

Q3 2012 Earnings Call - Puravankara Projects

Dt-10 Feb'12

Operator

Ladies and gentlemen, good evening, and welcome to the Q3 FY12 Post-Results Conference Call of Puravankara Projects hosted by PINC Research. As a reminder for the duration of this conference, all participants lines will be in the listen-only mode. And there will be an opportunity for you to ask questions at the end of today's presentation. I would now like to hand the conference over to Mr. Suman Memani. Thank you and over to you, sir.

Suman Memani

Yeah, thank you, good afternoon everyone. PINC Research is pleased to host this call and welcome you to all to Q3 FY2012 post-result conference call of Puravankara Projects.

We have great pleasure in welcoming the management of Puravankara on this call. Today, we have with us Mr. Ashish Puravankara, Joint Managing Director; Mr. Jackbastian Nazareth, CEO of the company; and Mr. Hari Ramakrishnan, GM Business Development.

We'll begin this conference call with the opening remarks from the management. I'll now hand over the call the management, post which we'll start the Q&A session.

Jackbastian K. Nazareth, Chief Executive Officer

Good afternoon, everyone. It is a pleasure to have all of you on the Puravankara earnings call for the quarter ended 31, December 2011. We also have apart from Ashish and Hari, Mr. Vishnumurthy.

Before I speak about this past quarter, let's take a quick look at the macroeconomic scenario in which our industry and our company operated in the last few months.

The last few months have been rather challenging for the Indian economy due to certain macroeconomic fundamentals. Policy initiatives taken by RBI to address inflation had a severe impact on the sector due to an increase in interest rates. This, coupled with the slowdown in the Eurozone began impacting sales conversions and resulted in absorption levels coming down for the residential business.

Despite this, Puravankara has done exceedingly well in the past quarter with robust sales, improved EBITDA margins and sales realization.

Exciting times for the company ahead I must say. One of the two tools we have in our pipeline this year is to work towards the semi-compliance norms on reducing promoter shareholding to 75%. The company has commenced internal discussions on the methods described for complying with the SEBI norms on the stake dilution.

I would not like to present our earnings and business performance for the quarter at nine months ended December 31, 2011 and subsequently also speak about our strategy and outlook for the business over the next few quarters.

Let me take you through the sales volume and the value. For the nine months ended December 31, 2011 we have achieved 1.75 million square feet as against 1.96 million square feet in the period nine months FY11.

I look now at the sales numbers for Puravankara alone. In terms of sales volumes, in the past quarter, Puravankara has achieved sales volumes of 320,000 square feet. In value terms, Puravankara recorded sales of INR 1,220 million in the third quarter of this fiscal, as against INR 988 million in the quarter ended 31 December, 2010.

For the nine months of this fiscal, the company recorded INR 5,214 million, compared to INR 3,120 million as on 31 December, 2010.

The company sales realization currently stands at Rs. 3,835 per square feet, that is an increase of 18% over 2010. This is expected to increase as new launches in geographies that commands higher price realizations will be done.

Now, with provident housing, for the third of FY12 provident recorded sales of INR 292 million, versus INR 751 million in the quarter ended 31st December. The corresponding nine months figure is INR 860 million, versus INR 1,884 million in nine month, FY11. In terms of project progress, handover has commenced for Phase I of Cosmo City and Welworth City.

Now moving on to our new launch update, first on provident. As per our launch plans, we launched our project in Chokkanahalli, Bangalore named Provident Harmony on the 7th of January, 2012, comprising a total of 540 units, of which Provident share totaled 378 units or 67.5%.

We had opened 240 units for sale as a part of Phase I. And have already sold 125 units, representing 52% of the total units opened for sale. The financial impact of this launch will start flowing into the P&L from quarter four FY12 onwards.

On the Puravankara's new launch, we have obtained final approvals from the authorities for Purva Seasons in CV Raman Nagar, and we will be launching this month.

A quick update on our debt status. We have drawn down additional debt to the tune of INR 842 million and repaid INR 1,196 million during the quarter ended 31 December, 2011 as against INR 1,459 million and INR 702 million respectively in December '10.

