Q1 2013 Earnings Call – DLF Dt-7 Aug'12

Operator

Ladies and gentlemen, good day and welcome to the DLF Limited's Q1 FY 2013 Earnings Conference Call. We have with us today Mr. Ashok Kumar Tyagi, Group CFO, DLF Limited; and Mr. Saurabh Chawla, ED, Finance of DLF Limited. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Saurabh Chawla. Thank you and over to you, sir.

Saurabh Chawla

Thank you, and good afternoon, ladies and gentlemen, and welcome to DLF's Q1 FY 2013 call.

Just to begin with, I'll just highlight our financial results. All in comparison with the Q1 FY 2012 numbers, the consolidated revenue stood at INR2,329 crores, which is down by about 7-odd% from INR2,500-odd crores. EBITDA stood at INR1,198 crores, up about 3-odd% from INR1,168 crores from the quarter last year.

Consolidated PAT stood at about INR293 crores compared to INR358 crores and EPS for the quarter was at INR1.72 per share. If you were to compare against the last quarter of fiscal 2012, then the consolidated revenue stood at INR2,329 crores compared to INR2,747 crores from the previous quarter. The EBITDA was up by about 29% at about INR1,198 crores compared to the INR928 crores in the previous quarter, and the consolidated PAT stood at about INR293 crores, up about 38% from the INR212 crore in the previous quarter. In the previous quarter, of course, we had taken the one-time adjustment, so one needs to harmonize that.

From the general economic perspective, we continue to see softness in the market, primarily because of whatever the global conditions we all are experiencing and also the policy inertia that we have seen over last 12 months to 18 months. The investor sentiment also continues to be weak in most of the micro markets, except one or two, where, even today, launches that are happening continue to see some kind of traction.

Given the drought conditions, given the high interest rate regime scenario, everybody has downgraded the GDP growth rates, so that will have an impact on sentiment and on income growth, which will, of course, have an impact on the absorption of real estate in the marketplace. And last, but not the least, the inflation continues to be sticky, which will make it very difficult for the Central Bank to reduce interest rates and thereby, of course, affecting the real estate absorption.

So, basically, in very difficult macro conditions, the company continues to perform as per its medium term plan. We continue to work towards consolidation of our operations of our teams and of our execution. And we remain committed to closing some of our divestments, which we had articulated some quarters back. Some traction has been made on that end. We are in pre-closing diligence in few of them. But a deal is not closed till it is closed, so just to put that disclaimer there. Hopefully, we should have some news out in the marketplace in short period of time.

So, in conclusion, we don't see much relief in the short run, as such at least for the next 12 months to 15 months. We see our results to be in line with the macro market conditions. We see our launches coming more towards the mid to end of the third quarter and the fourth quarter of this fiscal year. Some of those launches will not hit our books from the POCM perspective. I'm highlighting these aspects so that there is no irrational exuberance that gets built up despite some momentum that we see in some of our businesses.

So, that's where we are in our business. If I were to go on segment-specific, then the development company of ours, which is the sale side of the business, it booked gross sales of about 1.34 million square feet versus about 6.75 million square feet in the last quarter, and 2.3 million square feet in the previous year's same quarter.

And, again just I want to highlight overhead is that, for us, first and the second quarters are usually muted. It's in line with our general trends over the annual sales scenario. Out of this, Gurgaon, we sold about 0.5 million square feet; Super Metros, about 0.25 million square feet; and rest of India about 0.59 million square feet.

On the Rent Company, we did a leasing of about 0.29 million square feet versus 0.25 million square feet in Q4 of FY 2012, and 0.73 million of the same corresponding quarter last fiscal. The rental income, combined from both offices and retail, is now standing at about INR400 crores. During this quarter, we have done monetization of some of our non-core assets, amounting to about INR369 crores. As I said earlier, the other large transactions are at an advance stage of their progression and, hopefully, in due course of time, we'll be able to give the announcements to market. The delivery during this quarter has been about 2.05 million square feet. This is primarily the commercial IT buildings in Gurgaon and in Chennai.

So that's broadly what our current performance metric is. Details are there in the presentation. However, I would prefer to give the platform to the analysts to ask questions in a limited time period of one hour that we usually have. And I'll leave that podium to Ashok to answer. My request to the analysts friends is that please do answer only – ask only one question at a time and you can always have a chance to come back to ask a subsequent question. Thank you.

Q&A

Operator

Thank you very much, sir. Ladies and gentlemen, we'll now begin the question-and-answer session. [Operator Instructions]
The first question is from Aditya Soman from Goldman Sachs. Please go ahead.

<Q - Puneet Jain>: Hello. Hi, good evening, everybody. This is Puneet Jain.
<A - Saurabh Chawla>: Yeah, Puneet.

<Q - Puneet Jain>: My first question – my question is actually with respect to debt reduction target for FY 2013. Given the fact that we are already four months into FY 2013, is there any change in thought process or change in target as to what you want to achieve in terms of debt reduction for FY 2013?

<A - Ashok Kumar Tyagi>: Okay, Puneet. As Saurabh articulated, and as we had articulated in the last quarter call as well, our debt deduction target in FY 2013 is really based on three or four of these big ticket non-core disposals. And, in all fairness, we are at advanced stages of discussions and – on progress on all of those. Honestly, these are not stuff that despite our best wishes we can always time to the end of a quarter of this analysts call. But in all fairness, we continue to say very optimistic that we should be able to close some of these big tickets deals this year and have a net – our net reduction across from a debt standpoint of somewhere around INR5,000 odd crores by March 31, 2013.

<Q - Puneet Jain>: And with this respect, can you also give some more space, shorter-term timeline, possibly, how much could it be to a September-end, more than it's three months?

