Kolte-Patil Developers Limited

Q2 FY22 Earnings Conference Call
November 01, 2021

Moderator: Good day and welcome to the Kolte-Patil Developers Q2 FY22 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and 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. Shiv Muttoo from CDR India. Thank you and over to you, sir.

Shiv Muttoo: Thanks, Janice. Good afternoon, everyone and thank you for joining us on the Q2 FY22 Results Conference Call of Kolte-Patil Developers Limited. We have with us today, Yash Patil – Joint Managing Director; Rahul Talele – Group CEO; Vikram Rajput – Head, Investor Relations and Corporate Finance; and Pawan Lohiya – Head, Finance.

Before we begin, I would like to state that some of the statements in today's discussion may be forward-looking in nature and may involve certain risks and uncertainties. A detail statement in this regard is available on the Q2 FY22 Results Presentation, that has been sent out to you earlier.

I would now like to invite Yash Patil to begin the proceedings of this call.

Yash Patil: Thanks, Shiv. Good afternoon, everyone. A very warm welcome to everyone present and thank you for joining us today to discuss the Operating and Financial Performance of Kolte-Patil Developers Limited for the Second Quarter ended 30th September 2021.

I would like to begin by discussing our view on the overall demand environment for the real estate sector and our broad strategic outlook. Then Rahul will share some insights into the quarter's operating performance. As you would know, Rahul has recently been elevated to the position of Group CEO at Kolte-Patil. Rahul joined us in 2010 and has been instrumental in driving many of our strategic initiatives including the Company's entry into the affordable housing segment, expansion into the Mumbai redevelopment market as well as the scale up delivered in the Life Republic Township. We look forward to his continued success and will jointly participate in the outreach to the investor community as well.

We will close our opening comments with Vikram taking you through the key financial highlights for the quarter. We then look forward to taking your questions and suggestions.

As the country and large parts of the world emerge stronger from the widespread impact of the Covid virus, we look forward to the situation normalizing even more and we hope all of you, along with your family and friends, are doing well and keeping healthy.

Meanwhile, we see a clear shift emerging in terms of the demand environment for real estate in the country. The sector ecosystem has been transitioning in line with the country's move toward formalization and system-driven compliance. Low mortgage rates, stable property prices, rising affordability as well as the robust hiring outlook for IT services and several key sectors bodes well for structural improvement in the outlook after several years of weakness. We even see the micro-behavioral shifts such as propensity to work from home encouraging buyers' preference for larger living spaces. Further, there is increasing visibility for credible, execution-focused players with established brands and widespread market presence. Strong balance sheets and access to liquidity is another differentiator enabling strong players such as Kolte-Patil gain market share. This virtuous cycle has further accelerated over the recent past with the world having to deal with the intense impact of the pandemic.

At Kolte-Patil, we have developed a culture of system-orientation and formal process-driven mechanisms in our style of functioning over the years. Remaining focused on timelines and execution has allowed our brand to emerge stronger with the support of customers in the Pune market. We are now expanding our visibility in Mumbai and Bengaluru as well, driven by the same principles. This is seen in the growing contribution from these two cities to our overall sales value, thereby diversifying the business profile in a significant manner. We see the longer-term benefits of sector consolidation on the supply-side accruing to us.

We have also developed a culture of recognizing value delivered by our key people and Kolte-Patil remains an organization driven by professionals. Our decade-long association with Rahul has been very fruitful and I look forward to continuing to work closely with him as we move forward in pursuit of our corporate initiatives. All operational decisions will now be driven by him. As I envision my own role, I would like to focus on the strategic direction of the company, making sure from a long term perspective we are able to deliver our Company's vision. Also, some of the softer aspects like ESG and customer centricity.

With that I would now like to hand over the proceedings to Rahul to discuss the operating highlights and business outlook.

Rahul Talele: Thank you, Yash. Good afternoon to everyone, attending this call. I look forward to a long and mutually rewarding engagement with all of you.

Before, I comment on the operations, let me state I am very inspired by the legacy of Kolte-Patil Developers. I look forward to collaborating with Yash and take the Company to a different level. We have a history of execution where the P&L performance has always been in sync with the operational performance resulting in consistent cash flow generation and healthy returns. Myself, our executive team and everyone at KPDL is geared up to meaningfully scale up this self-sustainable business and brand equity which has been built over the last three decades and create sustainable, long-term value for our stakeholders.

