



“Sobha Developers Q1 FY13 Results Conference Call”

August 7, 2012



Management: **Mr. JC Sharma – Vice Chairman & MD, Sobha Developers.**
 Mr. S Baaskaran – CFO, Sobha Developers.
 Mr. Kishore Kayarat – CS & Compliance Officer.

Moderators: **Mr. Shaleen Silori – Analyst, ICICI Securities**

Moderator Ladies and gentlemen good day and welcome to the Q1 FY13 Results Conference Call of Sobha Developers hosted by ICICI Securities Limited. As a reminder for the duration of this conference all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference call please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Shaleen Silori of ICICI Securities Limited. Thank you and over to you, sir.

Shaleen Silori Sobha Developers First Quarter Results Conference Call. To discuss the results with us we have the Senior Management of Sobha Developers, Mr. JC Sharma, Vice Chairman & MD; Mr. S Baaskaran, CFO of Sobha Developers and Mr. Baaskaran, CS and Compliance Officer. We will begin with a brief presentation and proceed to Q&A. Over to you, sir.

J C Sharma Good evening friends. We are happy to invite you for this Con Call hosted by ICICI Securities for declaring our Limited Review Results for Quarter one of the Financial Year 2012-13. As you are aware the current macro economic scenario still remains clouded due to the deteriorating growth inflation dynamics. The consistent inflationary pressures and the impact of the depreciation of the rupee have slowed down our growth momentum. The real estate sector which is an important element of our economy is needed with many challenges including the global economic uncertainties and low investor confidence.

On the monetary policy front also RBI had paused yet another time leaving the interest rates unchanged. While urbanization which fosters the demand for real estate is inevitable the present economic condition pose the challenge for this sector in the days to come.

In this uncertain environment, we do believe that thanks to the economic growth what India had witnessed since last 8 to 10 years which should augurs well, as structurally real estate appears to be bottoming out from a demand perspective and we do believe that the market from where we are operating the demand scenario should remain quiet resilient and as long as the liquidity and the availability of loan remains available to the end customers, the volume should keep coming.

In that background, the Company during 1st quarter of financial year 2012-13 had sold new space worth Rs.4.80 billion at an average realization of Rs. 5,737 per square feet against there is a guidance of Rs. 20 billion for the financial year 2012-13. This sales value had gone up by 25% year-on-year and has marginally declined on a sequential basis.

We are confident of achieving the annual guidance of Rs. 20 billion sales value during financial year 12-13. During 2012-13 we have also launched one project Sobha West Hill at Coimbatore having total super built up area of about 150,000 square feet and saleable plot area of about 270,000 sqft

The financial update is that the Company recorded a top-line of Rs. 4.35 billion out of which Rs. 3.37 billion had come from real estate operations and Rs.958 million from contracting and manufacturing activities and Rs. 16 million from other sources. Real estate operations contributed 77% of our top-line and the balance 23% was contributed by contract and manufacturing activities.

In this quarter we have also monetize one of our land parcels in Pune for Rs. 957 million and has received the consideration in full.

While the revenue had grown up by 49% year-on-year but it had declined 17% sequentially. The profit before tax stood at Rs. 696 million compared to Rs. 417 million for the corresponding period of the last year. This is up by 67%.

The profit after tax stood at Rs. 450 million compared to Rs. 260 million for the corresponding period of the last year. This is up by 73%. We were able

to maintain our 40% core margins in the real estate operation inspite of inflationary pressures. Our contracting margin remained at around 20%. We had a lower margin of little bit less than 20% on the land what we monetized in this quarter.

As on 30th June 2012 we have unbilled revenue of Rs. 12.92 billion on the sales we have achieved so far. This unbilled revenue is due to certain major projects yet to reach the threshold limit which we expect to hit in the third and the fourth quarter of the current financial year. With majority of the projects likely to cross this threshold limit we are confident that our income from real estate and the resultant bottom-line will show growth during the current financial year.

We have also lined up new launches in this financial year but they will all fall for recognition from the next year onwards as we start following the new guidelines where the revenue can only be recognized on completion of first 25% of the construction activity. The company during the first quarter had collected Rs. 4.86 billion from its operations and had incurred Rs. 3.48 billion in operation leaving a cash flow surplus of about Rs. 1.38 billion. We have spent about 0.53 billion on overheads and marketing activities leaving a cash surplus of 0.85 billion. Of this surplus amount we spent 0.55 billion in buying back of 30% partner equity Thrissur, spent about 49 crores in servicing the interest and also incurred about 25 crores in having the fixed assets in this quarter. This resulted into a negative cash flow of about 55 crores.

The company had repaid the loan of Rs. 1.56 billion during this quarter and we are likely to repay another Rs. 2.01 billion in this current financial year in the balance 9 months. The net debt as on 30th June 2012 stood at Rs. 11.81 billion. This is slightly higher as compared to the net debt of 11.34 billion at the end of the last financial year. Our current net debt equity ratio stands at 0.58 versus 0.57 what it was at the end of the last financial year.

