"Puravankara Projects Ltd Q2 FY-16 Post Result Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to the Puravankara Projects Limited Q2 FY16 Results Conference Call. Joining us on this call today from the management are Mr. Ashish Puravankara – Managing Director, Mr. Jackbastian Nazareth – Chief Development Officer and Mr. Hari Ramkarishnan – Deputy Chief Financial Officer. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Jackbastian Nazareth. Thank you and over to you sir.

Jackbastian Nazareth: Good evening everyone. We welcome you all on the Puravankara Earnings Call for the second quarter ended 30th September 2015. Let me begin with the macro environment. The demand in key market remained muted even after rate reductions announced by the RBI and other policy announcements. We believe that there is a lot of latent demand in the market but conversions are taking longer than expected. We also believe that in the coming quarters the sentiments should improve especially for us given our new launches which I will brief a little later. From a leasing point of view, we are witnessing higher office space absorption which will continue to add to the residential demand in the medium term.

Coming to our own brands, Puravankara and Provident; notwithstanding the challenging market environment we are singularly focused on timely delivery and execution. I believe that this is one metric that will differentiate us from the rest. We are well-positioned to deliver 12.23 million square feet over the next 18 months, of this 5.81 million square feet will be delivered in the remaining fiscal, note 80% of this is already sold. The balance of 6.42 million square feet of which 55% is sold will be delivered in the next fiscal year. This indeed would significantly revive our balance sheet from all fronts.

The launch pipeline for the year FY 16 stands at 17.01 million square feet under both the Puravnkara and Provident brand across Bangalore, Chennai, Kochi, Pune and Hyderabad. Almost 64% of this launch pipeline is from market other than Bangalore. We have a very strong and well diversified launch pipeline which is backed with a lot of research done on these micro-markets which has let us to ready ourselves in marketing plans for each of these launches as I speak. We've already commenced the Expression of Interest process in Hyderabad for Provident Kenworth, in Pune for Purva Silver Sands and in Bangalore for Lalbagh and the balance will commence in the coming quarters coinciding with the final receipt of plan sanctions which we expect soon. I will now hand over to Hari, our Deputy CFO to share the financial performance for Quarter 2 FY-2016. Over to you Hari.

Hari Ramakrishnan: Thanks Jack. Good evening everyone. Let me begin with the sales numbers. Gross area sold for the quarter ended 30th September 2015 stood at 0.50 million square feet. Sale value for the quarter was INR 238 crores against INR 171 crores as compared with quarter ended June 2015.

Completed inventory sales contributed 30% of the sales value and the balance 70% was contributed by ongoing projects.

Moving onto sales realization for the quarter; Puravankara sales realization stood at INR 5938 per square feet up from 5373 per square feet in corresponding quarter last year. Provident sales realizations stood for the quarter at INR 3266 per square feet. Moving onto the H1 numbers, area sold for the first half ended 30th September stood at 0.85 million square feet with a value of 409 crores.

On the financial front I will begin with the debt position; our net debt as on 30th September 2015 stood at INR 1743 crores and the net debt to equity stands at a comfortable 0.76. The promoter back funding in net debt stands at 259 crores making the net external debt at 1586 crores. As of 30th September 2015, the weighted average cost of debt has come down to 12.39% as against 12.59% in June 2015. We continue to evaluate further opportunities to reduce the debt cost from the current levels.

Now to the revenue numbers; our revenue for the quarter stood at 426 crores as compared with 429 crores in Q2 of FY 2015. EBITDA for the quarter increased by 9% year on year and stood at 101 crores. PAT for the quarter stood at 23.5 crores up by 10% on a year-on-year comparison.

Moving on to collections; our quarter ended 30th September 2015, we have collected INR 343 crores from projects which is 5% higher as compared to the collections of 328 crores which we recorded in June 2015 and additional of 140 crores was collected during the current quarter from the sale of land which got completed in June 2015. Of the above, 232 crores was from ongoing projects and the balance was received from completed projects totaling to 111 crores. Overall balance receivable from ready to move in sold units as on 30th September 2015 stands at 136 crores as compared to 165 crores as on 30th of June 2015. We have ended the Quarter 2 for this financial year with an operating surplus of 44 crores.