Speaking about the operational highlights of the quarter, we are pleased to report that in the first half of FY22, our sales grew 89% by value to Rs. 678 crore and 60% by volume to 1.07 msf. During the same period, collections increased by 114% YoY to Rs. 653 crore and realizations expanded by 17% to Rs. 6,312 per square foot. This increase in realization, I would like to add, is based on two factors. One, the increase contribution of from Mumbai, which expanded to 25% of overall sales during the first half. Second, with the improved demand traction and the preference for quality, we have seen improved realizations in our ongoing projects.

Q2 FY22 saw further acceleration across key parameters with sales value up 121% YoY and 73% QoQ to Rs. 429 crore and sales volume up 92% YoY and 68% QoQ to 0.67 msf.

Demand remains strong across product segments and through the three geographies of Pune, Bengaluru and Mumbai. Our diversification story continues to play out well, with Mumbai portfolio contribution up to 26% of total sales value. Mumbai region reported sales value of Rs. 113 crore, as against Rs. 15.5 crore in Q2 FY21, on the back of an uptick in traction at Verve (Goregaon) and sustained momentum at Vaayu (Dahisar). As a result, within first half itself, we have matched the last full year's Mumbai sales value number of Rs. 180 crore. Bengaluru also recorded sales value Rs. 35 crore in Q2, taking the contribution from projects outside Pune to ~35% during the quarter.

Residential sector performance continues to witness an improvement on the back of India's resilient economic performance coming out of the second wave and we now see the structural theme around the value of owning a home being reinforced. Historically, we have delivered improved performance in the second half of the financial year, compared to the first half, and we expect a similar trend once again to end FY22 on a strong note. We have eleven priority launches lined up with saleable area of ~6.2 msf across the three cities with an aggregate topline potential of over ~Rs. 5,000 crore. Further, we have a comprehensive project portfolio across the three cities of our presence and are gearing up to leverage our improved brand salience, strong operating ecosystem, and balance sheet to grow sustainably in the coming years.

With that I now hand over the proceedings of this call to Vikram to provide a financial overview.

Vikram Rajput: Thank you, Rahul. Good afternoon, everyone. I hope that all of you and your families are keeping safe and well. I will now briefly take you through our financial performance for the quarter ended 30th September 2021.

Based on CCM reporting, in Q2 we reported revenues of Rs. 304 crore, up 370.4% and in H1 we reported revenues of Rs. 501 crore, up 144% on a year-on-year basis. EBITDA for Q2, stood at Rs. 53 crore compared to a loss of Rs. 10 crore in Q2 FY21 and at Rs. 115 crore in H1 FY22 vs. a loss of Rs. 22 crore in H1 FY21. Our net profit after tax post minority interest expanded to Rs. 18 crore compared to a loss of Rs. 15 crore in Q2 FY21 and Rs. 47 crore in H1 FY22 as compared to a loss of Rs. 49 crore in H1 FY21.

We ensured the continuity of construction activities at a healthy pace. An improved momentum in sales, registrations, construction and CRM drove Q2 FY22 collections up 86% YoY and 34% QoQ to Rs. 374 crore. The liquidity in our business operations remains strong, resulting in further reduction of Rs. 67 crore in net debt. We have reduced our net debt by Rs. 96 crore in the first half of this year. Our net debt to equity stands at 0.23 as on September 30, 2021. Further, the Operating Cash Flow for the quarter stood at Rs. 145 crore.

We now expect to report to an improved performance across operational and financial parameters for the remainder of the year and end the year on a strong note.

On that note I conclude my opening remarks and would like to now ask the moderator to open the line for Q&A.

Moderator: Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Bajrang Bafna from Sunidhi Securities. Please go ahead.

Bajrang Bafna: From a strategic point of view, we believe that real estate is a cyclical business. Even hearing the remarks from Mr. Deepak Parekh, the most renowned veteran in the real estate industry, he has recently quoted in the media that – in his career of 50-years, he sees the best of the opportunities for this sector and the cycle which ended in 2012-13 has come back with vengeance in 2020-21 and all the parameters like lower interest rates and the hunger to own a house is at the highest level from the ground level. When we go by the statements of such renowned people, we also want to hear what the management has to say about the same from a strategic perspective. You have guided that this year, the Company would end on a strong note; in terms of some specifics, what are the targets for this year and from a next three-year perspective?