The current cost of borrowing as on 30th June stands at 13.67%. Currently we have 38 ongoing projects consisting of 16.51 million square feet. Sobha had an economic interest of about 14.33 million square feet out of this

16.51. We have already sold 5.22 million square feet out of this and 9.11 million square feet remains to be sold. In addition to that we have 0.09 million square feet of area to be sold on completed projects which each less than 2% of our total ongoing and finished projects inventory. We expect to realize from the existing customers about Rs.15.20 billion and further Rs.61.15 billion we hope to get from the unsold apartments based on the current selling price. We also expect to incur about Rs.41.45 billion towards construction cost to complete our entire ongoing development based on current estimate, this will leave a healthy operational cash flow to the tune of Rs. 34.90 billion over a period of next 4 to 5 years. This does not include the likely cash flows we will have from the new project launches. We have handed over one real estate project measuring 16,000 square feet during the first quarter of the current financial year.

As far as contracting activities are concerned, we have about 9.22 million square feet of the contractual projects which should take care of our next 3 years requirement. We see a significant opportunity for growth from our contracts and manufacturing divisions as we move forward. We have handed over 6 projects measuring 1.16 million square feet in the current quarter.

We do believe that in a given situation Sobha should be able to deliver on its guidance as far as this financial year is concerned. I once again thank you on behalf of myself and my team for your participation and now leave the floor for discussions where CFO and others will take up the queries. Thank you.

Moderator

Thank you very much sir. We will now begin the question and answer session. At this time if you would like to ask a question please press '*' and then '1' on your touchtone phone. Participants are requested to use only handsets while asking a question. The first question is from the line of Unmesh Sharma from Macquarie. Please go ahead.

Unmesh Sharma

I have two questions. One is given the performance that you have seen in the first quarter on the sales front. For residential sales would you be able to provide any guidance on what now you think you should be able to sell for FY13?

And the second is regarding pricing. Could you please throw some light on what we like-to-like pricing has been in Bangalore City and what you think will be the outlook for this year and the next. Thank you.

JC Sharma

As far as the sales volume is concerned we believe that we should be able to achieve 3.75 million square feet of the guidance what we have given for the year. On value terms we feel that the target of achieving this 20 billion in value we should be able to achieve in this financial year.

Like-to-like basis we find that we have got about 2% increase overall in our inventory from the beginning of this financial year to 30th of June 2012. We have been able to have a price increase of about 144 crores which we have taken into account. Similarly we have also revised our cost for all the ongoing projects. And we find that we had to increase our cost to the extent of about 213 crores to ensure that we complete the projects within the estimated cost best on the salary revisions and whatever input cost increased which had taken place. We have affected about 12 to 13% increase in our salaries in the first quarter. This means that our salary rate cost had gone up to 41 crores in this quarter itself.

Moderator

Thank you. The next question is from the line of Aditya Soman from Goldman Sachs. Please go ahead.

Punit Jain

This is Punit Jain. My question was about with respect to you had total inflows of around 4.86 billion and you had sold some land in the quarter. But the inventory did not go down to that extent in the quarter, any particular reason for the same?

J C Sharma

Inventory in what sense?

Punit Jain

Inventory, like if I look at your cash flow statement the decline in the inventory is less to that extent.

J C Sharma

If you take from 31st of March the land whatever itself will come down and again whatever incurring which gets up added that's why you have seen the difference inventories which has not come down. When we sold land the

inventory level has come down and during the quarter I have spent money on the project. It includes for units of not sold and also because its not reached threshold limit. So it remains in the inventory. That is why you have not seen the difference.

Punit Jain Sir has there been any accleration in terms of construction in the quarter given the fact that this amount was used up in terms of construction expense?

Baaskaran That is 50 crores. We are spending the money on the project as per the plan. It is initially said by our MD, It has not reached the threshhold limit. It will start coming into realization starting from third and fourth quarters which will result in the growth in the top-line as well as in the bottom-line.

Moderator Thank you. The next question is from the line of Anubhav Gupta from May Bank. Please go ahead.

Anubhav Gupta Sir in the beginning of the current financial year you had set target for new launches of 4.3 million square feet. With the quarter one gone do you still maintain that target?

J C Sharma Yes. The target whatever we have given for 1st April remains same and that moving forward we will see more launches as per the plan coming in the next three quarters.

Anubhav Gupta And sir where have you booked the gain from land sale in the P&L account? Is it in the revenue?

J C Sharma It is in the revenue only.

Anubhav Gupta How much was the gain from this deal?

J C Sharma About 16% margins.

Anubhav Gupta And sir last question is on Bangalore market. We have seen that this market has remained stable compared to other markets of New Delhi or NCR or

Mumbai so what gave you confidence that stability will continue over the next 3 quarters?

