



“Sobha Developers Q4-FY12 Earnings Conference Call”

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MODERATORS: **MR. J. C. SHARMA – MANAGING DIRECTOR**
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MR. TEJAS SHETH –RESEARCH ANALYST, EMKAY GLOBAL

Moderator

Ladies and gentlemen welcome to the FY12 and Q4-2012 results call of Sobha Developer Limited hosted by Emkay Global Financial Services. We have with us today Mr. J. C. Sharma, Managing Director, Mr. Baaskaran, Chief Financial Officer, Mr. Kishore Kayarat, Company Secretary and Compliance Officer, Mr. Bala Murugan, Manager MD's Office. As a remainder, all participant 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. Should you need assistance during the conference call, you may 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. Tejas Sheth, Senior Research Analyst of Emkay Global. Thank you and over to you sir.

Tejas Sheth

Good evening everyone. Thank you for joining us today. We would like to welcome the management of Sobha Developers Limited and thank them for giving us the opportunity to host this call. I would like to congratulate Mr.J.C.Sharma for his new role as Vice Chairman. I would like to hand it over the call to him. Over to you sir.

J. C. Sharma

Thank you. Good evening ladies and gentlemen. We are happy to invite you for this concall hosted by Emkay Global first declaring our audited result for the financial year 11-12. As you are aware that we have crossed an important milestone of developing 50 million sq. ft of developable are consisting of 288 number of projects. This developable area consists of 25 million plus sq. ft in real estate and 26 million plus sq. ft in contracts totaling to 51.80 million sq. ft so far. We believed that this financial year when it started, I am talking about 11-12, there was a challenging macroeconomic environment and we also believed that despite this kind of a challenging environment Sobha should be able to achieve better result and accordingly we had gone ahead with our estimated sales of 3 million sq. ft plus and estimated revenue on new space of Rs. 15 billion plus. As you are aware that we have out performed on both the parameters. I would also now request Baaskaran to go through with, the financial numbers and thereafter we will take your questions.

S. Baaskaran

Thank you sir. You would have noticed by now with the balance sheet and P&L have been prepared and presented based on the revised schedule 6.

While the adoption of revised schedule 6 does not impact a recognition measurement principals followed by the group for preparation of consolidated financial statement. It has significant impact on the presentation and disclosures made in the consolidated financial statements. The regroup reclassification has been done for the previous year as well in accordance with requirement applicable in the current year for example, the consolidated sale number for the last financial year 11-12 reported as Rs.14,813 million which is now reported up Rs.13,906 million. It is mainly due to the removal of sales tax as a part of income.

Now coming back to our financial performance for the year. The company recorded our top line of 14.14 billion on a consolidated basis out of this 10.33 billion has come from real estate operations which includes monetization of land and development rights, Rs. 3.75 billion from contracting and manufacturing activities and 0.06 million from other source. Real estate operations contributed about 73% and the balance 27% is contributed by contract and manufacturing activities. The profit before tax on a consolidated basis stood at Rs. 3.18 billion compared to 2.51 billion for the corresponding period of the last year, this was up by 26%. The profit after tax after adjusting for minority interest stood at 2.06 billion compared to 1.81 billion from the corresponding period of the last year, this is also up by 14%. On a standalone basis, the company recorded a top line of 14.03 billion. out of this 8.76 billion has come from real estate operations and 5.21 billion in contracting and manufacturing activities and 0.06 billion from other sources.

On a standalone basis, the profit before tax stood at 2.95 billion compared to 2.44 billion from a corresponding period of the last year, which was up by 21%. The profit after tax stood at 2 billion compared to 1.80 billion which is also up by 10%.

For the fourth quarter, the company recorded a top line of 5.24 billion on consolidated basis as against it is 3.2 billion during the corresponding period of the last year. Out of which 3.92 billion has come from real estate operations including monetization and 1.31 billion from contracting and manufacturing activities and 0.01 billion from other sources. Real estate operations contributed 75% and the 25% came from contract and manufacturing. The company recorded a growth of 64% on top line

compared to corresponding period of the last year and 65% on sequential basis. The profit before tax on a consolidated basis for the fourth quarter stood at 1.44 billion compared to 0.53 billion for the corresponding period of the last year. This is up by 172% year-on-year and 88% sequentially. The profit after tax after adjusting for minority interest stood at 0.94 billion compared to 0.39 billion for the corresponding period. These also up by 139% year-on-year and 79% sequentially.

On a standalone basis, the company during the Q4 recorded pipeline of 4.78 billion out of this 3.08 billion has come from real estate operations, 1.69 billion from contracting and manufacturing activities. This is up by 47% year-on-year and 54% on sequential basis. For the fourth quarter on a standalone basis, profit before tax stood at 1.33 billion compared to 0.54 billion from the corresponding period, which was up by 139% year-on-year and 131% sequential basis. The profit after tax stood at 0.89 billion compared to 0.4 billion for the corresponding period which was up by 121% year-on-year and 124% sequentially.