Yash Patil: At Kolte-Patil, we also echo the beliefs of Mr. Deepak Parekh, he is an industry veteran has and has said that – finally after 6-7 years, there is an upcycle which is coming. We are seeing this very much on ground with the number of walk-ins and our financial and operating performance. As we are also gunning for a great year ahead, I think we are also looking forward to having the best-ever sales value number this year. Looking forward, in the next three years, like I mentioned in our opening comments we have a great growth plan as the industry has an upcycle and now with the new teams in place, with Rahul taking over, we have great plans to expand our business in the coming years.

Rahul Talele: We are very confident of achieving this year's numbers. In fact, there is a possibility of surpassing these numbers. For the coming year, the numbers have to be backed by the back of the curtain working and we are already into the business development stage. The senior management is spending most of their time on BD deals and is also sitting on the drawing board so that our next phase of launches would be ready. We will be coming out with a very good pipeline to ride the benefit of this positivity in the market.

Bajrang Bafna: here are two numbers which have been given in this presentation – one is 6.2 mn. sq. ft. which is the launch pipeline totaling to a cumulative value of Rs. 5,000 crore and the other number 10 mn. sq. ft. that the company is looking at for different models, going forward. Could you guide us in terms of these two numbers; how and by when would the the company try to achieve both these numbers?

Rahul Talele: This is an interesting question and quite important for the next line of growth. Mentioned in the presentation is ~6.2 mn. sq. ft. of priority launches which are there with an aggregate top line of around Rs. 5,000 crore. This will result into per sq. ft. realization between Rs. 8,000-8,500 and will again be a very positive move for us. We are pretty confident of launching these projects; a few of which will get launched this quarter, a few which would be launched in next quarter and then very few projects which will get launched in Q1 FY23. Just to give you a detailed insight – we are going to launch a couple of projects at Life Republic, our flagship township and are seeing very good momentum and positivity there. Apart from this, one project at Wagholi; then a project at Baner which would certainly be launched in FY22 itself. For Giga, the project has reached the RERA application stage and hence it could get launched next month itself or perhaps later this month. In Mumbai, we are in the final stage of accruals for Sukh Niwas, it would be launched in this quarter itself and Golden Pebbles will follow in the fourth quarter.

On the second part of the question on the pipeline of 10 mn. sq. ft. – as mentioned earlier, for the most part of our time, we are working on screening the business development deals and considering how they can be structured; we have an internal committee for this. We are spending quite some time for that and are confident that we will achieve the target. Right now, it would be too early to comment a definitive timeline, but yes, we are certainly on track to achieve the growth numbers for the next three years.

Moderator: The next question is from the line of Pritesh Sheth from Motilal Oswal AMC. Please go ahead.

Pritesh Sheth: Hi Mont, Hinjewadi which was earlier planned is not in the 'launch pipeline' in the Q2 presentation, the same is with Life Republic's R-10, Phase-II. Have they been launched or are they being pushed out?

Rahul Talele: Regarding Hi Mont – during the transition phase, in the last 4-5 months, what we have done is that we have reassessed all the recent deals that have been closed, i.e., in terms of the financial feasibility, right product mix and safety in terms of the overall portfolio. There are multiple reassessment criteria that we have placed internally, making Hi Mont one such project that we do not want to continue with.

Regarding Universe Phase-II – it has been launched in the month of September and is seeing good traction; we are pretty confident of achieving good numbers here.

Having said that, I would like to share some positive news, we have renegotiated one of our biggest joint venture deals of recent times i.e., the Baner deal, on 1.3 mn. sq. ft. This is getting launched in the next quarter. Earlier it was in a 66:34 JV ratio – revenue share. We have increased our revenue share from 66% to 69%. This will give us an additional PBT of close to ~Rs. 35-40-odd crore. On top of that, because the benefit has unified in the recent past, the potential of that project has also gone up from 1.3 mn. sq. ft. to 1.35 mn. sq. ft. Due to this reassessment, we are already seeing a positive outcome.