<A - Ashok Kumar Tyagi>: No. For the reason that honestly, all of these deals are long cycle time deals, given the quantum of the money and the complexities involved. Hence, if a September 30 becomes an October 18 or November 4, honestly beyond a point, I wouldn't get bothered. So there is no point in trying to micro-manage it across the quarter-end. But we do believe that before the end of this fiscal year, we should have achieved this target of about INR5,000 odd crores of debt reduction, primarily riding on these non-core disposals.

<Q - Puneet Jain>: Okay. And within these three, is there any particular assets still which is going faster or slower?

<A - Ashok Kumar Tyagi>: No, obviously, they are, but honestly I don't think that information honestly that is worth sharing right now because these things change by the week, frankly.

<A - Saurabh Chawla>: Every week is a different story, Puneet.

<Q - Puneet Jain>: Okay, thanks a lot.

<A - Ashok Kumar Tyagi>: Thank you.

Operator

Thank you. The next question is from Anubhav Gupta from Maybank. Please go ahead.

<Q - Anubhav Gupta>: Good morning, everyone.

<A - Ashok Kumar Tyagi>: Hi.

<Q - Anubhav Gupta>: What was the average selling price for 1.34 million square feet of area which you booked in quarter one?

<A - Ashok Kumar Tyagi>: Okay. Overall, it was about INR4,500 per square feet.

<Q - Anubhav Gupta>: Okay. And sir, the project deliveries in quarter one were unchanged at 2 million square feet.

<A - Ashok Kumar Tyagi>: Yeah.

<Q - Anubhav Gupta>: Don't you think that is significant risk for the downside if the P-sales do not pick up in second half?

<A - Ashok Kumar Tyagi>: I'm sure of the connect between the two pieces of data that you're mentioning. From a delivery standpoint, as we have mentioned, that we are in the final stages – we've begun the handover for the two of the three phase five projects already. The third one should begin shortly, which is Magnolias. The 10 million square feet – that's 10 million square feet – there's a 12 million square feet which we should begin handover from December in the new Gurgaon area. There is a 3 odd million in Chennai that we have partially begun handover and partially would be handing over.

So, overall, I think – I mean across the next 12 months to 18 months period, starting say it on January 2012 till say June of 2013, we are talking of almost a 20 million square feet plus of total handovers in deliveries. So clearly there's no let-up in the traction on that piece.

On the second piece of the sale piece, obviously as we get more [indiscernible] (0:11:56) we have some residual stocks especially in rest of India in the projects that we already launched and some in Gurgaon, as well, to be fair. And as we get more and more new launches onto the market primarily from Q3 onwards, you'll hopefully see that pipeline build up as well.

<Q - Anubhav Gupta>: Okay. And just a follow up question on that, what are the prominent new launches you're looking for in second half of current financial year?

<A - Ashok Kumar Tyagi>: Overall, I think we are looking this year at a total sales plan of ballpark that we guided last time of about INR6,000 crores INR6,500 crores, all told. And honestly given our track record for the last three years, I think a significant chunk of it will happen in the second half, because it's really almost from the Diwali onwards that these things really begin building up. So, really if you ask me the October to March timeline, it is the one where a significant chunk of our sales happen. And I don't foresee it to be different this year.

<Q - Anubhav Gupta>: All right. Also, any prominent projects which you'd be launching, to name a few?

<A - Ashok Kumar Tyagi>: We are clearly beginning to – we're clearly sort of looking to launch a few of the projects in the Gurgaon area, including potentially a project in the Golf Course area, as well, towards the latter half of this year and some follow-up launches in rest of India.

<Q - Anubhav Gupta>: All right. Thank you.

<A - Ashok Kumar Tyagi>: Thank you.

Operator

Thank you. The next question is from Gaurav Pathak, from Standard Chartered. Please go ahead.

<Q - Gaurav Pathak>: Yeah, hi sir. I wanted to ask a housekeeping question. Basically, there is a significant increase in your trade and receivables for the quarter. What is this pertaining to?

<A - Ashok Kumar Tyagi>: The increase in the other... [audio gap] (13:41-13:50)

Operator

Excuse me. This is your...

<A - Ashok Kumar Tyagi>: [indiscernible] (13:50) Okay. So this is – actually if some of you would recall, this had happened about in March or June of 2011 also. In a couple of our projects, we've got new areas sanctioned in the same project. And you know, the way the POCM computation works, it leads to an increase both in the other current assets column, as well as in the current liabilities column. So, if you were to look at the balance sheet on page nine and page eight, if I'm not mistaken, of my presentation, you'll see that other current liability is up about INR800 crores and other current assets are up about INR1,100 crores. So, this is, honestly, more to do frankly with the fact that some additional area has gotten sanctioned in a couple of our existing projects, which would be put up for sale in the coming quarters. And that has led to a re-computation of the entire POCMs for those projects, including the attendant balance sheet impact that it has on both the asset and the liability side. If you wish offline, you could check with [ph] Raji (15:02) and he can take you through the specifics of it.

<Q - Gaurav Pathak>: Okay. And in terms of your lease portfolio, are you seeing any emergence of uptick in that P-portfolio because the level has been on the lower side for some time now?

<A - Ashok Kumar Tyagi>: Yeah. Unfortunately, no. I mean, so obviously it continues run at this point 3.4 million square feet a quarter. And we'd obviously wish that it were higher. But frankly, one is not seeing a significant increase in off-take, the good news is that one is continuing to see some degree of inching up on the rentals. So those continue to strengthen. And frankly with the existing portfolio from a health standpoint, continues to be very strong. But in terms of new rental off-take, yes it has been on the slower side for the last two quarters and, at least, as of right now, it continues to be that way.