The company during the financial year has generated cash flow of 3.80 billion from operations on a consolidated basis. On a standalone basis, 5.5 billion has been generated from operation as against 4.15 billion during the corresponding period of last year. Out of this cash flow generated the company has invested 0.98 billion in buying back stake in subsidiaries, 1.09bn billion in fixed assets and 0.34 bn towards the distribution of dividend and 1.95 bn in servicing interest. As you aware that the net debt has gone up by Rs. 0.6 billion during the second quarter the debt high of 13.62 billion. In spite of debt going up during the second quarter due to investment in subsidiary, investing in the fixed asset, the company has been able to reduce the net debt by Rs. 0.14 billion on a consolidated and 1.54 billion on a standalone basis.

The net debt as of on 31st of March 12 on a consolidated basis stood at 11.44 billion and Rs. 10.35 billion on a standalone basis. The DE ratio stands at 0.57 on a consolidated basis and 0.52 on a standalone basis. We are happy to inform that we achieved the bigger level of debt reduction and debt equity considering the size of operation. As on 31st of March, 2012 we have unbilled revenue of 11.14 billion on the sales made so far. In spite of challenges and

cost pressure, the consolidated EBITDA margins of 33% as compared 26% for the corresponding period of the last year. The standalone EBITDA margin was 31% as compared to 26% of the corresponding period of the last year.

As on date, we have 34 ongoing projects consisting of 16.27 million sq. ft. Out of this 14.09 million sq. ft on our account are salable area. On our share, we already sold about 4.39 million sq. ft and 9.69 million sq. ft remains to be sold. In addition to this, 0.09 million sq. ft of area is to be sold on completed projects. We expect to realize from the existing customers Rs.13.66 billion and further Rs. 63.23 billion from unsold apartments based on current selling price. We also expect to incur Rs.40.03 billion based on current estimates to be spent for the entire ongoing development. This will lead a healthy cash flow to the tune of Rs. 36.86 billion.

The company has completed and hand over 3.14 million sq. ft of developable area and 2.06 million sq. ft of the super built up area of real estate projects during the financial year 11-12. On the contractual front, we have 10.05 million sq. ft. of contractual projects valued at 6.09 billion on hand to be delivered over a period of next 3 years. We see a significant opportunity for growth coming from our Contract and manufacturing divisions in coming quarters. We had completed and hand over 2.08 million sq. ft of developable area of contractual project during the financial year of 11-12.

Despite the challenging environment, the company is planning to sell 3.75 million sq. ft of new sales during the current financial year 12-13. We have realized the sale value of Rs. 20 billion. The company is confident of having double digit growth both in top line and bottom line for this financial year. Once again we thank you all for your participation and we now leave the floor for discussion.

Moderator

Thank you sir. Participants we will now begin the question and answer session. We will take a first question from the line of Gunjan Prithyani from JP Morgan, please go ahead.

Gunjan Prithyani

Hello.

S. Baaskaran

Yeah good evening please.

- Gunjan Prithyani** Yeah hi, sir I am sorry I just missed the cash flow numbers. If you could just tell the cash flow numbers and also if I could get what was the inflow I mean basically customer collections this year and the amount we spent on the construction?
- S. Baaskaran** As on 31st of March 2012, expects realized from existing customers 13.66 billion and further 63.23 billion on unsold apartments. We expect to incur 40.03 billion.
- Gunjan Prithyani** I am sorry, these numbers you just mentioned that there was an operational cash flow .?
- S. Baaskaran** Okay, I will repeat.
- Gunjan Prithyani** Yeah.
- S. Baaskaran** On a standalone basis, we generated 5.5 billion from operation against 4.14 during the corresponding period of the last year. Out of this, we invested 0.98 billion in buying back shares in the subsidiary, 1.09 billion in fixed asset, and 0.34 billion on dividend, and 1.93 billion servicing in the interest.
- Gunjan Prithyani** Okay and sir if I could just get the customer collections that we would have done this year, basically from the real estate sales and also the amount we would have spent on the construction.
- S. Baaskaran** Okay, the amount spent on construction Rs 668 crs.
- Gunjan Prithyani** Rs.660 crores construction out flow, this is both for real estate and contracting projects.
- S. Baaskaran** Yes.
- Gunjan Prithyani** For both?
- S. Baaskaran** Yeah.
- Gunjan Prithyani** Okay. And cash collections if you have that number from the customers, basically real estate?

S. Baaskaran Rs. 1,124 crores.

Gunjan Prithyani This is only real estate.

S. Baaskaran Only Real estate.

Gunjan Prithyani Okay, sir but we did presales of about 1,700 crores, sir this number seems a little lower in terms of collections. Was there any? I mean how do you see this moving forward. I think 1000 crores is less compared to what we did in terms of booking for the full year.

Management Hello Gunjan good evening.

Gunjan Prithyani Yes, hi sir.