J C Sharma

Of course that is why we keep saying that external environment remains as challenging as you are aware of. But at the same time what we have started seeing is that structurally the customers' base is increasing and more and more people are getting into that buying zone. And in my view, the Bangalore markets in August when the Chennai market also had similar trade, the Pune market also had the same trade, NCR market also has the similar trade where huge amount of commercial space absorption has taken place in last one decade or so and this people should start buying and looking at their affordability. Looking at that, more than 50% of our customers even they do not need to buy any loan while buying their home kind of things. We do not foresee except any slowdown as far as the volumes are concerned and on that experience only we feel reasonably confident that we should be able to book more sales this financial year and this will also have better visibility as time comes in all P&L accounts also.

Moderator

Thank you. The next question is from the line of Akshit Shah from SBI Capital Securities. Please go ahead.

Akshit Shah

I have 3 questions. My first question is regarding contractual projects. It has come down from 10.1 million square feet to 9.2 million square feet so does that mean that we have delivered 0.9 million square feet during the quarter.

J C Sharma

Yes right. We have delivered more than 1 million square feet in this quarter.

Akshit Shah

Second thing is sir of 213 crores addition in cost of construction which you just said. Out of that how much is already booked?

J C Sharma

I said we have done a revision of our selling prices and our construction cost and the first revision we have seen that the construction cost on all the ongoing projects stands revised by 213 crores and similarly the price increase in our projects stands revised by about 143 crores and this had no negative effect on our core operating margins which remained at about 40%.

- Akshit Shah** Sir I understood this correctly. 213 crores is the increase in the cost of construction for all the ongoing projects. My question was, actually out of these 213 crores, how much we would have booked till date, I mean, have we booked all or this is a part that we have booked in first quarter?
- J C Sharma** That is the total revision. We spent about Rs. 350 crores in this quarter towards our operating cost, direct cost which consists of real estate, contracts and manufacturing activity.
- Akshit Shah** And my last question is regarding cash outflow. How much do we expect cash outflow towards land acquisition, share acquisition in subsidiaries and debt repayment together?
- J C Sharma** As far as the share acquisition part is concerned it is over. As far as the debt repayment is concerned we have paid 150 crores plus or so in the first quarter and about 200 crores will be required to repay in the remaining 9 months. As far as the construction cost is likely to be incurred you are asking about?
- Akshit Shah** No sir land acquisition.
- J C Sharma** Land acquisition is all opportunistic things. We do not plan as such that we should be buying land just like that. There is no as such any plan.
- Akshit Shah** As of now we don't have such plans. Whenever it comes up we will take it up that way.
- J C Sharma** Yes.
- Moderator** Thank you. The next question is from the line of Rahul Kumar from Jefferies. Please go ahead.
- Anand** I have a few questions sir. Firstly on the revenue side, I mean the revenue on the real estate side. Now while I appreciate that a few of the projects are yet to cross the recognition threshold and we will see therefore a growth in revenues in second half of this year and if I look at the revenue recognized

for the last two years and this quarter it is broadly averaged around 220 to 240 crores per quarter, right? It has not grown at all despite your presales growing significantly. This cannot be purely the impact of delay in revenue recognition. Is construction running behind schedule or is that a concern because clearly this number is not growing at the moment.

S Bhaskaran

If you look at the launch what we made, last year we made NCR launch and Chennai launch. In NCR we have sold, there sale value is about 4.34 billion. We have not recognized any of income there. In NCR there is no concept of land income cost. Generally we recognize the land income which is not happening in the NCR. It is a big ticket sale for us 4.34 billion. So in the case of new launches it has happened in this quarter also.

One reason is these launches the threshold limit has to reach 25% which has not reached. Otherwise all the income is as per the scheduled only. We have spent the money on these projects which is lying in WIP and as you said in the beginning you will see the jump in the real estate operations crossing the 200 numbers about what you are talking about from the first quarter onwards to see the growth which will result in the top-end growth for the financial year and as well as the bottom-line growth.

J C Sharma

And on NCR alone 370 crores cumulative so far has been invested in the project.

Anand

I understand that. The reason I asked is last year second half you were expecting Sobha Forest View to cross the revenue recognition threshold and this number to increase. That has not happened.

S Bhaskaran

That has happened.

J C Sharma

Sobha Forest View is in the front but Sobha City had happened.

Anand

No I am not saying that they have not come into recognition. What I am saying is that the overall revenue recognition in your slide itself you have shown FY11 920 crores of revenue recognition, FY12 895 crores and this quarter 240 crores while our sales have grown from 1,100 crores to 1,700

crores to now what you are saying is 2,000+ crores. Commensurately there seems to be a significant delay in the improvement or in the growth in revenue recognition.