Obligations for this calendar year, principal repayment is Rs. 313 crores, interest repayment is Rs. 155 crores, totaling to Rs. 468 crores. The debt repayment given above has been given effect after successful completion of debt refinance or a term loan with ICICI through an NCD, wherein INR 845 million of repayment has been pushed beyond the calendar year. We are in the advanced stages of refinancing another 150 crores, which will ease out our debt repayment and will help us to accelerate and complete the ongoing projects. As on December 2011, the weighted average cost of debt for the Group is 15.28%.

Now, on our gross profit margins, our gross profit margins have been maintained at 34% for quarter ending 31 December, 2011. Gross margins for Puravankara and Provident stood at 34% and 39% respectively. Of the gross profits And overall broad perspective on the cash flow is as follows. Our debtors collection 875 crores, unsold inventory is 1,375 crores, totaling to Rs. 2,250 crores, cost to complete the project is about 1,000 crores. We will be left with the balance of 1,250 crores. We will be realizing this cash over the next 15 months to 18 months.

On the SG&A expenses, there has been a small increase in our general and administrative expenditure which is primarily on account of project level advertisement and other corporate binding initiatives which include handovers and pushing reference sales from clients who are now taking possession.

About tax provisions, as stated in our earlier quarters sales of non-80 IB units has contributed to a higher tax provision and we expect this to continue going forward. There might be deductions in the percentage of tax provision due to the sale of units from the inventory eligible for 80 IB benefits up to March 2012.

The net profits have increased due to higher realizations achieved in sales for both Puravankara and Provident.

With these comments, I would now like to open the floor for question-and-answers. Thank you.

Questions And Answers

Operator

Thank you. We will now begin the question and answer session. [Operator Instructions]. The first question is from Rahul Kumar from Jefferies. Please go ahead.

Rahul Kumar

Hello.

Jackbastian K. Nazareth, Chief Executive Officer

Hi. Hello?

Rahul Kumar

Yeah, hi. I have just one question. Your annual run rate of sales is close to 2.5 to 2.6 on a positive side. And you have 53% of inventory left according to you presentation. And in other 17 million square feet of launches in within one year or so. I think it will take you say nine years to 10 years to liquidate this sales. Do you think it will practical to have such kind of strategy?

Jackbastian K. Nazareth, Chief Executive Officer

See, it's a combination of two things which you have to put in two perspective. One being that the part of this inventory is completed stock, right? The effort that goes into selling a completed apartment is very different from the efforts while selling an apartment block under construction.

So major part... when you talk about our run rate of selling about 2.5 million square feet a year, most of that comes out of ongoing projects, right? Whereas due to the last two, three years, as a strategy we decided that projects which are half way through completion, which are 60%, 80%, 90% completed and are about 70%, 80% sold, let's push the execution. Because now we find ourselves in a situation where customers prefer two things. One is they like new For example Skywood, which was launched a little bit over a year ago, we have sold 90% of the entire project. If you take Midtown, which was launched about eight odd months ago, we have sold about

over 65% of that project. So new launches are great.

As far as the balanced ones, which was 85%, 90% complete. Those... we have had customers, every time we release we've got excellent inquiries. And we are saying okay, fine. They are going to take three months to complete without the wait for the three months, because obviously they know that in the current environment rates are not going to push up really fast, right? So that will be.

And the effort in selling a completed unit is not as much. So, we should be able to exhaust the completed projects much more easier. Therefore to answer your question, I would say the net 2.5 number would go up, but not to say that it will take nine years to sell the stock.

Rahul Kumar

Okay, okay. Okay, that's all. Thanks.

Operator

Thank you. [Operator Instructions]. The next question is from Rakshit Ranjan from Ambit Capital.

Rakshit Ranjan

Hi. Good afternoon, sir. Just had a few questions on your cash flow. First of all, can you give a number on operating cash flow for the quarter, in case I missed it?

Jackbastian K. Nazareth, Chief Executive Officer

Just one second.

Rakshit Ranjan

Sure.