J. C. Sharma Right see the collections are based on the progress we achieve on the projects, which we have started during the year. While the sales for the full value of the projects, the cash flows and the revenue to be recognized. It dependent on the progress to make on site. So while we have recognized lower revenue in our P&L account, we have collected higher cash flows and till it is lower than what we have sold at product, going forward since most of the project we have launched from the second quarter onwards and the progress like in Sobha City could be made only in the last quarter with some of the projects have come from 25% revenue recognition. This kind of a gap is there which going forward should improve.

Gunjan Prithyani Sure, sir I wasn't talking about revenue recognition. Okay I will take this offline probably because the collection seems a little lower. And sir on the P&L, I see the interest expense in this quarter is high and is there a regrouping in terms of because even the last quarter number is being restated for interest expense. So what is the restatement that we have done?

S. Baaskaran Earlier the interest used to be debited to the land cost which has been regrouped now and shown as a financial expenses.

Gunjan Prithyani Okay so the entire in finance cost is there grouped in two single line now.

S. Baaskaran Yeah.

- Gunjan Prithyani** Okay.
- S. Baaskaran** from cost of sales the financial expense will be regrouped.
- Gunjan Prithyani** Okay and sir lastly on your debt levels, I mean we brought it down but still from here on see this year the cash flows were impacted for the various reasons you mentioned the private equity buyout and stuff from here on. We should be able to generate a decent operating surplus, so where do we see debt levels going from here on. Are we going to use those cash flows to reduce debt further?
- S. Baaskaran** It all depends, we live in a very dynamic environment. Right we last year, we are very clear that we need to bring down our debt to a level where we feel comfortable structurally we thought 0.5 debt equity is an ideal situation to be in. right this year again, we are aggressively launching new projects and we should be also pursuing certain opportunity as and when it comes. So we feel for our growth not necessarily every quarter if something comes our way definitely will be looking at otherwise it will definitely gets reflected in further reduction in our debt.
- Gunjan Prithyani** But sir we are comfortable with this debt level or we are targeting to bring it down from here on?
- J. C. Sharma** We were always comfortable right, so that is not an issue. The issue remains that yes how do we generate certain incremental businesses from the surpluses what we have been get hence forth and that's what I was trying to say either it goes towards debt reduction or something we should be doing this adds value to our stakeholders. For example, in this month itself or last month, we have taken back with 30% stake from Tree Hills from Nadathur holdings and now we have become 100% of our Thrissur project as well. So like this something like this happens definitely will be deploying our resources.
- Gunjan Prithyani** Sir if you could just tell us how much would you need to pay to buyout that stake?
- S. Baaskaran** We spent Rs. 55 crores.

Gunjan Prithyani Okay alright.

S. Baaskaran To settle their account and buy back their shares fully.

Gunjan Prithyani Okay. Thank you sir.

S. Baaskaran Thank you.

Moderator Our next question is from the line of Sameer Baisiwala from Morgan Stanley, please go ahead.

Sameer Baisiwala Hi good evening everyone

J. C. Sharma Good evening Sameer Ji.

Sameer Baisiwala Congratulations to you J. C. Sir. If you can repeat your fiscal 13 guidance for the top line and bottom line?

J. C. Sharma Okay, the guidance what we are providing is that in this financial year, we should be doing new sales of 3.75 million sq. ft. and in value term it should be Rs.20 billion.

Sameer Baisiwala Yeah fair enough, but after that I think Baaskaran added something to the guidance in terms of top line and bottom line, I think double digit growth.

J. C. Sharma What Baaskaran has also said that our confident of having double digit growth both in our top line and bottom line in this financial year also.

Sameer Baisiwala Okay just in this regard, I think you recognized about 1050 crores of real estate in P&L, what is this, we sold 1700 previous year and I think 1200 the year before that and may be we are targeting 2000 this year . So I think in terms of recognition I would have thought that it would be much faster for the top line and bottom line.

J. C. Sharma If it becomes faster automatically it will get reflected in the top line and the bottom line as well. Yes you are right.

Sameer Baisiwala Okay and if I just do quick math it works out that the average selling price I mean 20 billion divided by 3.75 is roughly about Rs. 5330 versus about 5200

average that we did for the previous year. Are we looking at more or less flattish about 3-5% price increase, is that what?

J. C. Sharma It all depends upon, if there what kind of a product got sold in the overall mix prima facie, whereas prices has remained constant with some kind of a buyers towards some 2%-3% revision only on a periodic basis.

Sameer Baisiwala Okay. And just want a financial expense; what was it for a quarter and how much was it capitalized?

J. C. Sharma Sorry come again.

Sameer Baisiwala The interest expense how much was it for the quarter and how much of that was capitalized?

J. C. Sharma 116 crores has been written off P&L account.

Sameer Baisiwala 116.

J. C. Sharma 116 crores has been charge P&L of account. So about 500 crores has been capitalized.

Sameer Baisiwala Okay, got it, 116 and 75, .