Pritesh Sheth: Is this reassessment exercise largely done now or could there still be a few more deals that may be cancelled or improved?

Yash Patil: That is largely done. During the reassessment, there was only one project – Hi Mont, which was dropped.

Pritesh Sheth: That was development management (DM) deal, if I recollect it?

Yash Patil: Yes.

Pritesh Sheth: Going forward, would your focus be largely be on JV/JD as outright land deals rather than DM?

Yash Patil: Absolutely. If you see our healthy free cash flow generation, you see a strong balance sheet. In this quarter, we reduced our debt by Rs. 67 crore and net debt-to-equity is 0.23x. As a team we have taken a target and feel more comfortable in the JV/JD structure with outright transactions.

Pritesh Sheth: On the demand trends – firstly, across the markets, we see that the demand for larger homes is picking up very well vs. demand for 1 & 2 BHK. On that backdrop, what are your plans? With Universe, the Company was largely focusing on affordable houses below Rs. 50 lakhs. Including that, are there any redesign plans that it is looking at to cater to the current demand because this is not a one-market phenomena; I think it is across markets like Mumbai, Bangalore and Pune where we are seeing demand for larger homes being more than the smaller homes. What is your take on that?

Rahul Talele: This is an important observation. As I mentioned earlier, we are going back on the drawing board for this reason. The two launches that we are proposing in Life Republic, in the next 30-days are of higher ticket values. The room sizes are bigger, with a balcony concept. It is quite visible in our presentation as well. Contributions from the premium inventory are at an all-time high if you compare it to last ~3-4 years. Certainly, we are brainstorming on that but at the same time for Life Republic, specifically, we should have a right balance of all inventories, we have to take care of cannibalization and the other things as well because we are taking a higher target. Basically, we are trying to provide a supermarket of products over there which will complement each other.

Moderator: The next question is from the line of Prithvi Raj from Unifi Capital. Please go ahead.

Prithvi Raj: You mentioned that there has been an increase in the realizations. What would be the like-to-like increase in the realizations for various projects and which geographies are these increases in?

Rahul Talele: If you refer to the last presentation and this presentation, on a YoY basis, there is a significant increase in the Life Republic portfolio. The last year's average was close to ~Rs. 4,900 and for this quarter we are achieving Rs. 5,200. So, there is a price rise of ~Rs. 300 per sq. ft. in Life Republic, which is our biggest portfolio. So, that is a very positive sign. Apart from that, for our premium inventory at Stargaze, Centria and Mumbai projects, we have increased our prices by 2-4%.

Prithvi Raj: This is unique as this sector has never seen increase in realizations. Should this trend be expected to continue and what do you feel at the ground level?

Rahul Talele: Yes, it also depends on the strategy employed by the peers. At the end of the day, we have to strike a right balance between volume and value. To answer your question, yes, there is positivity in the market; certainly because of the efficient new launches with a good product mix and good design, that we are bullish to have a positive price rise in our new launches.

Prithvi Raj: Any further update on the Planet Smart City (JV)?

Yash Patil: We are sharing deals with them and a lot of deals have been shared to and fro. So far, the focus was on the launch of R10, Phase-II and in the coming quarters, hopefully we will be able to announce on that. However, right now we are evaluating deals amongst us.

Prithvi Raj: In H1, the Company has done sales of 1.1 mn. sq. ft. What could be the full year number here and what would be the guidance for next year?

Rahul Talele: We will certainly surpass our guidance given earlier of 2.5 mn. sq. ft. This will be the best ever year for us in terms of value.

Yash Patil: Historically, if you see H2 is better than H1. Thus, we are gunning for a good H2 and are hoping to surpass the 2.5 mn. sq. ft. guidance that was given.

Prithvi Raj: Given that there would be ~6 mn. sq. ft. of new launches in the next few quarters, could the Company expect sales of ~3.5-4 mn. sq. ft. in next year?

Yash Patil: It all depends on the launches i.e., depending on the quarter that they would come in. We do not want to give a forward guidance but with the amount of launches that we are having as the new BD that is coming in, you would see that next year would be better than our guidance of 2.5 mn. sq. ft. this year.

Moderator: The next question is from the line of Manoj Dua from Geometric Securities. Please go ahead.

Manoj Dua: Could you provide some insight of the business development deals done in this quarter, segment-wise in Pune or Mumbai?

