ability to launch for this was end the project as I was missing but that is not the market wanted we responded. Now with the learning will be to see that the land gets rationalized to the extent as we try to make it monetizable in the coming decades including the Hoskote part, leverage on what was the drawback into a little competitive advantage in the market where we are operating, leverage on the cash flows through the monetization or through the launch of the projects to the way we can launch projects in good numbers to see to it that with the kind of situation in which we are in today it is not only get consolidated, but it is reflected in our financial performance as well as the delight to the customers.

Manoj Dua:

One more question, any land bank issue had already paid off and we do not have any payment left, if we launch and we are able to sell 30%, 40% on the launch itself, does that project become cost neutral from our side that it can be billed from the customer advance normally?

J C Sharma:

We cannot say, because the project takes four to five years to get completed that is why we have been reasonably I am not saying that was helpful, but not releasing or not selling the projects in good numbers in the beginning, not that we are averse to but the basic idea is to protect both the cash flow margins as well as sustain the home loans, so our methodology of selling the product has been as I have been telling in almost all the concalls and otherwise in one on one investors meeting is that to ensure that the ready stock inventory remains lower than the market at the same time, the sales number at the time of launch also is lower than the market somehow it had helped us in protect our cash flows and the margins and we believe an inflationary market that policy should continue as far as Sobha is concerned.



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- Manoj Dua:** Sorry, I have a question on like real estate market itself is very unpredictable sector, so if we are able to sell much more I the beginning, we are able to protect from the variability of the market also because this is a sector suddenly sales go down because of any big reason? Any big reason affect the real estate so how to protect that part also?
- Subhash Mohan Bhatt:** So Manoj, RERA has come in okay the customer has a right till you deliver the project, to stop payment and only recourse is that and you can cancel and you can recover only 10% of the booking amount and interest on delayed payments. So most of the time what you are saying will not hold good in the current scenario after RERA has come into place. So collecting money from customers and then going ahead and constructing without having a plan to deliver quickly and handover the project will not help us in managing the cash flow better.
- J C Sharma:** Manoj, it may simple like why RERA happened and why North India despite so much of sales, which got announced, but then did not get completed you will get my answer that when you analysis those things from that angle that is all.
- Manoj Dua:** Thank you Sharma ji and best of luck.
- Moderator:** Thank you. We have the next question from the line of T V K Vivek Kumar from Bestpals Research & Advisory. Please go ahead.
- T V K Vivek Kumar:** Thank you Sir. My question is about Sohba's presale has been around three to four million for the past ten years and there are other companies in the same sector, which were smaller than us, which have scaled up significantly and given our PAT to integration model and our brand so when will you get the level of sustainable presale like we have sustainably doing three to four million even with the launches, so when will you go to six to seven million or eight million given our business model and my second question because of the backward integration model are we facing problem in scaling up in new cities so these two questions Sharma?
- J C Sharma:** I will answer your second question first. Because of this backward integrated model we are only having an edge on controlling the cost, on controlling the quality, as well as on controlling the delivery parts of the thing and we retain the margins, the construction margins within our books. This is otherwise reflected with the kind of superior margins as well as the consistency in the margins in our results. Coming back to your first question yes



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if we do desire that yes we have to reach that level what we have been talking about that has been our stated objective. We hope that we have got into that cycle, but still we live in an absolutely uncertain environment. In the past whenever we decided to site project or predict, things have not happened our way and when we believe that yes this is delay that yes this perform and things happen because of the environment that gives us more comfort to us also and to the market also. I am clear that the last quarter is without any new launch we did as a record performance with the record realization and with the record cash flow from the residential space. This quarter also so far things seem to be going in a better manner. May be we should be doing better than the last quarter. At the same time, the uncertainties and environment we have just talked about, so would not like to commit myself, but we are conscious of our responsibilities and we do believe that in this cycle hopefully we would be coming up to your expectation.

T V K Vivek Kumar: Got it. Thank you very much.

Moderator: Thank you. We have the next question from the line of Himanshu Upadhyay from PGIM India. Please go ahead.

Himanshu Upadhyay: Good afternoon. My first question is some of the markets like Gurgaon and Pune they have been there for around eight to nine years now, but the yearly sales are still 2.5 lakh square feet, which we did in FY2011 and FY2013 type of years when we were there in the initial year of launch? Which will be the markets do you think can be your next million square feet and why after being for so long in those markets, it has been difficult to scale those markets and related to this only what requires to be a market leader even after nearly nine to ten years, we are nowhere around due to the large markets? What will be the role for those markets for us?