J. C. Sharma 116 has been charged of to the P&L of account and other 75 crores has been capitalized to the land stock.

Sameer Baisiwala Okay and just one final question for the 3.75 million sq. ft target that we have, what is the split between Bangalore and Non Bangalore?

J. C. Sharma The Bangalore till we will have about two-third and the one-third should be coming from outside Bangalore.

Sameer Baisiwala Thank You

Moderator Our next question is from the line of Puneet Jain from Goldman Sachs, please go ahead.

Puneet Jain Hi this is Puneet, good evening everybody.

J. C. Sharma

Good evening.

Puneet Jain

Sir my question pertains to your guidance of Rs. 20 billion right now you have grown at a very healthy pace over the course of last three years where your total sold value became more than 3 times, so to that extend, do you see any downside risk to this guidance of 20 billion and how do you look with respect to upside risk and downside risk to the guidance which you are giving right now?

J. C. Sharma

Your voice is breaking, if you can kindly repeat it for a minute please once again the question.

Puneet Jain

What I am saying is that you have grown at a very fast pace over the course of last three years. What are the downside and upside risk you see to this guidance of 20 billion of such fresh sales for FY13.

J. C. Sharma

See, the downside remains what this industry has been facing since last three to four years, which is primarily that liquidity related challenges a higher interest cost on the volumes or the values what this company have been getting and the continues increase in the interest cost to the customers and somewhere input increase cost. These are the four major sectors besides of course the economy slowing down. But from an upside perspective, what we are looking at say for example, if the rupee continues to keep depreciating, we feel it is good for the real estate industry because all of sudden the interest of the NRI customers, it increase A. and B, the base it is becoming better and bigger both because as right the year passes, the carry over demand in all such markets, it continues to keep growing which has been reflected in a rather otherwise at macro level at tough environment. See I believe that the way the input cost and other cost, land cost have increased vis-a-vis that especially in our core market, the land prices and the product prices they have remained reasonably stable. So that gives us a comfort that key for a customer. There is quite unlikely that he should be in a position to do much bargaining because looking at the land prices in the construction cost, the product prices still remain quite reasonable and believe all such things we feel that there is still the scope to increase our sales numbers in this financial year also.

- Puneet Jain** Okay, so do you intent to calibrate your pricing in a way so that you are able to achieve these numbers?
- J. C. Sharma** Primarily we calibrate the prices to ensure that the our margins as such they do not get impacted and though the land remains at a historic cost that the impact of the input cost should not effect our overall margins and wherever there is a scope to temper with small increases right, we keep doing. But otherwise if the input cost remain stable, no intentions to increase the prices as well.
- Puneet Jain** Okay sir thanks a lot.
- J. C. Sharma** Thank you.
- Moderator** Our next question is from the line of Prakash Agarwal from RBS, please go ahead.
- Prakash Agarwal** Yeah good evening sir. On this average realization I mean of the last three quarters if you have seen is increased from 4500 to now 5000 plus and so as your volumes increased. I just wanted to check I mean given your strong guidance and IT sector I mean we have been hearing that there has been some demand slow down from IT sectors, so I mean if you could give more color how confident are we and given that the fact you said two-third would be Bangalore, so Bangalore I assume the price realization is much higher. So could you give more color on these things?
- J. C. Sharma** Hello.
- Prakash Agarwal** Yeah, I think the line got disconnected, question is in terms of average price realization in the last four quarters, it is increased from 4500 to now around 5000 plus and given you strong guidance of 3.75 million sq. ft and Bangalore being two-third as you said, so Bangalore would have been much higher price realization and how confident are you of this 3.75 million specially on the back of this IT demand slow down, little bit talks going on by the companies in their 4Q numbers, so could you give some color on that?
- J. C. Sharma** We have understood your question well it is that 3.75 million sq. ft of new sales at current prices, it is about 20 billion right.

- Prakash Agarwal** Yeah question is more on how confident are you on this 3.75 million given you said two-third is Bangalore which is IT led demand, I mean I would significantly...
- J. C. Sharma** Right it is IT led demand, yes
- Prakash Agarwal** So given the pretext that there has been talks of demand slowdown in the IT world.
- J. C. Sharma** I strongly believe that while everything impact eventually, but the housing sector to get immediate impacted because of its at all presuming that there is some kind of slowdown or an impact on the IT sector cannot be immediate. We are talking about this people who need home whose average age is around mid 30-35 or so. And in any case, they need to buy and looking at our numbers right. These numbers on an average sq ft of 1800 sq. ft will be little more than 2000 sft number operating from seven cities right where 40% plus in value term comes from both customers who book at apartment valued at Rs. 75 lakhs and above, sort of thing, with that dual income with interest rates started showing some kind of declining trend. We feel that it is of course achievable as we move forward we keep sharing with development on a quarter on quarter basis.
- Prakash Agarwal** And just a follow-up on Bengaluru, if you could give more information on the average realization there and the average unit area you said 1800, is it?
- J. C. Sharma** Right, 1800 and average realization is a little bit less than Rs. 5000 currently.
- Prakash Agarwal** Okay, so you mean the other locations; Mysore, Thrissur and Coimbatore could have a bigger or a higher realization?
- J. C. Sharma** No, you are ignoring NCR, where we have a realization of 8000 plus, which brings this kind of a higher average realization for the total group.
- Moderator** The next question is from the line Anand Agarwal from Jefferies, please go ahead.
- Anand Agarwal** I have a few questions; firstly, on the land sale that you did in the quarter, what would be the margin on that? Because like you said there has been

restatement of the numbers on the basis of revised Schedule VI. So, it's very difficult to figure out what the core margins have done on a QoQ basis?