J C Sharma

Not at all. If you look at page 12 of our presentation this time we have added one new slide which talks about the sales value and the income recognized. If you look at 8, 9 or if we go back to 2007-08 the sales value and the income recognized were 1,061 crores and 862 crores. In 2008-09 the fresh sales was only 260 crores whereas the revenue recognized was 448 crores. In 2009-10 also it was 551 crores and 673 crores as the income recognized. In 2010-11 it was 1,133 crores versus 920 crores. 81% of the sales were getting recognized in the P&L account. Only from 2011-12 onwards when maximum number of new launches had taken place and all the projects which will launch in 2007-08 got completed. We had a back log with only 53% of the sales value we could recognize and in the current quarter it is 51%. This happens at the initial stage whereas there is no delay whatsoever. What we have planned is on all our construction sites that we are confident that in the second half the revenue recognition should start keeping pace with the new space especially when the NCR sales will start booking in this financial year.

Anand

Second is could you give me the total cash interest expense during the quarter and interest capitalized?

S Bhaskaran

Total cash what we have expensed during this first quarter is 488 million.

Anand

And the capitalized amount.

S Bhaskaran

Capitalized amount is 17%.

Anand

You mentioned that the cash in flows during the quarter was 486 crores. Does this include the 96 crores of land sales in this?

J C Sharma

Of course yes because if I take the top-line where no advance was collected and no outstanding remained. At the time of registration full money was collected.

- Anand** So basically from your POCM collections are broadly around 390 crores odd or so.
- J C Sharma** You are right.
- Anand** Third is also could you give me the customer advances number as of this quarter end?
- Baaskaran** As of 30th June the customer advances was 1,970 million.
- Moderator** Thank you. The next question is from the line of Gaurav Pathak from Standard Chartered. Please go ahead.
- Gaurav Pathak** I wanted to ask a question on your cash flow strategy. This year is fine but for next year also you will be generating about 4 – 5 billion of excess surplus cash flow. What's the strategy behind using that actually it will be mostly land banking or reducing the debt further or pump more money into working capital to start executing new projects? How does your cash flow strategy look from a longer term perspective?
- J C Sharma** The cash flow strategy is simple as far as we are concerned. We would like to keep an eye on our debt as well as an eye for growth. And we would like to balance both things. We do believe that in times to come as the cash flow starts improving we may have to find ways and means to appropriate it in a manner where it brings us more growth and better top-line and bottom-line opportunities and ensure that yes extra cash flow which should get generated from the operations, gets well spent, well utilized.
- Gaurav Pathak** Basically debt reduction as well as cash both.
- J C Sharma** Debt reduction we believe that the current operations and the current cash flows and the current debt equity more or less give us the basic comforts. Like last year we bought back private equity by saying close to 100 crores. This quarter also we have repeated the same thing. Some thing like this is a good opportunity comes definitely we will explore to see that. We will utilize this cash for the productive use.

- Gaurav Pathak** Sir any update on Cochin?
- J C Sharma** We have submitted an application for this emerging Kerala thing for this 188 acres of development. Let us hope something positive will emerge out of this. We have met the Chief Minister recently also who has assured, yes, we will be given all possible clearances as far as Cochin development is concerned.
- Moderator** Thank you. The next question is from the line of Sandeep Baid from Rochdale Investments. Please go ahead.
- Sandeep Baid** I have a question on the land bank sale. Last two quarters we have seen you have monetized your land. So one thing if it is a strategic move to move away from one particular market and enter into some other market for example NCR market which you find very attractive?
- J C Sharma** The land sale is an opportunistic way of realizing cash. In Pune we will continue to be there. We also would like to definitely deepen our presence in the NCR and Chennai market as well where we find that our products have been well received and rather received better than even the Pune market, we do agree but going forward the presence in the 7 cities will continue to deepen as far as our real estate operations are concerned. The monetization part we believe that it is more or less over now.
- Sandeep Baid** Sir has there been any addition in the last quarter in NCR region in particular?
- J C Sharma** No. We have not invested any money on any land procurement in the current quarter.
- Sandeep Baid** Sir second question would pertain to the Bangalore market. I understand majority of your customers are actually in ITES and some of the IT sector per say has not done really well this time around especially Infosys and that's in relation to your contractual business also. Because I understand majority of your business comes from Infosys. So if you could just throw some light in terms of impact you feel any is coming your way?