Outlook for the balance quarters; as stated earlier we have lined up deliveries totaling to 12.23 million square feet of area of which we have sold 7.19 million square feet. Of this sold area of 7.19 million square feet, we have unrecognized revenues amounting to INR 525 crores and gross cash to be collected of INR 760 crores and the same will be reflected in the financial statements as and when each of these projects are getting completed in the next four quarters. With his comments I would like to throw open the floor for Q&A.

Moderator: Thank you very much sir. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Anubhav Gupta from Maybank. Please go ahead

Anubhav Gupta: First question is on your presales which were 238 crores in the quarter. Obviously they have improved on QoQ basis, out of that I see that 71 crores which 30% came from the ready to move in inventory or completed projects.

Jackbastian Nazareth: Correct.

Anubhav Gupta: Don't you think this run rate is still slow given that there is large completed inventory on the books, what's your sense or how you would like to increase that run rate in the coming quarters?

Jackbastian Nazareth: Anubhav I just wanted to take you back six months ago when Welworth we had specific stock. In six months given that we did specific schemes and we wanted to try, how do you get customers across not just with price reduction but also trying to show them ready to move in inventory. There is a lot of touch and feel effect that needs to be done. We have sold close to 2 lakh square feet in 6 months in Welworth and that is what prompted us to get into a joint campaign with HDFC Realty and I bid my home, these are value options. As I speak today we have had more than 60,000 hits on the website about 500 odd people have expressed interest and registrations are happening. We believe that this endeavor will help us to liquidate our ready to move in inventory. The challenge is there in terms of ready to move in inventory but time and again when we have embarked in terms of going and doing very specific market oriented scheme keeping our price quotient intact, I think it has seen success. Its just not about discounting at a particular price and pushing it in the market situation like this, I think innovations like value options and all will help the cause and that is our endeavor. We will keep you updated because this value option is open for this month. Probably in the next 15-20 days I will personally call you and keep you updated on how the traction has been. We are very glad with what we have seen in the last one week.

Anubhav Gupta: Ok. Sure. Over the next quarters you think 100 crores run rate from completed inventory is achievable in terms of sales?

Jackbastian Nazareth: Yes I believe so i.e. we will be able to push. See at the end of the day if you really look like as I said in the opening remark, lot of people are showing interest. It is not that enquiries have died or phones have stopped ringing in the marketing office. It is just that people are taking time to make decisions and close. That timeline between the titles and closures is taking a lot of time and I believe we should be at better place from a ready to move in perspective and we are hopeful that we should be able to clock those numbers.

Anubhav Gupta: Right. Sure. Second question is on the new launches which are lined up 17 million square feet. In the past the company has missed on the guidance for the new launches so could you share some of your views on the timeline of this 17 million square feet and how much money you need to spend up front for the launches?

Jackbastian Nazareth: I agree that we missed out on certain timelines simply because there were multiple and varied reasons. One of those things are Anubhav you will appreciate that as a company we do a lot of research into micro-market that we want to launch and just not for the sake of launching that we are launching project, we believe that the next seven or eight projects will come out in the next 3 to 4 months. The idea was to get into micro-market that will show us good sales velocities at the time of launch. If you’ve seen how we evolved ourselves in the last 3-4 years is sell close to

40% to 60% at the launch stage itself and I believe that 7-8 launches that we are planning in the next 3-4 months should yield good results. Having said that we have reached in the final stages of our approvals for these particular projects that I am saying. In terms of cost to go for what is the money period…