J. C. Sharma

Basically, as far as a restatement is concerned, as the land cost, raw materials and construction cost, production expenditure, etc., they demonstrate and **said** the cost spread during the year towards plan approval charges, Khata transfer, conversion charges, registration charges, brokerage, etc. or the movement of raw materials or the construction cost for purchase of civil finishes and other things. So, it has to be stated as per the revised Scheduled VI guidelines. As far as margins are concerned, in this transaction, we have earned above 40% margin, good deal we have done, but excluding this also, our real estate margins remains at 40% and the constructing margins, including manufacturing, they are nearer to 20% this time.

Anand Agarwal

You spoke about FY13, in terms of debt reduction and the use of the cash flow that will come through. I just wanted to specifically discuss a bit more about that. Do we intend to aggressively acquire land in FY13? Because you are already sitting on a large land bank and our ROEs are still in single digits. I understand if the opportunities do come, we will look at it, but how do we look at the land acquisition and versus our desire to hopefully improve our ROEs or bring it to double digits?

J. C. Sharma

When you look at the balance sheet ROEs, because some of the land banks, now they are being classified as non current asset also. So the whole Schedule VI is based on current assets, current liabilities, where something is falls within your operating cycle becomes current if does not falls within your operating cycle becomes non-current. That's the classification we have done, which impacts the ROE, but the valuation of such land bank when we look at in total 2500 acre plus of the land bank we own at Rs.75 lakhs per acre, including the interest capitalized this allowed us to have that comfort of having an opportunity as and when it gets unlocked will give us good benefit. Coming back to how do we utilize? We set opportunistically part. Last year we did it with Sobha Forest new project where we have 19% stakeholders. This year as I said we already done it with this Tree Hills, where we own 70%. We had not been buying any land as a part of our discipline, but there are opportunities where you can buy land and you can start project which will bring the same ROE incrementally because those locations will not be

competing with our existing projects. So, we have to see what best use we should have, but yes, we remain accountable to the investors and the analysts like and should be able to explain as and when anything we do in that regard. Otherwise, definitely, it will get reflected in our debt reduction.

- Anand Agarwal** From the future launch plan that you have given in the presentation, it appears that a lot of the commercial development is going to start in FY13, right. So just a sense on how much amount you intend to spend on these commercial projects, may be all put together in FY13 and ...
- J. C. Sharma** Commercial buildings normally will be costing Rs. 3000 plus sort of a thing, but the duration also will go with basement and others around four years time. Initially, the structure and the excavation face lesser amount of cost. So though some cost definitely will be incurred, it will all again depend upon the time you take to get the approvals and then to get things started. But, yes, somewhere, some of the cash will be used to fund this commercial project as well.
- Anand Agarwal** Okay and would you be able to give me the net debt number at a consolidated level as of December end? Because I mean I just want to see how the consolidated debt has moved on a QoQ basis.
- S. Baaskaran** Of course, net debt as on December end a consolidated level was 13,481 million.
- Anand Agarwal** You mentioned that the total cash interest expense during the year was about 191 crores; 116 crores was expensed and 75 crores was capitalized. Now that effectively works out to almost somewhere close to 15 to 15.5% average cost debt for the year. So is that your cost of debt or how is it I mean?
- J. C. Sharma** The cost of debt was around 14% only, somewhere certain processing charges for 3 or 4 years one time kind of the thing or for opening of the bank balance sheet or Letter of Credit, some fringe changes you incur, they are get clubbed under this type.
- Moderator** Our next question is from the line of Mahesh Nandurkar from CLSA, please go ahead.