Rahul Talele: As I mentioned earlier, there are advanced stages of discussions going on for some very serious deals. However, at this point of time, I cannot disclose those details.

Manoj Dua: Is there a target amount to invest in these business development deals in 1-2 years?

Rahul Talele: Basically, it all depends on deal structuring – some can be on an asset-light base while others maybe investment heavy. It is difficult to comment on that number but certainly in terms of volume, bare minimum, we want to replenish what we sell every year so that it adds back to our inventory. Certainly, for the next 3-4 quarters you will see very good BD deals being signed at our end.

Moderator: The next question is from the line of Andrey Purushottam from Cogito. Please go ahead.

Andrey Purushottam: On realizations – how do you see the pricing actually increase over the next 12-months and how do you see that alongside your cost because across industries we are hearing about commodity inflation and therefore what is the impact on your profitability that you foresee in the next 12-months?

I also wanted to reconcile the numbers, you said somewhere that you had a realization of Rs. 6,300 per sq. ft. and in the 6.2 mn. sq. ft. that you are talking about a potential in Rs. 8,500 per sq. ft. which is ~30% increase. Some of this could also obviously because of a mix change and higher proportion of sales coming from places like Mumbai, but in terms of absolute price increase, how do you see that and how do you see that along with the cost increase and effect on the margins?

Rahul Talele: There are three parts of the question. So, let me answer the first one regarding the cost of input. Yes, there is a cost rise close to ~6-8% for the new project. We have already launched inventory at various stages of project development. Considering that, there can be an impact of ~1-2% and maybe for a couple of projects that are recently launched of ~4-5%. To cover this, we are increasing our prices as compared to the earlier phases launched across our inventory. Above that, for the next 12-months, it will not be an issue only for us in terms of price hikes and uptick in commodity cycle. All the peers are facing the heat. Thus, it all depends on how the market takes this. Hence, there are only two options – either to absorb that and reset the margins or to improve the pricing. It is as I mentioned earlier, we must strike the right balance between value and volume. Having said that, we will be increasing our prices marginally across the portfolio in the coming quarters.

Andrey Purushottam: So, with the increase of Rs. 8,500 per sq. ft. which is the future value for inventory, and the Rs. 6,000 that you are getting right now, if you are going to increase prices only marginally, are you going to get all that change only because of the mix or what is going to happen?

Rahul Talele: Majority of that is because of the contribution from Mumbai as well as contribution from the premium inventory of Pune, like what I mentioned about Baner. Regarding Giga, for which the rates are in the range of Rs. 8,000-Rs.10,000 a square foot. So, most of the part is in regards to that. Certainly, as I mentioned because of maybe a marginal price rise, we will see the improvement in our average realizations in the coming quarters.

Yash Patil: Just to add to Rahul's point, in Mumbai, the contribution for the last year was Rs. 180 crore and so far in H1 FY22 we have achieved Rs. 180 crore. That is why you are seeing that uptick in price realizations and going forward as Mumbai will contribute more, it will keep moving up.

Andrey Purushottam: Would it be fair to assume that your margins going forward will be roughly around the same as they are today?

Rahul Talele: Yes, we will continue to have at least same margins, in the near future.

Moderator: The next question is from the line of Mohit Agarwal from IIFL. Please go ahead.

Mohit Agarwal: On the business development portfolio, specifically Mumbai – you mentioned 10 mn. sq. ft. of projects that you are looking to add. How much is Mumbai out of that or how much in the next 6-12 months are you expecting to add in Mumbai? How has the inflow been especially post the second wave – has it gone up/down and are more vendors coming to you or more society development deals coming to you?

Rahul Talele: Out of the 10 mn. sq. ft., we are targeting to sign 3-4 deals in Mumbai which will contribute around 1.5 mn. sq. ft. On the second part, yes, as we have the first mover advantage, specifically for Mumbai in the redevelopment domain, we have a strong liaison and legal team over there. They liaison directly with the society's residents unlike the peers. They have a kind of intermediary set up. So, we will be carrying that advantage. That is our unique proposition for Mumbai. On top of that, we have delivered a couple of projects in Mumbai. Many societies are approaching us with better terms and as a result, we are pretty confident that we will be signing a few deals in Mumbai.