Jackbastian K. Nazareth, Chief Executive Officer

See we have... instead of directly giving you the operating cash flow I'll just tell you broad numbers. You can workout numbers from there. See, we have collected about 210 crores from C&N and PHL put together in the quarter ended December. And we expect to continue this in quarter four as well.

In addition to that, we have another 75 crores of obligation in the sum of pending cost to complete which is what will be pending this quarter, and the difference of that is what is going to be our operating cash flow.

Rakshit Ranjan Corporate Participant

Project debtors is about 182 crores.

Rakshit Ranjan

Down from where in September, sorry?

Corporate Participant

No it's a little high because we have sold, as the new debtors are added and the collections are in progress, so it's kind of a timing issue. So as we speak, it has been collected. So but when we reported the numbers, it's a little higher. So we don't have an issue on that per se.

And even if you that, the debtors more than six months is about 49 crores out of the entire 182 crores, and this is predominantly comprising of the units where which we sold and we have told the customers to hold on to the payments and which we are going to start collecting in the next couple of months.

Rakshit Ranjan

Okay. Fair enough. And finally can you just give some details on for a typical project? What is your... what is the booking amount that you ask the customer to pay and how, I mean how hard do you get after a customer for a slab related installment in case there is a delay?

Corporate Participant

See normally the booking amount range depends on the project in the respected geography. So under Puravankara anywhere between 2 lakhs to 4 lakhs is what we charge as a booking amount. And after that we give 30 day period for the balance 20% of amount to be paid, which is inline with the RBI requirement of customer paying 20%, which will also coincide with the agreement sign-off day.

After which the collections will start based on progress. So, for every slab which we complete, we raise demand north to the customer based on which we collect the money. So, better part of the customers are finance to banks, so more or less the entry point of money coming into Puravankara is frozen through the banks. But yes, there will be a minor delays of two days or three days here and there, which we manage it internally. So that's a part and parcel of the process.

Rakshit Ranjan

Okay. Fair enough. And just finally in terms of your sales for the quarter, I think this was about 20% to 25% quarter-on-quarter decline in volume, area, and value as well as compared to December '11, versus September '11. To a great extent I think that could be linked to markets and the challenging macroenvironment that.

Corporate Participant Rakshit Ranjan

Sure.

Corporate Participant

As and when Skywoods had come in, we have sold exceptionally well, right?

Rakshit Ranjan

Yeah.

Corporate Participant

Now, look at launches which would happened in this quarter have gotten delayed, and that is what is reflecting in this number, which we are expecting in a next month, month and half, two months maximum; two, three of the launches should come to board.

Rakshit Ranjan

Okay.

Corporate Participant

Automatically we'll push this number up because typically doing lots of retail excellently well and there is a run-rate that goes through monthly through the course of the life of the project. So it launches that gives us real boost which was missing, which would come on board I think a month and half, two months from now.

Corporate Participant

Just to reiterate Jack in his internote has mentioned about a Provident Harmony, launched. If we had sold about 125 units out of the 240 units which we opened, so I mean it's less than about 25 days, 30 days. So I mean that is --

Corporate Participant

Launches really add to those numbers. So the comparison that you are making is when we have the Skywoods launched, right? Having said that, even now we should have these kind of numbers, if those two, three launches have not got delayed which will come to Board in the next two months.

Rakshit Ranjan

Okay, excellent, understood. Thank you. That's it.
Thank you.

Operator

Thank you. [Operator Instructions]. The next question is from Sanjay Bembalkar from Quantum Advisors. Please go ahead.

Analyst

Hello?

Corporate Participant

Hello.

Analyst

Sir, just want to get some clarity on the pricing strategy which we have. Because we have increased the prices. So considering the macro trends in South market, what do you think will be your pricing strategy going at?

Corporate Participant

See, pricing strategy is very geography based, very micro market based, very... which part in project lifecycle we are in. For example, for every project we go in very scientifically where we decide what is the average price that we expect out of a certain project, right? So, we start at the certain price and we have on day 1, before the launch, we decide that when we sell 10% the price should go up by so much percentage. When we sell the next 10%, the price should go up. And that automatically triggers.