Ashish Puravankara: In terms of cost to go Anubhav, in terms of land all the money is spent. It's only in terms of approval cost and deposits which is not significant at all and whatever launch expenses and marketing cost, all these projects out of the 17 million I think close to about 7 to 8 million we are confident since it reached the final stage of sanctions, will be launched in next 3 to 4 months and just couple of those projects, we have already initiated prelaunch. For example Pune we are confident of doing a sort of launch in the month of December or Jan. We are hopeful of getting our final sanction by mid-November or end November and MoEF by December end. There we have already collected about 1250 Expression of Interest along with cheque. Similar is the case in Chennai for example, we have Guindy that sanction they are hopeful of getting within week. There also we have done a prelaunch, we have a total of 184 units, we have got already an Expression of Interest along with cheques of over I think around 84. Then another example again is Hyderabad where we had a Provident sort of a prelaunch. Today we have already got the sanctions so the formal launch will happen I guess in the next month from now. All the sanctions are in place; there we have already collected 450 Expression of Interest along with cheques. So all these to be launched projects where we have done pre-launches we have seen a very good response and we are confident in the next 3 to 4 months at least half of that 17 million will be launched.

Anubhav Gupta: And on this delivery schedule for 12.23 million square feet like you mentioned that 80% of it is presold, right?

Hari Ramakrishnan: There are two parts to it, so the first part is on the financial year 2015-16 for this H2 we will be delivering 5.81 million square feet.

Jackbastian Nazareth: Out of the 12.23

Hari Ramakrishnan: And out of that 5.81 we have sold 80%.

Anubhav Gupta: And how much money you need to receive from the customers on that?

Ashish Puravankara: For that portion we will have to collect about 230 crores.

Anubhav Gupta: What will be the approximate construction cost though I believe will be very less given that in…

Hari Ramakrishnan: Between 50 to 75 crores.

Anubhav Gupta: And for the balance 6.5 million square feet in FY17?

Hari Ramakrishnan: Balance to be collected is about 530 crores and we have our balance cost of roughly about 650 crores.

Jackbastian Nazareth: 55% is sold there. So as we sell that, that cash will also come.

Anubhav Gupta: Lastly on any thoughts on the debt reduction through asset sales you are looking for?

Hari Ramakrishnan: Two things I can tell you, one thing is on this post this delivery which will happen from this financial year onwards, you will have project related debt getting reduced once the project is completed because cash will come in and as long as it doesn't have additional phases the project debt will come to an end so it will get reduced. On other aspects in terms of whether we are looking at reducing the debt through assets sales, we are evaluating opportunities but nothing has been frozen yet. Primarily because of two things, one, we don't have a stress on cash requirement of completing these projects because we are secure enough on the balance collection. And we are waiting for these new launches to also pan out which will also give us additional cash and even if we take a call that one or two new launches, if I do additional 20% of sales over and above what we do at the launch time, we can think of using that for reducing debt and that is the current line of thinking we are having. That is the reason we have lined up for this kind of 17 million of launches.

Anubhav Gupta: Any update on the Hyderabad land parcel?

Ashish Puravankara: The Hyderabad land parcel we are still in court, in fact we had a hearing about two days ago. They will adjourn to the following week after Diwali. It seems to be going okay as of now so we will come back to you with an update on that. As far as the Cochin sanction update and the balance money is to be received from Sobha which is Rs 165 Crs, the plan sanction has come to the final stage. It's only waiting for the final environment clearance which we are hopeful we should receive in the next 30 days. So post that it's a matter of 15 days of getting the final sanction. But all the plan scrutiny and the development clearances have been got.

Moderator: Thank you. Next question is from the line of Nitin Idnani from Axis Capital. Please go ahead.

Nitin Adnani: Hi good evening. I had a question on your margins I mean its low this time as well. Are there more one-offs this quarter?

Hari Ramakrishnan: Not one-offs, they are primarily because of this Interest allocation because the number of projects which are getting closer to completion is high.

Nitin Adnani: So that they absorb more interest, can you quantify that for this quarter?

Hari Ramakrishnan: I can give you the quantum off-line on that.

Nitin Adnani: Where do you see the debt levels by March?

Hari Ramakrishnan: March, regular debt payments will be balance of 100 crores which is as per as the repayment schedule. Over and above that we have these deliveries coming up so which can throw up additional cash of roughly about another 100 crores which can be used for debt reduction. Because out of this delivery we have Windermere Phase-II also, so that also surplus money can go for construction as well. The new launches can give us another 150 crores which might be used for debt reduction depending upon how the sales are being closed.