- Mahesh Nandurkar** My question pertains to the buyer profile. In response to one of the earlier questions you mentioned that the rupee depreciation actually helps you guys because you see greater interest from NRIs. So, would it be possible for you to quantify that in terms of what proportion of either units or million sq ft, etc that was sold in FY12 over to NRIs and how has that changed between first half and second half because that is when we actually saw greater impact of rupee depreciation.
- J. C. Sharma** On balance, on an average for the year, it is a little bit above 20%. In the month of October, November, December, it has shot up to between 30% to 40% of the total sale.
- Mahesh Nandurkar** On the basis of number of units sold or in terms of sq. ft sold?
- J. C. Sharma** Number of units sold, as and when the unit is booked with the buyers, the identification is done and accordingly it gets categorized.
- Moderator** Our next question is from the line of Prem Khurana from B&K Securities, please go ahead.
- Prem Khurana** Just a couple of questions; first of all, on land sale this quarter, we have done some land sale, so do we intend to continue to do land sales even during FY13? Because If I look at your new launches, you intend to do some commercial real estate projects wherein your cash inflows tend to be back-ended.
- J. C. Sharma** The land sales, we have started maintaining since last five-six quarters, if it is done it is then in an opportunistic manner. As now we have started selling, if the land buying is being when it will be done, from that opportunistic point of view sort of a thing. We have the capabilities to buy land, consolidate land as well as sell lands. And while doing this we do all these things with at most efficiency and precision. So, if an opportunity arises definitely we can do that also.
- Prem Khurana** How do we segregate between the land which is to be sold or which is to be kept with us?

- J. C. Sharma** It's a good question. A project which is not on the drawing board or a land we feel, currently it is not required for our expansion, for our details target, we can offer it to the buyers.
- Prem Khurana** Sure, sir on your ongoing project portfolio, you have unsold inventory of about 9.7 million sq. ft, would you be able to share the geographical spread, in which all areas this 9.7 million sq. ft is?
- J. C. Sharma** It is there primarily in Delhi, Bengaluru and then smaller, smaller quantity in other cities. Chennai where we have launched two projects, Coimbatore where we launched projects only in the month of March, a couple of projects in Pune and one plotted development in Mysore and Shoba City where maybe some 40, 50 apartments are there.
- Prem Khurana** Sure and sir on your presale, you are looking at around 15% growth on YoY basis from 3.28 million sq, ft to 3.75, but if I look at your numbers, I mean as far as Bengaluru is concerned, volume seem to have stabilized around 0.5 to 0.6 million sq. ft in case of Gurgaon, it seems to have stabilized at around 0.1. So, where do we see growth coming from in terms of volumes?
- J. C. Sharma** That's the growth in this financial year should come from all the centers.
- Moderator** Our next question is from the line of Ashish Agarwal from Edelweiss Securities, please go ahead.
- Ashish Agarwal** Could you just run me through the cash flow numbers once again? I think I missed a couple of numbers. Just to reconfirm, we got about 1000 crores from real estate collections.
- S. Baaskaran** 1124 crores from real estate.
- Ashish Agarwal** Right and from contracting, how much that has been?
- S. Baaskaran** Contracting we got about close to 300 crores.
- Ashish Agarwal** And we spend about 660 crores on the construction?
- S. Baaskaran** Yes.

Ashish Agarwal The overhead numbers.

S. Baaskaran Overhead numbers will be close to about 110 crores.

Ashish Agarwal Okay and if you can also help us how do you see these numbers going forward to FY13?

J. C. Sharma As far as the collections are concerned, there should be higher than the last year and at the same time, as far as the construction activities are also concerned, they will be this year higher than the last year.

Ashish Agarwal What quantum of increase would be looking for? Because obviously we have done so much amounts of presales, in the last two years, we have done a very strong growth in the presale. So you obviously are looking at good ramp up on collections and construction in FY13?

J. C. Sharma You are right.

Ashish Agarwal Should I have been looking forward to a 30% kind of an increase in cash collections in FY13?

S. Baaskaran Yes definitely.

Ashish Agarwal And just one thing I missed out on the interest expensing in the P&L in this quarter, if you could just take me through that again please?

S. Baaskaran What we said is 116 crores has been debited to the P&L.

Ashish Agarwal Not that, in the quarter, we have a very high interest expense in the P&L. I missed. Why did the interest go up so sharply in this quarter?

S. Baaskaran As I said as per the revised Schedule VI format, the interest what has been charged to the projects has to be restated and that has been brought down below the EBITDA level.

Ashish Agarwal Just one last question, on the revenue recognition policy under the new accounting guidance norm, how do we see that impacting us, I mean we would be following the accounting guidance, how do we intend to look at little differently?

- S. Baaskaran** No, we will be following the new accounting guidance issued by the Institute of Chartered Accountants of India. Those projects which have been launched earlier will continue to be followed on the whole model itself. Any new projects which are being launched on/or after 1st April 2012 will be followed on the new guidance.
- Ashish Agarwal** So this will be based on the launch and not as per whether revenues have been recognized or not. And second question in this regard is we have a model in which we have a separate land sale agreement and a separate construction agreement. So, how the revenues were recognized in this, would we be doing at simultaneously or how would that happen?
- S. Baaskaran** Under the new guidance, while we will have the two agreements as well, the income on the land will be recognized only first time when the threshold limit of construction reaches the 25%.
- Ashish Agarwal** Only at that time it's recognized?
- S. Baaskaran** Yes.
- Ashish Agarwal** And then it's like to add on the construction basis only?
- S. Baaskaran** Yes.
- Abhishek Gupta** Good evening Mr. Sharma, this is Abhishek from Merrill. A question is through FY12, the projects that you have launched in the first half, what kind of price increase has Sobha Project seen?
- J. C. Sharma** Projected?
- Abhishek Gupta** No, the projects that we launched in the beginning of FY12 through the end, what kind of price increases have those projects witnessed?
- J. C. Sharma** As I said the price increase is primarily a function of one is the cost increase, the right to protect our margin and somewhere opportunistically wherever we find that we can pass on the input cost increase we would like to do that appropriately.
- Abhishek Gupta** Sir very fair, just case in point, project city....