For example, it as to give you Harmony which we launched about a month ago, it's a small project that has about 450 odd units. So, based on that, maybe 25 apartments we had a price increase. So, we hit three price increases in the same day because the day of the launch we sold 75 units. So, it's very scientific, pre-decided on day 1 based on what we expect in terms of our... in line with our margins for every project.

Analyst

But sir, going ahead, do you foresee any price correction in the South market or do you expect that to --

Corporate Participant

No, not at all, because if you see that even today the average price of housing in the South is about Rs. 4,000 a square foot. So, in terms of affordability, it is affordable, it is not 8,000, 10,000, it hasn't gone from 4,000 to 10,000 in about four, five months, point number one.

Point number two, one of the reason why there would be a price correction in any market is if there are no sales happening which is very contrary if you see I mentioned some time ago, the percentages of sales that we have had in our new projects which is over 50%, over 60%, Skywood's is over 90% sold, so there is no pressure. And because it's a

Corporate Participant

And out of the completed units -- we get almost 80%, 90% of money so that way the number of units that is required to be sold is not so

much up against a launch period. So we have the advantage of completed units and launched units, with completed units we collect more money in the beginning itself. So the cash flow is taken care of there itself.

Analyst

A follow-up on this, you have had inventory basically of finished goods and on one hand you are saying the launch, the response on the launches have been pretty good. But we are also having a inventory on the finished goods.

What would be a preferred strategy in a sense like you already have a high borrowing cost, you have debt. Would it be a prudent thing to sell the existing inventory even with a bit of a price correction or is it a right strategy to bank on a new launch for the sales, I mean. Can you give us a little bit more clarity and understanding?

Jackbastian K. Nazareth, Chief Executive Officer

I think it's a mix of both. As far as the ready stock is concerned. For example if I have to take Venezia, right? Phase one is complete, phase two of Venezia, there is -- its almost 99% complete, it's just little bit landscaping that's going on. So we are going to wait and watch for a month.

Hopefully, once that landscaping and everything is in place, it should sell. If there is some sort of a resistance, I completely agree with you, it makes more sense to give back whatever 2% discount and close that sale and get the cash in. Then hold on to that stock to get the price that we want.

Analyst

Okay, okay. Thanks.

Jackbastian K. Nazareth, Chief Executive Officer

Yeah.

Operator

Thank you. [Operator Instructions]. The next question is from Madhukar Ladha from HDFC Securities. Please go ahead.

Madhukar Ladha

Hi, sir.

Jackbastian K. Nazareth, Chief Executive Officer

Hi Madhukar.

One question is, when I look at your cash flow statement, there is a 44 crores spend in nine months ended 31, December 2011 on properties held for development. Can you tell me on what account is this?

Jackbastian K. Nazareth, Chief Executive Officer

One second. While we pull up the numbers, if you have any other questions, we'll answer.

Madhukar Ladha

Also you spent money on fixed assets and capital work in progress, if you could elaborate the number this year is higher than last year, it's at 29 crores approximately?

Corporate Participant

Yeah. See what has happened is one of our retail properties in CBD area was reclassified which we were intending to dispose off was classified under properties held for sale. So the carrying value of that was about 17 crores. So that got reclassified last quarter, that is end of 30th September and that has spiked the numbers to that extent.

In addition to that, the capital work in progress what you are seeing is representing the advances which have been paid for our Puravankara's new corporate office. So, that also is over now, and it will get capitalised and pushed into the fixed asset base next quarter.

Madhukar Ladha

Okay. Can you, I didn't get the first point, first answer, I didn't understand that one, can you re-explain that?

Corporate Participant

Okay, yes. We have retail property in Church Street in Bangalore, and the carrying value of that is about 17 crores to 20 crores. And we had plans of disposing it off in the market. So, that was classified as properties held for sale. So, it was not forming part of the fixed assets.

But then, later management revised the strategy and continued to hold on to the asset for further leasing out and hence we reclassified it under the fixed assets. So, there is a shifting happening. But this we carried out in September itself.

Madhukar Ladha

Okay. This is again fixed assets part of it, right?

Corporate Participant

Yeah.