- J C Sharma** 40% of our customers come from the IT sector. As far as my contracting activities are concerned from the current 9.22 million square feet of the ongoing projects 6.73 million square feet of the job what we have is from Infosys and the balance we are doing it for the other companies like Trident, GMR, Institute of Public Enterprises, ITC and others. We believe that irrespective of right what is happening as such to the some of the IT companies, our contracting revenue will not dip and as far as the Bangalore real estate residential market is concerned. We believe that it should remain resilient as it has shown in the current quarters and going forward we hope to remain relevant and keep growing in this market.
- Moderator** Thank you. The next question is from the line of Gunjan Prithyani from JV Morgan. Please go ahead.
- Gunjan Prithyani** Sir I have couple of questions. Firstly on your cash flows you mentioned that the inflows were about 480 crores during the quarter so this includes your monetization of land as well as the contracting segment in close, right? So pure real estate collections would have been in the range of about 300 crores or so?
- Baaskaran** 313 crores.
- Gunjan Prithyani** Sir this number also has been in the range of around 280 or 300 crores for the last few quarters whereas our presales run rate is definitely for the last 2 years is much higher than this. So why is that, this collection number hasn't picked up?
- J C Sharma** When you are raising the demand letter, you are raising demand letter based on such a milestones getting achieved so say for example at the end NCR market where we have about 4.3 billion of new sales till we reach to the plinth level with the next demand let's say will not go. Similarly is the case with Chennai. Similarly is the case with some of the projects which we launched last year whether it is Habitech, whether it is Marvella where we are not in a position to go beyond that 25% but we have lined up huge amount of cash out flow on our construction activities which gives us

confidence that the cash in flows also will improve, the recognition will also improve. Most of the projects which were launched in the last financial year will qualify for income recognition in this financial year as well which gives us conviction that we should be able to grow our top-line and bottom-line based on the investments we will be making in our real estate projects and you will be seeing a higher cash in flows going forward.

Gunjan Prithyani So sir even those collections should be scaling up in the second half as P&L also scales up, right?

J C Sharma Yes.

Gunjan Prithyani And sir in terms of our out flow on construction how much would it be on the real estate and the contracting segment this quarter?

J C Sharma First quarter we have spent about 233 crores on real estate and about 108 crores on contracts. Going forward we plan that we should be investing about 834 crores in our real estate and contracts division.

Gunjan Prithyani And sir when you were talking about cash flows you had mentioned some 25 crores towards fixed assets. Did I get that right or was it something else?

J C Sharma It was absolutely right. 25 crores of fixed assets were procured to expedite and accelerate our construction progress.

Gunjan Prithyani Sir secondly on your accounting norms now that we are following new guidelines, is there any change in terms of the land recognition? Earlier we used to up front the land recognition. Does that policy still stay or do we need to change that now?

J C Sharma We will change in accordance with the new guidelines.

S Bhaskaran The old postulate will continue for the old projects but the new projects will come under the new policy. Because of the new policy already in this quarter we have not accounted for top-line of about 24 million in this top-line and

about 60 million of profits before tax this quarter because of the new guidelines.

Gunjan Prithyani Sir now we will not be able to recognize the land in the initial stages as we used to do earlier?

S Bhaskaran Yes.

Gunjan Prithyani Okay and lastly on this private equity on the stake buy outs that you have been doing in your projects are there any projects which are still there where you have a partner which you may look to buy out? Any of the key on going projects which are under consideration right now?

J C Sharma All the projects they either belong to us 100% or they are in joint development. Here there was an equity stake of the partner so equity stake has been bought by us. Joint development stake we do not intend to buy back from any of the joint development partners going forward.

Moderator Thank you. The next question is from the line of Arun Agarwal from Religare Capital Markets. Please go ahead.

Arun Agarwal My first question is on margins from the land sale during the quarter. Our margins are somewhere around 29%. Do you think this is a sustainable level of margins after the new accounting policy that you have taken care of?

J C Sharma Yes we do believe as looking at the composition of our real estate revenue and the contracting revenue we should be able to maintain these kinds of margins even going forward also.

Arun Agarwal And secondly on the standalone versus consolidated. If you compare the consolidated PAT is around accrued of Rs. 10 odd million lower precisely because of higher tax rate on one of the subsidies. What exactly is this?

Baaskaran You see, on the stand-alone we have unrecognized profits on the unsold stock which will be eliminated while doing consolidation. That is why you are seeing the difference. Profit of unsold stock on subsidiaries will be

eliminated that is why you find the difference between stand-alone and consol.

Arun Agarwal Sorry I couldn't get it. How does profits from unsold stock gets eliminated

Baaskaran On a standalone when I do a contract on the subsidiary companies first the profit element is charged on the work done. And when we consolidate that in my balance sheet the profit on unsold unit will be eliminated...

Arun Agarwal You are talking about profit on the construction for subsidiary.

Baaskaran Exactly. So that becomes a cost for that subsidiary. When I consolidate the WIP closing unsold stock will get eliminated to the effect of profit what I have booked that is why I am showing lower profit on consolidation.

Arun Agarwal But sir if that is the case your EBITDA margins on consolidated basis should be lower, right?

Baaskaran It is of course yes.

Moderator Thank you. The next question is from the line of Anubhav Sinha from CLSA. Please go ahead.

Anubhav Sinha Sir is it fair to assume that even next quarter debt will increase because the dividend payout, etc.?

J C Sharma It all depends upon the cash flows and whether we will be deploying this cash like we have done in this quarter so 65 crores plus 30 crores has also been invested in these activities but on balance we feel that yes in the second quarter also there may be small increase in the debt in absolute number.