- J. C. Sharma** It's not project, like when I am estimating construction cost, we estimate construction cost based on like the acceptable norms that the salaries, wages, the steel cost, the cement cost and others. What you are spending is what you are calculating. If we estimate both up in order to cover our sales up we try to do that, otherwise they are not projecting as such price increase in this financial year.
- Abhishek Gupta** Sir very fair, I am not asking for FY13. In '12, did we increase any price, let's say project city?
- J. C. Sharma** We have been increasing selectively.
- Abhishek Gupta** By how much?
- J. C. Sharma** By about 7 to 10%.
- Moderator** We will take our next question from the line of Sameer Baisiwala from Morgan Stanley, please go ahead.
- Sameer Baisiwala** Thanks, just a couple of clarifications. Did you mention that how much was land sale booked in the fourth quarter?
- J. C. Sharma** 136 crores.
- Sameer Baisiwala** Okay and the second is, which one new projects that came up for recognition during the fourth quarter?
- J. C. Sharma** Within the Sobha City four projects. Aristos, Mykonos, Serenita, and Paradiso. I think Mykonos, Serenita and Paradiso have come for revenue recognition. Aristos haven't yet reached 25%.
- Sameer Baisiwala** And did Forest come up for...
- J. C. Sharma** Forest view had come up, prior to that which is reflected in a higher turnover top line in the consolidated things, because if that income is reflected in the subsidiary companies: Sobha Developers Pune Private Limited.

- Sameer Baisiwala** Okay and just some color on the Gurgaon project. Are you happy with the pace of sales that you are seeing over there? I think you did about 0.3 million sq. ft. for the year.
- J. C. Sharma** Yes, we are very happy because we feel that this project itself will take about 4 to 5 years for us to complete and it's a one-off township project. We may not get easily the second opportunity looking at the kind of upfront payments a developer is required to make to the authority before they can start such projects. So, looking from that dimension, we feel that having funded the projects for such a long period and having understood the dynamics of the demand in that market, it is better to have the construction cost uncertainties linked with the sale which gives us a comfort of completing the project and selling the project, matching the timeline.
- Moderator** Our next question is from Chirag Dhanani from HDFC Securities, please go ahead
- Chirag Dhanani** My question is with respect to the standalone financial. In the top-line, we have seen an increase of 49% and suppose you are saying most of the increase is coming from the Sobha City Projects, is that right?
- J. C. Sharma** You are right.
- Chirag Dhanani** And what would be that the incremental turnover that is getting booked in the Q4?
- J. C. Sharma** That way we cannot say, Sobha City which we launched in the second quarter, the revenue from Sobha City 25% came for recognition in this quarter only. Because of that if you look at the real estate income vis-à-vis the preceding quarter or vis-à-vis the last year corresponding quarter had gone up by more than 20% and it happened primarily on account of the booking of the construction revenue of Sobha City Project.
- Chirag Dhanani** Okay and second question is with respect to the EBITDA margins like you have restated the figure for the current quarter as well as the previous quarter. If I see your EBITDA margin, it was like 31% for the 3rd quarter, which has improved to close to 37%, I am comparing the like-to-like figure.

So, what has contributed to like close to 600 bps jump in this EBITDA margins?

J. C. Sharma The newer projects, they have higher margins, which are coming for recognition primarily.

Chirag Dhanani It is primarily the Sobha City project that is driving the margin?

J. C. Sharma Yes, you are right.

Chirag Dhanani Okay, and last question is with respect to land sale, you have mentioned you have done sales of 136 crores worth of land sales in Q4 that should have also contributed to bump up in the margins for this quarter?

J. C. Sharma Of course, naturally, all these transactions have been done profitably. So, it also helped us in improving our overall profit as well as margin because the contracts only give 20% margin, so anything about 20% helps in improving the EBITDA margins.

Chirag Dhanani Right and what would have been the overall land sales you would have done for FY12?

J. C. Sharma That much only, we did 166 crores also in the preceding year. This year, we have done two transactions of 136 crores.

Chirag Dhanani Okay, both the transaction in the Q4 only.

J. C. Sharma Yes, you are right.

Moderator Our next question is from Deepak Pursani from ICICI Direct, please go ahead.

Deepak Pursani Sir, what would be the construction budget for the next year?

J. C. Sharma We have budgeted that we will be showing a top-line and bottom-line growth of double-digit sort of a thing. Somewhere certain projects which we are going to launch, there is always an uncertainty, but it will be higher this year than what you have spent in the last financial year.