<Q - Gaurav Pathak>: And sir, for your upcoming malls?

<A - Ashok Kumar Tyagi>: We have only one significant upcoming mall in Noida, which would be only commissioning sometime in middle of next year. So, honestly it's still some distance away.

<A - Saurabh Chawla>: Yeah, the [ph] real re-leasing (16:07) will start actually six months... [indiscernible] (16:10)

<A - Ashok Kumar Tyagi>: [indiscernible] (16:10) ...honestly, by December, January, yeah.

<Q - Gaurav Pathak>: Okay, thank you. That's it.

<A - Ashok Kumar Tyagi>: Okay.

Operator

Thank you. The next question is from Rahul Kumar from Jefferies. Please go ahead.

<Q - Anand Agarwal>: Yeah, this is Anand here. Thanks for taking my question. Just a follow-up on the increase in the FSI that you talked about, just wanted to understand, I mean, why should it impact your P&L? I mean, especially, because on a standalone basis, the reported numbers, when I look at it, your gross margins are more than 100%?

<A - Ashok Kumar Tyagi>: You mean standalone, standalone [ph] at a dealer (16:42) standalone level?

<Q - Anand Agarwal>: Yeah, the standalone results that you've given, I mean, the gross margins, they are more than 100%. So just wanted to understand how the increase in FSI would lead to that?

<A - Ashok Kumar Tyagi>: The way it works, Anand, is that as soon as a project has 3 million square feet of total budgeted area when the project begins, which say, has a sales value of INR200 crore and construction cost of INR100 crore. And it is at a stage where you have sold 100% of it and you have incurred 50%, so you are [ph] looking at (17:17) 50% of the profit so far.

<Q - Anand Agarwal>: Right.

<A - Ashok Kumar Tyagi>: Suppose in that 3 million square feet, one more million square feet of contiguous FSI under the same license. The definition that we've always followed for us to recognize a project as being a different project or an extension of the same project is the license. If it's the same license, it is unfortunately the same project from a tax standpoint. So, if in the same license, I manage to get an additional million square feet for whatever reasons, then this total budgeted margin – sale budgeted margin and budgeted cost of that project, all the three numbers go up. The actual cost incurred stays the same.

So suddenly, you will see the POCM percentage drops, which could, at time, like in this particular quarter, lead to actually a disproportionate reversal in the construction cost book and a part reversal also in the face value book at times, which is the reason – and the balance sheet impact of that, honestly, comes in the spiking of both the other current assets and the other current liabilities. Obviously, Anand, since you're a fairly technical guy in terms of your understanding and sophistication, what we can do is, that if you wish, I could actually take you through this complete set of computation on offline method for us to be on the same page on this.

<Q - Anand Agarwal>: No, sir. I think what you explained was very clear. I mean, I think that part of the explanation – so basically, I mean what I under is, there's been a – there would normally be a write-back of the construction expenses because the POCM falls.

<A - Ashok Kumar Tyagi>: Yes, exactly. And you will – and those construction cost will again come back to hit the bottom line in the following quarter, but in the quarter when this aggregation takes place, you could see a reversal.

<Q - Anand Agarwal>: So, I mean, just to then get a sense, I mean because the EBITDA margin for the last three quarters – I mean, last quarter was lower because of the cost revision and everything else.

<A - Ashok Kumar Tyagi>: Yes, yes.

<Q - Anand Agarwal>: What would we look at on a normalized basis? I mean, from... [indiscernible] (19:11)

<A - Ashok Kumar Tyagi>: So, on this Anand, actually, we've always maintained that, if you ask me, our center point is 45%. And it could swing plus/minus to 3 odd percent on both side. So, I say, a number less than 40% is always driven by an extraordinary reason and a number higher than 50% is again driven by an extraordinary reason in most cases.

<Q - Anand Agarwal>: Understand. And just on the follow-up to what you mentioned about some of the projects, which will get launched this year, might not come up for revenue recognition, more specifically, could you just clarify if Magnolias 2, whenever they are launched, will that come up for revenue recognition this year or not?

<A - Ashok Kumar Tyagi>: Our assessment is that since the entire Phase V is driven by a single license, hopefully Magnolias 2 should come for revenue recognition, but a lot of standalone projects in Gurgaon and New Gurgaon may not come in for revenue recognition this year.

<Q - Anand Agarwal>: Okay, that's it. Thanks a lot.

<A - Ashok Kumar Tyagi>: And Anand, again you're losing your touch. You used to be an opening batsman across all our conference calls. Now you're coming three-down, four-down, what's happening?

<Q - Anand Agarwal>: People have got on to my game, I mean. So, they are even pressing the button before me.

<A - Ashok Kumar Tyagi>: Okay.

<Q - Anand Agarwal>: Thanks a lot for it. Thanks.

Operator

Thank you. The next question is from Ashutosh Narkar from HSBC. Please go ahead.

<Q - Ashutosh Narkar>: Yeah, hi sir. Just a follow-up question, right now, is that have we started accounting for as per the new accounting policy? And is it because of this reason that some of the projects from Gurgaon will not get accounted this year?

<A - Ashok Kumar Tyagi>: That is correct. So if you read the accounting policy guidance, note that – let me sort of take a minute. It's a guidance note, no? It's not a policy. So, we are not naturally driven to adopt it compulsorily, but being a prudent and a responsible player, we have chosen to adopt it going forward. The way the guidance notes says is that you should adopt it for all new projects. So honestly, for all projects which are based themselves on new licenses, which are sort of avoided after 1-4-2012 or which get launched after 1-4-2012, those would be covered under the new scheme, where we'll not be able to recognize the revenues till 25% of the cost incurrence has happened.