Anubhav Sinha And when do we see the scale up in the in flows from customer to happen from 300 to say 450 or something.

J C Sharma This third and fourth quarter and as usually you have seen that most of the real estate companies including that of ours the top-line go up in the last

quarter. This year also with the Delhi project should become eligible for first time revenue recognition so which should give us a significant improvement in our top-line and bottom-line. Even in third quarter also some of the projects where significant sales have happened in Sobha City, Bangalore they should also become due for revenue recognition and this should also give us some kind of ramp up then what we have seen in the first quarter which gives us the confidence that the real estate revenue should significantly go up in this financial year vis-à-vis the last financial year.

Anubhav Sinha

Correspondingly cash flows should also improve?

J C Sharma

Of course yes because as the percentage completion increases both the new customers as well as the cash flows from the existing customers will start coming in which will be of higher numbers.

Anubhav Sinha

Do we still see a debt reduction YOY now?

J C Sharma

Of course yes. We find that at the end of the year with whatever out flows which are happening, the debt numbers on an operational basis definitely should decrease.

Moderator

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

Sameer Baisiwala

Can you just share what would be now the construction cost in rupees per square feet. I remember for mid-income housing it used to pay Rs. 2,000 per square feet a year or two back. Where does it stand now?

J C Sharma

It is about Rs. 2,500 if you are launching a new project currently. Our construction cost includes the plan approval to the design fees to the construction cost up to the last point including one year of warranty what we provide after handing over. It is going to up way on a year-on-year basis by about 10% to 12%.

Sameer Baisiwala

And sir if we exclude plan approval and design cost then where this number would be?

- J C Sharma** The design cost is in-house to the extent on whatever is the salary increase which is taking place goes. Generally the increase has been on the labor and the site overheads which consist of the labor and the salaries plus the material cost where there has been an all round increase in almost all the material cost.
- Sameer Baisiwala** And the second question is I think previously you talked about it. You said that you are going to lower your debt by March '13 versus what it was in March '12 in absolute number?
- J C Sharma** Yes.
- Sameer Baisiwala** And for the Kochi project you mentioned that you have submitted application to the Kerala Government? What are the broad time-lines? When do you expect them to come back to you? And realistically speaking when do you think you will commence the work?
- J C Sharma** The AGM will happen in the September month. These people have come and met us in Bangalore. We have gone and met them in Trivandrum also. We still have a valid memorandum of understanding with the Kerala government to take up the project but then when you go for the approval they are not in a position to give us all the approvals. So we have given all the reason are now getting started taking care of the cost of regulation act, environmental related issues and giving an undertaking that the project will be compliant with all the applicable laws of the land. Hopefully, we believe that this government will have the desired will and once in-principle they give the approvals we will start working on the plans and if everything goes well may be from the next year onwards we may see the Cochin project taking off.
- Sameer Baisiwala** And just a final question any thoughts of starting to invest in the rental assets, commercial or retail?
- J C Sharma** Yes that is why we feel that while the real estate should start giving us enough cash flows to ensure that we can meet all our direct and indirect cost and on a standalone basis it will have a particular impact in resisting the exiting debt also. At the same time we also keep telling that we do not wish

to decrease this current debt-equity ratio from 0.5 and from that perspective we have identified certain developments where there may be the commercial projects we should be starting and some visibility we should be able to give next quarter besides one 200,000 square feet of project in St. Marks Road which will get started in the coming quarter as well as about 150,000 square feet of that Mall which will be sold old in Thrissur.

Moderator Thank you. The next question is from the line of Tejas Sheth from Emkay Global. Please go ahead.

Tejas Sheth Sir you gave a number of around 8.3 billion you will be spending towards the construction in the balance part of the year. Can you also put a number to it on the collection side?

J C Sharma Collection side we have the broader target but which project will be sold and how much revenue from that project will come it becomes a bit difficult to predict but we are clear that the cash flows which has been covering around 100 – 105 -110 crores on a monthly basis should see a jump of about 25% to 30% going forward.

Tejas Sheth For the balance part of the year on an average?

J C Sharma Yes.

Tejas Sheth Sir just one more question on this NCR project. You saw a phenomenal sale in Q1. I believe that you have increased your rate there by around Rs. 1,000 per square feet. How has been the run rate post that?

J C Sharma We are being able to maintain the same run rate what we have so far seen in the last 4 quarters. Market has accepted this price increase.

Moderator Thank you. The next question is from the line of Abhishek Singh from B&K Securities. Please go ahead.

Abhishek Singh In the opening speech also you mentioned a bit about the inflationary condition currently in the economy slowdown. Most of our construction is

done in-house both for our real estate project as well as contractual. So don't you think this particular strategy will hurt us more with respect to our peers and we are more vulnerable to the inflationary scenario and if strategy which you are thinking of tackling it going forward?