- Deepak Pursani** And secondly sir with regards to a debt reduction to the extent of 127 crore, which we have done in the month of April, had that been done from the cash collection or we have refinanced the earlier debt?
- J. C. Sharma** I could not follow your question, refinanced in what sense?
- Deepak Pursani** Sir we have a schedule, repayment of 350 crores, out of that we have done 127 crores debt repayment in the month of April.
- J. C. Sharma** Both, somewhere the cash flow, somewhere some kind of a refinancing as well. So, we have 600 crores plus of sanctioned but undisbursed limit available and we felt that too high cost debt, we can reduce where either repayment was negligible or not there. To have certain projects which were not funded, I can borrow money at a lower cost, and at the same time, it brings a lot of comfort to the stakeholders when we say that in the coming financial year from now onwards, we have only repayment of just 220 crores in the next 11 months.
- Deepak Pursani** So I just wanted to confirm in the next quarter should we see the further debt reduction to the extent of 127 crore?
- J. C. Sharma** These things that way cannot be predicted in the Real Estate business.
- Moderator** Our next question is from Abhishek Ranganathan from MF Global, please go ahead.
- Abhishek Ranganathan** Sir a couple of questions, one is this debt figure which you mentioned right now. The changes actually, is it a net debt, what would be a net debt after this transaction which you have done, I mean of repaying your debt?
- J. C. Sharma** You are talking about which year?
- Abhishek Ranganathan** You said that out of the 350 crores, you have already paid about 127 crores.
- J. C. Sharma** We do not discuss the monthly things that way.
- Abhishek Ranganathan** I am just trying to gauge that, just taking from the earlier question.

J. C. Sharma It becomes confusing kind of a thing. The basic idea was that, yes, we have a clarity that debt has to come down to 0.5, which we have achieved. We would like to grow this year also and we will be requiring a lot of money for our commercial projects and for our ongoing projects as well and we will have even improved cash flows as well. Let us see how things span out.

Abhishek Ranganathan Right sir, the second question I have is on the NRI sale which you mentioned. Does it coincide with the fact that these are seen in particular projects sizes and locations. Would it be fair to say that the jump which you had seen in NRI interest, apart from the rupee depreciation would be also in projects, which are of particular size or ticket size or in some locations? If you could just share some insights as what you have seen?

J. C. Sharma They are neutral as such to the project sizes or to the prices. They have purchased the Gurgaon or the Sobha Lifestyle also and they have purchased the 3500 sq. ft. apartment or even the Mysore plot or a Coimbatore apartment as well. So, across all products, all projects we have NRI customers sort of a thing. And especially when there is a pressure on rupee, we have seen some sudden interest increase in the NRI sales, which we feel prima facie, a good for real estate.

Abhishek Ranganathan Okay, is that also the reason, if I look at the trend over the last about 5 quarters of the bank funding of the customers, we see continuously the self-funding portion has been increasing. So now it was like in the first quarter was 42%, now its 55%, would that be right way to look at, NRI sales are actually influencing this?

J. C. Sharma I cannot actually that way make out that whether NRI sales influencing or not. We say that there is basically a structural otherwise improvement of the customers' profile. Normally, the speculators or the investors still are not there including in Delhi where the market primarily still remains driven by the investors and we do not encourage as such investors who determine the price or dictate terms at the time of buying. Thereafter it depends, time-to-time who buy, when buy sort of it.

Abhishek Ranganathan I mean what would basically explain, is it that customers are actually now holding back their purchases because these customers applied for loan,

the percentage is just falling, I am just trying to see if I could actually infer something from these numbers.

J. C. Sharma It's a good question that also reflects that is why sometimes we get so much worried with the interest cost hike. Still there are people above 50% who can afford to write the cheque and buy on an average of 1 crore apartment. Where they get funded? We do not know, but as far as in our books are concerned, the apartment is not assigned to a third-party.

Moderator We will take a last question from the line of Tejas Sheth, please go ahead.

Tejas Sheth Sir just two questions, you had mentioned that you will be selling the land on an opportunistic basis. I just wanted to have an idea of how much of your land bank is on the sale mode on the block right now?

J. C. Sharma Currently, nothing.

Tejas Sheth The second question is how you see the Chennai response for your two projects? Because that's been the location which you have entered in Q4, you see it as a lukewarm?

J. C. Sharma We want to say it is lukewarm, because it's again a new market where you need to demonstrate the product sort of a thing. We are very happy with the performance what so far we have shown both in Serene and Meritta and especially in the Serene project as things stand.

Moderator Thank you. As there are no further questions, I would now like to hand the conference over to Mr. Tejas Sheth for closing comments.

Tejas Sheth Thank you sir. for giving us the opportunity. Thank you all and good evening.

Moderator Thank you. On behalf of Emkay Global Financial Services that concludes this conference. Thank you for joining us. You may now disconnect your lines.