And for the purpose of cost incurrence, the land charges will be excluded, so from a cash flow standpoint, so that will what it will be. So, some of our newer standalone project, be it in Gurgaon or rest of India, it will start impacting us this year onwards. For some other projects, like the one that Anand mentioned before you, where basically the new project is – the new area is covered by earlier license, hopefully, we should be able to continue using this existing accounting policy.

<Q - Ashutosh Narkar>: Can you give us a guidance as to what portion of revenues this year would be guided by the old projects?

<A - Ashok Kumar Tyagi>: No, honestly, we haven't done a fine tuning computation, but clearly if you were to compare on a like-to-like basis, we will end up reporting lesser "revenues" and profits this year than what would have been possible had the old accounting policy continued.

<Q - Ashutosh Narkar>: So, just again, the same kind of connecting question, ex-of-Magnolias, there are not too many projects... [indiscernible] (22:34)

<A - Ashok Kumar Tyagi>: No, there are. No there are some quite colonies where we have unsold inventories. There are projects in places like Chandigarh, Panchkula, Mullanpur, where we had existing unsold inventories. So, wherever we had existing unsold inventories/additional areas covered under a [indiscernible] (22:54) license, I think the older accounting policies will continue. Wherever it's a completely standalone new project, the revenue recognitions will get deferred. But in all fairness – and in all fairness, this is the first time highlighted I was also concerned. But really given the fact that our real estate projects takes about three to four years to eventually commission, what we are talking about is that maybe some projects will get revenue deferral for six months to nine months period sort of a thing. And I think – so it will impact obviously in the first year when it is introduced, but eventually I think this will just get settled into a routine of its own. This unfortunately, you're right, is the year of transition when this impact could potentially be felt, but I think that from 2013, 2014, I think the [indiscernible] (23:42) continues to be a matter of discussion on the calls really.

<Q - Ashutosh Narkar>: Sure. And just a last question on your cash flows, do you expect to meet up the cash flows to service your debt probably during the course of the year?

<A - Ashok Kumar Tyagi>: Yeah, yeah absolutely. I mean, we believe that, frankly, with our focus on the non-core pieces, I think we are not running a challenge at all. We anyway, I think, are reasonably well covered from our debt obligation, at least, for the next three to four months. So I think on a debt standpoint, I mean this company has not defaulted in 60 years. I don't foresee that history changing into the future.

<Q - Ashutosh Narkar>: Okay. Thank you.

Operator

Thank you. The next question is from Mahesh Nandurkar, from CLSA. Please go ahead.

<Q - Mahesh Nandurkar>: Hi, good evening. My question pertains to the fact that you mentioned about Phase V being just under one license. So my question, therefore, is has there to be any change in this policy of ours or...

<A - Ashok Kumar Tyagi>: No, no.

<Q - Mahesh Nandurkar>: ... or it has been like that ever since?

<A - Ashok Kumar Tyagi>: No, this has been like that right from inception. I mean, I don't know how many years.

<Q - Mahesh Nandurkar>: Okay. So if I could have a, what to say, a further clarification, then in the Phase V, you have got 20 odd million square feet of space, out of which I think about 11 million square feet, 12 million square feet has been launched and sold. So, for example, if you talk about project like Aralias, which was perhaps the oldest project which has been completed and sold out et cetera, so do you want to say that only, say, 60% of Aralias revenues would be recognized as we speak?

<A - Ashok Kumar Tyagi>: Okay. So, Mahesh, obviously this is a complex question with tax and accounting implication, which I'll encourage for us to have an offline chat. But still what I'd say is that not just Phase V, any project what we have chosen to do right from that start, maybe, I don't know, seven, eight, nine years back whenever, is that the license defines what is the definition at the boundary line of a project. So if it's a single license for each building, it's a single project for each building. If it's a single license for each block, it's a single license for each block. If it's a single license for the entire area, it's a single license for the entire area. And that's what we are and, obviously, then the revenue recognition principle that you arrive at based on that single license is what get applied uniformly across the board. Yeah.

<Q - Mahesh Nandurkar>: And my second question pertains to overall disclosure standards. When DLF got listed in 2007, you're perhaps the best in terms of disclosure that any Indian company would do. But in due time, like many of your peers have actually caught up and disclosing much more data at the project-specific level and data like order book et cetera, et cetera. Do you have any plans of improving the data disseminations so as to enable analysts and investors to sort of make a better and very informed decision?

<A - Ashok Kumar Tyagi>: So, I hand over to Saurabh but I think the one basic difference that you must also understand clearly is that potentially I'm happy lifting projects in unsold areas and all of those things, I'm happy to do it. It will just convert this – at our size and scale and complexity, the analyst presentation could be a 200 page report, frankly. What you know, I think we, at times, don't appreciate Mahesh, is that a smaller player can afford to give more information in the same degree of space and time because the sheer simplicity of the operation there, frankly. With us – this is not a luxury I enjoy given the scale of operation and the number of projects et cetera. But in all fairness, if there is ever a specific query that analysts have on individual projects or something, we are more than happy.

And again, disclosure standard is something that keep on evolving. So, your input, in fact – and also for – but I think you've sent a mail to Saurabh also the other day. So, your input is well taken. We would relook at you potentially what additional materially important data – honestly, I'll give you a simple example. All of us keep on harping on 1 million square feet. A million square feet in Indore and a million square feet in Phase V are completely different things, but all of us love if we hit 12 million square feet and sort of balk if we hit 9 million square feet, even if the mix was completely – so I think what happened is that yes, a lot of people have got into disclosing a lot of information. How much of it is, honesty, relevant and important from a analyst standpoint, I think is overtime what we need to appreciate. But till that time, obviously, if people like you and your colleagues has specific individual questions or specific individual ideas, we are more than happy to address them going forward.