Madhukar Ladha Corporate Participant

I'll just get. Get back to you on this. I am just pulling out the information, okay?

Madhukar Ladha

Okay.

Corporate Participant

I'll give it to you.

Madhukar Ladha

Yeah, thanks.

Operator

Thank you. Next question is from Arun Aggarwal from Religare. Please go ahead.

Arun Aggarwal

Hi, good afternoon everybody. Just two questions. One is on your debt side. What would be your comfortable level of debt. You are at 0.7 times net debt to equity. So what would be your comfortable debt levels?

Corporate Participant

I would say in the range of about 0.6 to... between 0.5 and 0.6.

Arun Aggarwal

And what would be our target in terms of... when do we think that we will be able to reach there, and how do we think that we will be able to fund that kind of a gap in terms of reduction of debt?

Corporate Participant

I think we should look at that at least between 0.5 and 0.6 in the next about 12 to 18 months. The way we would like to fund that is obviously these two launches will get in additional cash flows. And we can look at land monetization as well if need be. But I am confident that with these new launches that we have planned which is 17 million in Provident and Puravankara, the position should be comfortable.

Arun Aggarwal Corporate Participant

See, Provident has already secured projects for the next, I think next two years. But the focus for Provident beyond those new projects which are going to be launched, we are aggressively looking at joint developments. So that... there is a capital requirement. The response from a lot of landholders has been very positive for they have seen the kind of sales velocity that we've achieved in Provident. So we are getting good joint development proposals at very attractive percentages.

Arun Aggarwal

Okay, okay. We have some land parcel in NCR as well, that we did last year if I am not wrong. Any update on that?

Corporate Participant

No, no. We don't hold any land in NCR.

Corporate Participant

Not in our land bank.

Corporate Participant

Not in our land bank. We had bid for the land, but that's about over... it's over three years ago

Arun Aggarwal

Okay

Corporate Participant

But we didn't get that land. So, we don't hold any land in NCR.

Arun Aggarwal

Okay, okay, great. Just one broad question on Bangalore market. I do you understand that we are positive on Bangalore market and volumes has been pretty good. But how do you see volumes coming in from here onwards considering that a lot of launches have actually come up in last two to three quarters, there are lot of big developers you and some of your competitors have come up with really big project. So do you think that sales volume or sales momentum should remain the way it has been over last few quarters or do you think that there should be some kind of moderation there?

Corporate Participant

I am confident over the next 12 to 18 months, the sales volume should be as buoyant as it has been. Simply because of the fact that we haven't seen any major losses for the last three years, right? And also judging from the kind of

Jackbastian K. Nazareth, Chief Executive Officer

And also there are couple of things at the macro level in Bangalore. If you really look at the population of the city in terms of the number of people that have come from the last census to now it's almost double, number one.

Number two, the reduction in interest rates is again bringing people to actually close onto sales, those who are sitting on the fence. And more importantly, it's about geography. When you are talking about competitions having launched project in different geographies, I think the success comes from the fact that these geographies were starved of launches like Ashish said. And now with these new launches, I think the momentum will be continued.

Even in Chennai, if you have seen given where Chennai as a market given the industry, automobile, IT, all doing subsequently well in terms of growth, there has been a lot of renewed interest, followed by the vacancy levels in Bangalore, the investment is 20%. I think all these factors contribute to the fact that yes, there will always be a positive momentum as far as sales is concerned.

Arun Aggarwal

Yeah, yeah, agreed. You were talking about some kind of impact because of the reduction in interest rates, and also have you seen some kind of improvement in inquiries in our projects?

Jackbastian K. Nazareth, Chief Executive Officer

Yes, very much.

Arun Aggarwal

The older projects, specifically?

Jackbastian K. Nazareth, Chief Executive Officer

Yes. And a lot of inquiries do come, especially Chokkanahalli was classic example where we had a lot of inquiries. And these inquiries close quickly like Ashish was saying, within the first day we closed 75 of these inquiries into conversions.

Arun Aggarwal

Okay, great. Thanks a lot.

Jackbastian K. Nazareth, Chief Executive Officer

Welcome.