J C Sharma

Not at all. This procurement cost whether I do in-house or whether I constructed that for a developer remains the same. The contractor will not pay from his pocket. Even if it is a fixed price contract developers keep complaining that the contractors either do not complete the job since the escalation is granted or somewhere some compromise happened here and there. This cannot be avoided. We have already factored in 213 crores of increase in all our ongoing projects because of this inflationary pressures so I had to communicate that to all of you. Simultaneously we do find that there is a scope for selective increase in the selling prices as well without changing the scenario from the customer perspective and this has also been accepted as in the previous discussion when the prior speaker was asking this Rs. 1,000 increase. The customers are also aware of this inflationary cost and the pressures on their procurement prices and as things stand today they are absorbing this.

Abhishek Singh

In my second question in our contractual business especially do we have a kind of price band which we follow with respect to our trend like will be sharing the burden for the cost increase only to certain portion and over and above that will be shared by the client or is it like purely variable in nature?

J C Sharma

It is a fixed price conflict as far as we are concerned so the customers who have done the booking today at whatever price he had booked, he is eligible to get that product at the given price irrespective of whatever price increase which happens in our construction cost in any project of ours. Despite that we are conscious that yes this 40% operating margins that is used to be 35% somewhere the land benefit we have been able to enjoy. Now around 40% we should be able to manage in the current scenario.

Abhishek Singh

And just one last thing regarding this cash inflows what we have generated this quarter like 730 million and just because of the share buy back I

suppose we were not able to utilize much towards the debt reduction. Going forward we are also expecting the collection part to go up so what will be our first preference to bring down the debt or to acquire the land bank or how exactly we see?

J C Sharma It is not like this. A) If it is there a good opportunity to do a commercial space also we will explore that and other we are exploring it. B) Similarly if there is a good opportunity where we can start a project and can bring incremental revenue to our top-line and bottom-line we will look at that opportunity also. While looking at those opportunities we also will be conscious of the fact that our debt equity remains within these levels what currency we have.

Abhishek Singh You mean below 0.6x.

J C Sharma You are right.

Moderator Thank you. The next question is from the line of Amit Anwani from KC Securities. Please go ahead.

Amit Anwani My question pertains to the 20 billion sales value guidance, which the company has given and it is confident of achieving. We have already achieved 4.8 billion and the remaining 15.2 billion if I do a math gives close to 6,200 – 6,300 average sales realization. So my question was to which project and markets we are expecting such a stiff price increase considering the challenging real estate markets scenario and the interest rate not coming down any time soon.

J C Sharma 460 crores has been achieved as you are right. 1,520 it is about 5 billion or so in the remaining 3 quarters. Normally we have also seen that when we spend money on the construction cost it is the second half more both the realization and recognition improves. At the same time during this Diwali and the Pooja holidays the sales numbers also show healthy improvement in view of the past experiences whatever we have seen. It will not be difficult to have a 5% to 7% improvement on our first quarter performance which

should be good enough for us to do this 20 billion new sales for the current financial year.

Amit Anvani

And sir are we planning any land parcel sales in next 2 to 3 quarters?

J C Sharma

No. As I was telling that more or less we have done with this monetization of our land bank strategy.

Amit Anvani

And sir on the income recognition front which you have mentioned in your product front presentation as such which has been low to 52% also for FY12. What are our expectations in FY13, FY14 on that?

J C Sharma

I think it will keep going up from now onwards by the time the fourth quarter is there this should go up significantly, 60% to 70% minimum.

Amit Anvani

And sir could you elaborate more on the unbilled revenue for Q1? I just missed out on that.

J C Sharma

The collections from the existing customer is above 1,500 crores, the unbilled revenue is about 1,300 crores and we do believe that out of this 1,300 crores about 500 crores should get billed in this current year itself.

Moderator

Thank you. The next question is from the line of Vineet Chandak from IDFC Securities. Please go ahead.

Vineet Chandak

Sir, this 834 crores is for the 9 months FY13, right?

J C Sharma

Yes

Vineet Chandak

And sir on this Slide #6 of operational cash flows when we see that balance construction cost is Rs.41.45 million. What is the average construction cost that comes from this number?

J C Sharma

For some projects might have been just started, some of the projects like our Elite and Aspire likely to get completed or the Classic almost completed kind of such things. So on balance as I was telling if you are launching a new project today, ground plus 10-storeys with this plan approval warranty

maintenance cost, design and others all included, our current construction cost is Rs. 2,500 a square feet for a normal residential building.

Vineet Chandak

And it will be higher for the Gurgaon project obviously.

J C Sharma

It will be far higher because there we are giving some fit outs as well as air-conditioning provision and elevator in some of the villas.

Vineet Chandak

Sir lastly I missed that customer advances number.

J C Sharma

197 crs.

Vineet Chandak

And this is for the quarter.

J C Sharma

This is for the first quarter, 30th June.

Moderator

Thank you. The next question is from the line of Abhishek Kiran Gupta from Merrill Lynch. Please go ahead.