<A - Saurabh Chawla>: I think Manish, I just want to add over here is that, yes we were the first off the block in the public markets and we set the standards at that time, we haven't changed that. We've been consistent for the last five years in whatever we have been disclosing to the marketplace. We've always maintained and we will continue to maintain that we are resistant giving project-wise data. There is an environment out there which is not conducive for us for us to give project-wise data. Having said that, you're most welcome to come and visit us and we will share with you all our project-wise budgets and how we compile that data. But we don't want them to be published in the marketplace, because the environment is not conducive. I hope you would appreciate that. So I would just leave it at that. Others are doing a great job. It's great for the industry. We follow what we have to follow in our own interest. That's all.

<Q - Mahesh Nandurkar>: Okay, fair enough. Thank you very much.

Operator

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

<Q - Sameer Baisiwala>: Hi. Good evening, everyone. First question is related to a couple of transactions pending. One is the promoter's stake 40% in DCCDL if they choose to convert. What is the current thought process and the timelines on this? And the second is about promoter brining down the stake to 75% by, I think, middle of next year. So any thought process and timelines on both these transactions?

<A - Ashok Kumar Tyagi>: Okay, the timeline on the first one based on the agreement right now continues to be time of the promoters calling up to March 2015. So, I think we still have about 2.5 years or 2 years 9 months into the future to think about it, to structurize it, et cetera. On the second piece of the public float requirements that you're talking about...

<Q - Sameer Baisiwala>: Yes.

<A - Ashok Kumar Tyagi>: ...clearly, we will abide by the laws of the land as they are. And so, eventually, if they say that we have to dilute by a certain date, obviously we will adhere to that process.

<Q - Sameer Baisiwala>: Do you still have to be the calendar 2012 event or calendar 2013 event, the second one?

<A - Saurabh Chawla>: The second one, Sameer, it all depends upon, one, where the regulations are. I don't think it'll be a calendar...

<A - Ashok Kumar Tyagi>: 2012.

<A - Saurabh Chawla>: ...2012 event for sure.

<A - Ashok Kumar Tyagi>: Yeah.

<A - Saurabh Chawla>: The windows of opportunity are very short. We will, of course, wait and see as to how the impacts of our non-core disposals or the impact on our reduction in debt and, of course, the kick-off that we'll have probably end of third quarter to fourth quarter of the new sales will have an impact on our stock. We'll take it from thereon.

<A - Ashok Kumar Tyagi>: Also I think – I think it's also important to understand, and I think it is honestly in the government's court, as well, to assess whether given the state of the public markets right now, both in India and globally, frankly, are the next 12 months the best time to offload such a quantum of potential divestments into the market, both from the private sector and potentially from the public sector. And therefore, it's something that really that the government has to take stock of.

<Q - Sameer Baisiwala>: Okay. And just one final question. Income tax disallowance of SEZ profits, which now almost total up to INR3,000 crores...

<A - Ashok Kumar Tyagi>: Yes.

<Q - Sameer Baisiwala>: ...for the assessment year 2009 and 2010. Can you shed somewhere light on this? If I'm not wrong, I think this should be DLF direct transaction. That's when you were selling SEZ. So what was the tax that you did pay on those transactions and what really is the key bone of contention between you and the government?

<A - Ashok Kumar Tyagi>: So, I mean, what I would say is that while obviously beyond that point I don't think that in the public forum, I'll talk about our complete – the issues of our disconnect with the press department, but suffice to say that all of those individual cases are in their respective appellate forum. And I think – and you're right that the older ones have now almost been there for 18 months. And I think, over the course of the next few months, we should begin seeing some eventual outcome emanating from at least the first set of appellate forums.

And then take let's take it once we have those to see and re-access what has to be done potentially going forward. But in all fairness, there are no other significant issues that the company has. It is really just this one set of transaction on a single specific disallowance for a point with the tax department. And we are in the appellate forums that the government has set out. So, let's see how it moves.

<Q - Sameer Baisiwala>: Okay. How much tax did you pay on that profits?

<A - Ashok Kumar Tyagi>: I think from a payment standpoint, I don't think it's been very onerous so far, because obviously we've got, in some cases, clearer demand, et cetera. So I don't have the number offhand.

<A - Saurabh Chawla>: But it is not the INR3,000 crore for sure.

<Q - Sameer Baisiwala>: Okay.

Operator

Mr. Baisiwala, do you have any further questions?

<Q - Sameer Baisiwala>: I'm done. Thank you.

Operator

Thank you. The next question is Saurabh Kumar from J.P. Morgan please go ahead.

<Q - Saurabh Kumar>: Hi, sir. Actually, I have three questions. First, is your sales span of INR60 billion INR65 billion, of this, if I recall, Magnolias used to be between INR15 billion to INR18 billion. So fair enough to say that the other projects will be contributing the balance?

<A - Saurabh Chawla>: It's correct. That is how the math works.

<Q - Saurabh Kumar>: Okay. And the second is, basically off your rent of INR16 billion now, which is on an analyzed basis, what percentage will be Cyber City?

<A - Ashok Kumar Tyagi>: Cyber City would be about 10 million square feet... [indiscernible] (34:57)

<Q - Saurabh Kumar>: Roughly INR7 billion.

<A - Ashok Kumar Tyagi>: Yeah, Cyber City would be in the range of about INR600 crores. I think INR600 crores to INR700 crores is what I'd say that number should be.

<Q - Saurabh Kumar>: And sir, this was rented out at what INR50, INR55 or...

<A - Ashok Kumar Tyagi>: No, no, different segments and different buildings in Cyber were rented out at different rental points depending on when the lease started really. So, I think, you'd have something from the numbers that you are taking to number significantly higher than that.