Nitin Adnani: So about 150 to 250 kind of a number?

Hari Ramakrishnan: Around 250 to 300 is the ideal number.

Nitin Adnani: Stripping off the land sale 200, it is 140 crores, you have collected about 200 crores this quarter which is also quite a drop, you attribute that purely to lesser sales?

Hari Ramakrishnan: No, collection has been 343 crores for this quarter.

Nitin Adnani: That's over and above the 140?

Hari Ramakrishnan: Yes.

Moderator: Thank you. We have follow-up question from the line of Nitin Idnani from Axis Capital. Please go ahead.

Nitin Adnani: Could you just help me understand, we have got great collections this quarter, why would our debt have gone up in this quarter then?

Hari Ramakrishnan: It was primarily because of accelerated construction. If you see, we have burnt about 551 crores in H1 and we are close to 300 crores in Q2 and this is again coming from the deliveries which we just mentioned earlier. So a portion of collections of this delivery will come post-handover. So the possession money gap is what is reflecting as a little increment debt. But overall we have maintained our gross level debts within the range which we have been following in the last six quarters. So it's not gone beyond 1850 crores.

Nitin Adnani: Okay. Just a comment on I Bid My Home, if you can just give us an update of how that's going?

Ashsish Puravankara: I will step back a little bit. So what we had done to accelerate our ready-to-move in inventory. We had run a scheme at Welworth City which is a Provident product where we had almost a little over 5 lakh square feet. So we ran a scheme there and over the last 4 to 5 months we were able to sell almost I would say about close to 2.5 lakh square feet. So that was our first initiative that worked well. The second one that we have done right now we've tied up with I Bid My Home along with HDFC Realty where as a test case we have put 3 of our projects there. Some other developers have also put two projects there wherein we have put certain number of units there where we tell the customer what our current selling price is. HDFC Realty has advised them on the minimum bid price and the customers actually can bid anything above that. It's open for a month. So first week of December is when we will sort of close the bids and then depending on where the average bid amount, so I will give you a quick example. So currently Puravankara is selling something for Provident at about Rs. 4500. HDFC Realty has said a good value bid price is 3600. Now customers can bid anything above 3600. Now first week of December when these bids close, we will analyze where the maximum number of bids are. So it can be either closer to HDFC's suggested price, below bid price or it could be maybe somewhere around Rs. 4000, based on that we will close the transactions.

Jackbastian Nazareth: And currently as we speak we have got about 67,000 hits on the website till 28 October, 320 odd registered users and more than about 49 bids there where people have actually paid money and bid and our Facebook page also seen about 12,000 Likes for I bid, so it's just initial stages. In fact today we have seen more traffic because we did a radio ad today. Bombay also will follow this week and this will also be done in Dubai, so we are expecting good momentum on this portal.

Moderator: Thank you. Next question is from the line of Anubhav Gupta from Maybank. Please go ahead.

Anubhav Gupta: On this 5.8 million square feet of expected delivery in second half do you think that there will be additional interest cost allocation which will hurt the margin or this will be without any interest cost escalations?

Hari Ramakrishnan: This 5.81 million currently we don't expect because all of them are going to get delivered by December. It's more or less a lumped up delivery in terms of Bluemont, Windemere Phase-I and Sunworth Phase-I and Provident Harmony. So we will not have an issue on that. But for March quarter if my launches get pushed for some other reasons then that could be an issue. So we have actually accelerated our launches primarily to take care of this issue as well.

Moderator: Thank you. As there are no further questions from the participants I would now like to hand over the floor back to Mr. Nazareth for his closing comments, over to you sir.

Jackbastian Nazareth: Thank you everybody. Hari and me will be as usual available on the phone in case you all have any specific questions, please do reach out. Thanks again.

Moderator: Thank you very much sir. Ladies and gentlemen on behalf of Puravankara Projects Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.