J C Sharma: Thank you. It is a great question. If you look at the first nine months performance, I think we are 67% or 66% of the total sales coming from Bengaluru and contribution from other markets to the best of my knowledge has been the highest ever in the last nine months as well as in the last quarter how you look at. We are seeing for the first time with the markets, we talked about Gurgaon and Pune where we have had a long presence as well as Chennai. It has started doing relatively better. At the same time, again we have explained in the past the projects that we have taken up they are quite large of higher value. Gurgaon has gone through with very difficult period or times and the infrastructure expected on the Dwarka Expressway did not materialize. As we are talking every month there has been a significant



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visibility and improvement about traffic and about infrastructure development in that area. This should help us to capitalize on our remaining inventory. That is why we believe that the Gurgaon can be the next big market for us. In Pune, we do not have much inventory. In Chennai, we do not have much inventory because of that they have not performed and due to last four to five years of the challenging environment, the sector has been facing and the focus on controlling the debts at the other end ensure that we did not pay the required focus in these cities. Now first time, we are seeing that the next financial year there will be three cities also getting added and in these cities also new project are likely to be launched. We believe that there has been some learning about the products, about the location, about the pricing as we do not deny, but at the same time we also believe that barring one or two developers, we are the only developer who has been successful in launching, in completing and still making a reasonable amount of profits from these cities and going forward things can only improve. The target remains that in two to three years from now, Bengaluru should be considerate from the current two-thirds to about 50% and it should grow from the current debt levels and the maximum growth has to happen from the other cities. How it will happen I am not in a position to say, but definitely Kerala does look more promising because the visibility there is more. Other cities as the new projects get launched may be the recycling and the learning's of whatever we talked about should help us to start winning market share in these markets also we talked about.

Himanshu Upadhyay: One thing in these three markets of Gurgaon, Chennai and Pune where we do not have new inventory or let us say number of new projects what is the thought on business development now because once we want the other markets to be 50%, but we do not have much on hand in these three markets if you can take us to be a scalable market, the way it is and why not JD, JVs which are the other things, which may people say we have not been able to get even in the last nine months, which has been really tough for real estate, so can you throw some light on what you are doing on these three cities and how are you looking ahead on these?

J C Sharma: We have already shared the forthcoming launches city wise in our presentation. Please go through with that. You will have some clarity and then of launches, or abandoning these cities. As I said three cities getting added right, this will again bring down the bank's overall contribution and the projects are being launched in other cities. Half of the forthcoming launches it is coming from the other cities in Bengaluru, so net-net I believe that things can only improve. Right now whatever visible we have shared just as and when the opportunities come definitely we will be sharing with you.



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- Himanshu Upadhyay:** We are aggressively looking at these cities. Also it is just we need more clarity to?
- J C Sharma:** I am not saying we are not abandoning all the markets. We are not abandoning any of these markets as I said and I also said that the idea is to have 50% from the Bengaluru and 50% from other cities. How it pans out we will have a quarter-on-quarter interaction. We will all be seen that part as we move ahead.
- Himanshu Upadhyay:** One last question in the Q1 we have stated that some projects or some inventory where people have paid partially only and the rest was, we have taken back as inventory or we have cancelled those? What is the status on those debt inventories? Have we sold off that complete inventory, which we had taken?
- J C Sharma:** That inventory got mixed with the existing inventory. Some of the customer's have claimed refunds as per the contractual agreement that also is happening. At the same time, for some of the cases has been revised also and there may be some inventory still left over out that inventory that we have shown as cancelled as on March 31, 2020.
- Subhash Mohan Bhatt:** Whatever is the part of the inventory, which is shown as unsold.
- Himanshu Upadhyay:** Thank you from my side.
- Moderator:** Thank you Sir. Ladies and gentlemen that was the last question. I now would like to hand the conference over to the management for closing comments. Over to you Sir!
- J C Sharma:** Thanks for participating and thanks to ICICI and Adhidev for hosting. All the best. Thank you.
- Moderator:** Thank you very much Sir. Ladies and gentlemen, on behalf of ICICI Securities that concludes this conference call. Thank you for joining with us. You may now disconnect your lines.