<Q - Saurabh Kumar>: Okay, what I wanted to understand was is there a scope for any rent escalation in Cyber City, given that the spot rents there are now significantly higher?

<A - Saurabh Chawla>: Saurabh, absolutely. And that's one of our strategies also in Cyber City is to ensure that the rapid metro which is being built out gets completed in time, because that will have an effect on the rentals in that area. And whilst we have enough now available for us to rent out, the next round of renting that'll happen will be at a much better rent rate. So, that is the part of our strategy where, in some sense, we are taking a call over the next three to four months not to really press the peddle but come back with a better rental in Cyber City.

<Q - Saurabh Kumar>: But like what will be difference between the spot and the average right now? Do you have an idea or...

<A - Saurabh Chawla>: No, no it varies. And that's why, again, when Mahesh mentioned that why don't you share more granular details, within the same building, there could be a rental difference of almost 60%, 70% at different points of time. And if I start sharing such granular details, the same guys after reading your research reports and other stuff will come back and renegotiate the deals with me. I don't want to do that. So, the range is what you know. The spot in that difference would be about 15% odd percent.

<Q - Saurabh Kumar>: Okay, that's helpful. And sir, lastly on the two other cases, which I wanted an update on, one is your Chanakyapuri case and one is on the CCI, and where do we stand on that?

<A - Ashok Kumar Tyagi>: Chanakyapuri, you're talking about the residential Chanakyapuri project?

<Q - Saurabh Kumar>: Both actually, the mall as well.
<A - Ashok Kumar Tyagi>: The other...

<A - Saurabh Chawla>: Other is Chanakya Cinema.

<A - Ashok Kumar Tyagi>: Chanakya Cinema, there is no case [indiscernible] (37:22). On the Chanakyapuri case, per se what you're saying, obviously there was an order of the High Court and we are working with the government to basically find the correct solution. Once we have it and, obviously, we will share and announce it. And what was your second question?

<Q - Saurabh Kumar>: Sir, on the CCI, so basically from what we understand...

<A - Ashok Kumar Tyagi>: From the CCI, as you know we are with the Competition Appellate Tribunal, COMPAT. And we had a hearing on July 18, and now our next hearing is October 4, because the COMPAT Chairman retired and so there is a new Chairman and, obviously, so our next hearing is now on October 4.

<Q - Saurabh Kumar>: Sir, but given the CCI, I think, your case is on a fast track, so can we expect a resolution this year or...

<A - Ashok Kumar Tyagi>: I don't know what, honestly – I mean, frankly, we have no means of, all fairness, determining at what pace these things are decided.

<Q - Saurabh Kumar>: All right. Thank you very much.

Operator

Thank you. The next question is from Sandipan Pal from Motilal Oswal. Please go ahead.

<Q - Sandipan Pal>: Hey, just one follow-up question on the RentCo, right now we have leased around 23 million square feet. So out of that how much is operational, especially after this 2.05 million square feet of delivery this quarter?

<A - Saurabh Chawla>: We received what are operational, 20 million square feet, 21 million square feet is operational.

<A - Ashok Kumar Tyagi>: 23 million square feet, just about numbers more than 22 million square feet is what is actively rent earning right now.

<Q - Sandipan Pal>: Okay. And going forward, how do you see these numbers for the – I mean end of this year?

<A - Ashok Kumar Tyagi>: So honestly, as you're seeing that at these run rates, we are looking at annual lease flow of about 1.5 odd million square feet, 1.5 million square feet or 2 million square feet a year. So that is the sort of accretion that we see, I think, at least for this year. Hopefully, this should pick up going forward, but at least for this year we are seeing a number between 1.5 million square feet to 2 million square feet as the net accretion of the total leased area.

<Q - Sandipan Pal>: Got that sir. And the 7 million square feet of under construction RentCo, so what is the kind of broad timeline for that to get delivered?

<A - Ashok Kumar Tyagi>: These are different buildings. Many of them are actually at a pretty advance stage of completion. Some of those are [indiscernible] (39:39) buildings, and this includes the Noida Mall, which is still about 1.5 million square feet, which as we said, we are looking at the completion toward the second half of next fiscal. So I'd say that most of these buildings that are expecting the 7 million square feet are completable in the next 18 odd months.

<A - Saurabh Chawla>: Just to add over here, the CapEx is incurred only once we have good visibility or leasing happening there. So, we are in that mode of capital conservation as far as our investment buildings are concerned. The only project that is getting really built out aggressively is the Noida Mall, where the pre-leasing will begin about six months down the road.

<Q - Sandipan Pal>: Fair enough, sir. And just one more follow-up question if I may ask. In your result release, you have mentioned about one change in the accounting policy that is related to timely payment rebates, so if you can throw some light on that?

<A - Ashok Kumar Tyagi>: No. I mean, in all fairness, I think, it is less of an accounting policy change and more of an accounting policy traditional clarification, which is basically that we accrue PPR in our books for a customer once the customer has fulfilled all of their commitments that they had to make to earn the payment rebate. It's obviously, formerly passed on to him when the final settlement of accounts happens, which may be a process which is two or three month away. So we just thought, by the way of conservatism, which is we must accrue it in the books when, from a customer standpoint, there is nothing further that he needs to do to earn this particular credit.

<Q - Sandipan Pal>: All right, so basically this INR35 odd crores review has been delayed because of that which you might have earned if you have followed the previous accounting policy?

<A - Ashok Kumar Tyagi>: This INR35 crore of revenue impairment would have normally happened maybe in the next quarter, which has now been under this policy, we have chosen to accrue it now. And this is the policy we'll consistently follow going forward.

<Q - Sandipan Pal>: Okay, understood. Thank you.