Abhishek Kiran Gupta

If you remove the Gurgaon project from your average realizations, what would be the average realization without Gurgaon?

J C Sharma

Our share of 2.31 million square feet we have valued at about Rs. 10245 per square feet out of 9.2 million square feet. If you take that out it will be more than Rs. 5,000 a square feet.

Abhishek Kiran Gupta

Exactly that is what is my question now. Couple of years back we always said Bangalore is a very affordable city and it is being extraordinarily well so average Bangalore pricing was about 4,000. So even if you take average house size at 1,500 you had 60 lakhs about let's say 75 lakhs which was what we said was the average ticket size of Bangalore. Now it seems that has increased and especially for Sobha it has increased to 5,000+ so typical apartment ticket size has become a crore plus which means that the household income should be at least Rs. 22 – Rs. 25 lakhs. With IT growth looking a little slow not doing in double digits affordability being a little bit of concern now, do you see that a concern going forward. It is more of a now

plus two years question not particularly a quarter related questions but a more macro question. Do you see Bangalore affordability losing out and going to Chennai way or something like that?

J C Sharma

I would like to request you to go through our presentation Page #13 and 14 where we have tried to give the buyers profile as well as this price band category. Currently 40% of our customers they constitute from this IT sector. At the same time 44% of our customers who have booked our apartments from April '11 to March '12 have opted for a loan. 56% of the people have not yet opted for the loans. We have also observed that more than 21% of our customers they are NRI. Similarly we have also tried to breakup the sales bandwidth less than 50 lakhs between 50 to 75 lakhs, 75 lakhs to 1 crores, 1 crore to 2 crores and above 2 crores kind of a thing and our experience is that the people are in a position to afford the homes above 1 crore because most of these guys have a double income. The people who are buying maximum above 30 years of age they constitute 90% of our customer base, both who are above 40 years they constitute 62% of our customer base and these are the people they have a household income definitely of not less than Rs.20 to Rs.25 lakhs which should be good enough for them to ensure that they can maintain the lifestyle and also can afford to own a home either on a loan basis or through their family savings.

Moderator

Thank you. The next question is from the line of Abhishek Ranganathan from MF Global. Please go ahead.

Abhishek Ranganathan

Sir my question relates to our strategy with respect to our launches in Bangalore. Now we have nearly about total inventory of close to about 4.66 million square feet in Bangalore and from your Slide #11 what I see is that we would have another about 3.2 million square feet being launched. So what would be your strategy with respect to our launch for these and also with respect to the part which is not offered for sale?

J C Sharma

The part which is not offered for sale is the strategy we started following after 2008 when we realized that certain external developments shouldn't impact the customer as well as the company. As and when the sales

momentum happens these blocks are released for sale basis. Going forward also if you look at out of the nine projects what we have lined up for launches about 6 projects are from the Bangalore market only to replenish this stock. In fact there is certain property getting launched next week itself which is about 400,000 square feet. Going forward we do believe that with the Bangalore market should continue to give us good visibility, good volumes, good cash flows and good margins supported by the NCR and the Chennai markets and on that basis we do believe that this growth momentum whatever little bit we are experiencing should continue.

Abhishek Ranganathan What I wanted to better get a sense is that the launches what strategy would you be employing, I mean, how much would you be because we once, I think in the Hosakerehally Property at Mysore Road is quite chunky so if the City Property, I mean what kind of strategy would you be employing at times, in terms of how much would you be offering for sale and by when do you envisage the entire project offered for sale completely.

J C Sharma As I said that is why we gave you the backdrop of that. That is why we launched a larger project we start selling on a block-wise basis. Here also the projects we would be dealing only on a block-wise basis. So that strategy will continue and going forward all these projects are not competing with any of my existing projects and hopefully should give us the required volumes as I have been talking about and ensure that this momentum continues.

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

Sameer Baisiwala This is a quick question is broader on the strategy. Out of the seven markets or so that you are currently present in is there anything that you find attractive, any other city that you would like to enter it at some point later?

J C Sharma A) As it looks like we are eyeing for Hyderabad as well because it happens to be in the Southern market. B) The infrastructure is indeed very good. C) The land prices remain a quiet attractive so we do feel that Hyderabad markets had bottomed out somewhere down the line. Currently nothing is there but

yes we definitely will look at besides these 7 markets in the Hyderabad market also. Similarly within South our experience with Thrissur market, Coimbatore market and Mysore market has been reasonably good. So we do believe that if some smaller cities come to us we may look at those cities also.

Sameer Baisiwala Nothing in North, East, West?

J C Sharma No nothing in North currently except NCR. East, not at all. As far as the West is concerned it may be New Bombay or somewhere if the cash flow permits but it is not right now in the horizon.

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

J C Sharma Thank you very much for this participation and hearing us patiently. Thank you.

Moderator Thanks on behalf of ICICI Securities Limited. That concludes this conference. Thank you for joining us and you may now disconnect your lines.