Operator Madhukar Ladha

One more question. Have we done any launches in this quarter and how is it looking over the next one and a half months now?

Jackbastian K. Nazareth, Chief Executive Officer

You mean Q4?

Madhukar Ladha

Yeah, Q4.

Jackbastian K. Nazareth, Chief Executive Officer

Yes we did launch Provident Harmony on the 7th of Jan. And we will be launching CV Raman Nagar in a next couple of weeks, that is -- Provident Harmony is PHL products and Purva Seasons is -- product in the Puravankara.

Madhukar Ladha

All right. Thanks.

Operator

Thank you. [Operator Instructions]. As there are no further questions. I would now like to hand over the floor to Mr. Suman Memani for closing comments.

Suman Memani

Hello.

Jackbastian K. Nazareth, Chief Executive Officer

Hello.

Suman Memani

Yes sir. Sir before -- I think, I have a couple of questions on the company side. If you can explain how much has been delivered over the nine months FY12 and what is the project's delivery stage because we are almost 80% completion stage, of average completion stage. So which are the likely projects which are likely to be delivered and how much we have delivered in last nine months?

I will answer your second question first. I think the project is lined up for delivery for the next financial year -- next nine months are Atria, Platina, Venezia Phase 2, we'll have Swan Lake Phase 1, Oceana, Grandbay Eternity and Highlands, of course, Highlands Phase I.

Suman Memani

Okay. And, sir how much we have delivered in last nine months?

Corporate Participant

Venezia Phase 1, Atria Phase 1 and a part of Highlands has been delivered.

Suman Memani

Okay. In fact we were also looking at a stage of launching of Venkatapura where in the last presentation you had mentioned the project has been almost in the final stage of approval. And they were two projects which were approximately 2 million square feet in Bangalore market which plans were approved, so what is the status of launch of all those projects?

Jackbastian K. Nazareth, Chief Executive Officer

Venkatapura is a very large project, it is about 6,000 homes so we've almost I think 90%, 95% complete in terms of the authorities have been giving permission, since that project is so large, I think there are some infrastructural approvals that we need to do.

At this point of time there is a last letter that comes from BESCOM in terms of the power to be given for the particular project, once that milestone is reached I think we would be ready for launch. You are right in terms of saying that we were planning two launches, in fact three launches one was Venkatapura, the second was CV Raman Nagar which we will be launching in the next two weeks and the third one was Provident Harmony which we have already launched.

Suman Memani

Okay, okay. And if we put you in -- in your comments, you mentioned that, that you were looking also for some land monetisation in order to come to your debt and equity level of 0.6, in between 0.5 to 0.6. So, are we progressing any deal on that line, because if you look to your -- the debt in absolute numbers are substantially high and rising cost scenario will be tenting it in fact.

Jackbastian K. Nazareth, Chief Executive Officer

Suman, couple of things, I would like to put in perspective here. One is that we are definitely getting offers as far as our lands are concerned. As far as our land monetisation is used, we have about two commercial properties that are on and then people have approached us the IPC have approached us for a built-to-suit kind of a thing. So, obviously, when those deals happen, you may consider it or structure it in terms of looking at it as a part of a land monetisation.

Yes, they will be a constant endeavor, but having said that honestly, we do get a lot of offers. But we are not to sell land per se as in just as the land. We will basically look at it as... because we are in the business of building, and we And to answer the question on debt like we said earlier, I think the new launches and the sales that come in will obviously help us reduce the debt.

Suman Memani

Okay, okay, okay. That's it from my side, sir.

Operator

Thank you. [Operator Instructions]. There are no further questions now. I would now like to hand over the floor to the management for closing comments.

Jackbastian K. Nazareth, Chief Executive Officer

We would like to take this opportunity to thank each one of you for having attended this call. And like always I think the best part about understanding companies strength are about visiting the places and our projects that we are executing. So I would like to take this opportunity also to invite you all around when you are in Bangalore or in Chennai or in Cochin or in Coimbatore to have a look at our projects.

Thank you again and we appreciate your time.

Operator

Thank you. And on behalf of PINC Research, that concludes this conference. Thank you for joining us and you may now disconnect your lines.