Operator

Thank you. The next question is from Aashiesh Agarwaal from Edelweiss Securities. Please go ahead.

<Q - Aashiesh Agarwaal>: Thank you, very much. Hi, every one. Thanks for taking my question. My question is with respect to the CapEx. I was looking at the cash flow statement, and that shows about purchase of fixed assets of about INR480 crores. So, a, could you throw some light on the breakup of this as to which assets and what will be the guidance for CapEx for the next few quarters. Thanks.

<A - Ashok Kumar Tyagi>: Okay, give me a sec. INR480 crores [indiscernible] (42:19). Because totally, if you see that we have spent about INR200 crores this quarter for purchase of new lands and about INR170 crores, INR180 crores – INR150 crores towards build-out of rental properties. So INR350 crores is actually what we have spent in terms of non-operational expenditure. As far as the statement you're reading, I think, there is INR480 crores purchase of fixed assets, including CWIP and there's INR385 crores of the proceeds from fixed assets.

Also this includes typically – this is an accounting and typically include the interest calculations for the quarter made on those projects, et cetera. So, this is not strictly a cash to cash comparison really. From a pure cash outflow standpoint, we've always maintained for the last few quarters that we are looking at a number ballpark of between INR300 crores and INR350 crores a quarter towards land and CapEx buying. And I think we've stayed broadly in that range.

<Q - Aashiesh Agarwaal>: Sure, thank you so much.

<A - Ashok Kumar Tyagi>: Thank you.

Operator

Thank you. The next question is from Atul Tiwari from Citigroup. Please go ahead.

<Q - Atul Tiwari>: Yes, sir. Thanks for the opportunity to ask the question. Actually, I entered the call a little late, so maybe some of these questions have already been answered. Sir, what was the sale value of sales booked in the quarter corresponding to this 1.34 million of square feet?

<A - Ashok Kumar Tyagi>: It's INR600 crores.
<Q - Atul Tiwari>: Okay, sir. And, sir, you sold your stake in add-on DLF Hotel Holdings for INR5.67 billion. But in your presentation, we can see only INR3.7 billion coming from asset sales. So...

<A - Ashok Kumar Tyagi>: The difference being that the INR5.7 billion included our net current assets of about INR2.2 billion, which end year was getting completely consolidated in our books, because this was an entity which we owned 100% as of December end. So, the net cash flow that came in was really only 3.7 million square feet – oh, sorry INR3.7 billion, of which actually Adone was only INR2.8 billion, because the balance money had come in in the previous quarter as an advance. So, but overall, the Adone transaction basically was worth INR5.7 billion, of which INR2 billion were anyway getting consolidated year end and INR3.7 billion is basically what the buyer – or INR3.6 billion is what the buyer eventually paid us for the entity, less its net current assets.

<Q - Atul Tiwari>: Okay, sir, okay. And sir, again on your cash flows, the cash flow statement that has been given in your investor presentation has around negative cash flow of INR1,333 crore from increase in trade and other receivables. Okay, while on your balance sheet, at least, on the trade receivables side, actually the trade receivables have come down by INR80 crore, INR90-odd crore in the quarter. So, the....

<A - Ashok Kumar Tyagi>: But the other current assets have gone up by about INR1,100 crores.

<Q - Atul Tiwari>: Okay. So, other current assets also have some portion of receivables?

<A - Ashok Kumar Tyagi>: Yes, so, in all fairness, this is only the second quarter of our experiment with the new Schedule VI. So, I think, all of us are learning. But net-net, there has been a increase in the other current assets of about INR1,100 crores, which is actually reflecting there. And similarly, you'll see that there has been an increase in the current liabilities also, which would also reflect in this.

<Q - Atul Tiwari>: But sir, in other current assets, I mean the number that I am looking on slide nine, of around...

<A - Ashok Kumar Tyagi>: INR1,100 crores.

<Q - Atul Tiwari>: INR1,100 crores. Okay, okay, fine sir. Okay, thank you. Yeah, sir, my questions have been answered. Thanks.

<A - Ashok Kumar Tyagi>: Thank you.

Operator

Thank you. The next question is from Mohit Agarwal from IIFL. Please go ahead. **<Q - Bhaskar Chakraborty>**: Hi, sir. I just wanted to know...

Operator

Excuse me, this is your operator. Mr. Agarwal, we are not able to hear you.**<Q - Bhaskar Chakraborty>**: Hello.**<A - Ashok Kumar Tyagi>**: Yeah.**<Q - Bhaskar Chakraborty>**: Hi, this is Bhaskar [Chakraborty], thanks sir, for taking my question.**<A - Ashok Kumar Tyagi>**: Yes.**<Q - Bhaskar Chakraborty>**: I just wanted to know that hasn't CCI given a cease-and-desist order and wouldn't that stand in the way of your launching new projects in Gurgaon?

<A - Ashok Kumar Tyagi>: So it's a complex question. Our understanding is that anyway the CCI is supposed to, I think, come back to COMPAT with their recommendations on specific clauses by September 30. So, honestly, on October 4 is our next hearing at COMPAT. Since it's a process which involves a very respected legal body, let's just wait till October 4, before you know the correct answer. But we are continuing to sell some of our existing projects with a clear articulated understanding with the customers that in case there is a change in the agreement on account of the final order of the CCI or COMPAT, I mean, those changes will be incorporated in the sale agreements.

<Q - Bhaskar Chakraborty>: Okay. So basically, even if the case is not decided by then, you would continue...

<A - Ashok Kumar Tyagi>: No. So, hence I think the safest thing is that let's wait till the October hearing for us to sort of fully form an opinion on this please.

<Q - Bhaskar Chakraborty>: Okay, okay, sir. Thank you.

Operator

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

<Q - Vineet Chandak>: Hi, thanks for taking my question. Sir, just a couple of questions – one, the non-core asset sales of INR369 crores, this has been included in the revenues, or it's part of the other income?

<A - Ashok Kumar Tyagi>: I think [indiscernible] (48:24). So, I think it'll be a combination of both, because part of this construction was sale of shares, part of it was sale of assets.

<Q - Vineet Chandak>: Okay.

<A - Ashok Kumar Tyagi>: So, typically what will happen, I think, is the sale of shares would get booked in other income, but the sale of the FSI/assets would get booked in sales.

<Q - Vineet Chandak>: Okay. And secondly sir, how much has been the customer collections for the quarter?

<A - Ashok Kumar Tyagi>: The customer collections for the quarter have been about, I think, a total of INR1,350 crores.

<Q - Vineet Chandak>: INR1,350 crores?

<A - Ashok Kumar Tyagi>: INR1,750 crores, INR1,750 crores.

<Q - Vineet Chandak>: INR1,750 crores. Okay, and sir last thing, there has been recently there has been a High Court ruling that you cannot use ground water for construction projects. So how do you think will that impact construction in your projects, also in the projects across Gurgaon? What is your view on the same?

<A - Ashok Kumar Tyagi>: Obviously, from a macro standpoint, I think the Haryana government and the Gurgaon municipal authorities, I'm told, taking a lot of steps to augment the water supply in the Gurgaon area.

<Q - Vineet Chandak>: Okay.

<A - Ashok Kumar Tyagi>: Specifically with respect to our projects, in some of our projects, which are in the habitat township, I think we have hopefully enough recycled the recyclable water to be able to "fund" the water requirement for construction projects. In some other projects, obviously we'll have to – I think we'll have to either switch to less water-intensive construction material or maybe figure out some alternate sources of water that's compliant with the honorable High Court's order.

So, clearly, would there be some degree of sort of slowness in the next 30 days to 60 days as we adapt to this, the answer is yes. But on a foreseeable future, I think this is something which we should be able to work in a completely compliant way. It could potentially, I think over time, result in some marginal increase in construction costs, but honestly if it's law, it's a law. And all of us need to adhere to it.

<Q - Vineet Chandak>: Okay.

<A - Saurabh Chawla>: Just to reemphasize this aspect, there's enough recyclable water in our Phase V and Cyber City, which is available for us for not only for construction but also actually for horticulture. So, we have gone far ahead of what the norms have been, as far as, recycling of water. That is what is Ashok really highlighted that in Phase V is going to be really used. With respect to New Gurgaon, yes this order has an impact, but there we will continue to use premix concrete, and we can purchase water.

<A - Ashok Kumar Tyagi>: We can purchase water as long as compliant.

<A - Saurabh Chawla>: So, you need not take water from the ground, but you can purchase water and continue your construction.

<A - Ashok Kumar Tyagi>: So, hence, would it impact cost of construction marginally, I'm sure, yes. But I think eventually, this should be okay. And frankly, if it's a court order, it has to be adhered to.

<Q - Vineet Chandak>: So, the cost impact will be only marginal?

<A - Ashok Kumar Tyagi>: Marginal. This is very marginal. I mean the total cost of water in the project is not something which is dramatic.

<Q - Vineet Chandak>: And sir lastly, you have talked about this Magnolias 2 launch. Given the economic environment remain as it is now, and given that this will be a premium project of yours, will you rethink delaying the launch or is it a certainty that this will be launched in the second half?

<A - Ashok Kumar Tyagi>: Honestly, our experience with the premium products has continued to be very good, even in reasonably tough scenarios. Also if you see that secondary market in that area, not only in our projects, but even in the other adjoining projects from other builders, you will see that it continuous to have a vibrancy both in terms of price and volume. So, honestly, obviously, while the exact timing and pricing and those things will have to be worked out, but we do believe that the market exists for a product like this in this location. I think a huge market exists.

<Q - Vineet Chandak>: Okay, okay. Thank you very much, sir.

<A - Ashok Kumar Tyagi>: Thank you.

Operator

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

<Q - Abhishek Kiran Gupta>: Thank you very much. Most of my questions have been answered, but just to reiterate the Magnolias' launch is not impacted by the CCI, it will not be after October 4, because we've been hearing August, September, with shortcoming in October. Are we looking at a launch post October or before Diwali?

<A - Ashok Kumar Tyagi>: I think post-October and Diwali is the same thing, but in all fairness, I don't think we are looking at the launch this quarter.

<Q - Abhishek Kiran Gupta>: Okay, that answers it then. The other questions have been answered. Thank you so much.

<A - Ashok Kumar Tyagi>: Okay.

Operator

Thank you. The next question is from Kunal Lakhan from Enam Securities. Please go ahead.
<Q - Kunal Lakhan>: Yeah, hi. My questions have been answered. Thank you.

Operator

Thank you. Ladies and gentlemen, due to time constraints that was the last question. I now hand the conference over to Mr. Ashok Kumar Tyagi for closing comments.

Ashok Kumar Tyagi

Thank you, once again, for joining us in our conference call. Hopefully, some of your questions have been addressed. As I mentioned that if there are specific questions on financials, on specific projects, et cetera, on intricacies, you're more than welcome to, and I know you do, to connect with Rajiv, Goyal. And Rajiv will answer. If there is an important enough query or a complex enough query which warrants either me or Saurabh joining in, we will be happy to join in. But clearly, keep the questions coming. Thank you.

Operator

Thank you very much gentlemen of the management. Ladies and gentleman, on behalf of DLF Limited, that concludes this conference call. Thank you for joining us and you may now disconnect you lines. Thank you.