Mohit Agarwal: Is it possible to share any details in general about how the terms have been better?

Rahul Talele: Just to give you some sense, in the society domain, the most important factor is the trust. With any society that we have signed in Mumbai, the work is going on in every society at different levels. Now the other societies have that kind of confidence that these are the developers who are going to deliver on their commitment. Because of that, our upfront investment is getting reduced. Earlier, people used to take rentals of 2-3 years upfront. Now, they are open to taking a rental of say 3 months or maybe at max 6 months. So, even the hardship compensation is getting postponed during the operating cycle of the project. Obviously, there is an improvement in the area. So, that is the main factor that we always look at.

Mohit Agarwal: Is the overall competitive intensity in the business development market of Mumbai increasing? Many of your larger peers are getting aggressive on business development in Mumbai. How have you seen this in the last one year – is it tougher to get projects now or is there more competition?

Rahul Talele: Because of the positivity in the market everybody is now talking about a new deal and so is the case with us. What we have observed in the past during the legacy of the Company is that when there is good competition, it has always benefited it because of its strong legacy of delivery and quality products. It does not come across as something negative or as a serious concern for us. In fact, it is a positive situation for us. We are getting good deal pipelines with better terms and that is not only in the redevelopment domain but also in JV/JD deals that we are evaluating.

Moderator: The next question is from the line of Rohit Balakrishnan from iThought PMS. Please go ahead.

R Balakrishnan: You mentioned that you have ~6.2 mn. sq. ft. of launch pipeline. You have named a few projects in Pune and Mumbai, but just at an aggregate level, what would be the launch in FY22 and what would spillover to FY23?

Rahul Talele: Out of this, most of the inventory will get launched in FY22. If you want details, I can share that – the Baner project will surely get launched in Q4 of this year, then

Wagholi, Equa is getting launched in the next month itself, a couple of projects at Life Republic are again getting launched in the next month, Giga being a very prime location, will be launched in a phase-wise manner. So, first Giga is getting launched perhaps at the end of this quarter or early next quarter. Regarding Mumbai, Sukh Niwas will certainly get launched in this quarter and Golden Pebbles maybe launched at the fag-end of the Q4 or at the beginning of the next financial year. So, to answer your question, most of the inventory is getting launched in the month of March or early Q1 FY23.

R Balakrishnan: Would it be the complete launch of 6 mn. sq. ft. over the next 4-6 quarters?

Rahul Talele: We are confident that all these projects will get launched in next 6-9 months. Maybe Boat Club, because of the unified PCR, there is a lot of unlocked potential that we are looking at; it is property at a very prime location and there is deliberation going on about that. Thus, barring this everything will be launched in the next 2-3 quarters.

R Balakrishnan: On JV/JD deals – you mentioned that you would look at adding the number of planned deals to replace the inventory sold in the year. As you mentioned, this year it will probably be upwards of 2.5 mn. sq. ft. So, is it fair to say that if not in FY22 given there could be a thing around deal closure, etc., you are in agreement and given the launch pipeline that you have for the next 6-9 months, can we see business deals for at least 4-5 mn. sq. ft. in the next 3-4 quarters? Is that something which you think is given with the agreements happening, do you think that that is feasible? I am not asking whether you will do it or not, I am just asking whether from a pipeline point of view if there is that much of visibility and if everything goes well, you will be at least looking at that number?

Rahul Talele: As I mentioned earlier, we are very positive, many deals are in the advanced leg of discussions but at the same time BD is not an event, it is a process, so we have a very strong assessment process of new business development activities. Maybe it is conservative, but it always benefited us in the past. I cannot give you any kind of commitment on a QoQ basis but certainly for the next 4-6 quarters, there will be significant additions in our portfolio through the business development activity. At the same time, we are not just adding volumes, we are introducing ourselves into new micro markets in the Pune and Mumbai regions, so, that will help us with the additional volume.

R Balakrishnan: On Mumbai – some of the other players have also alluded to this part in terms of society redevelopment. Have you seen any competition reaping in or do you think that the market is so big that there is space for everybody? Would you also be looking at any non-society redevelopment deals, like a completely fresh project in the MMR region?

Rahul Talele: As rightly mentioned by you, there is good space for everyone. As I mentioned, most important in any society redevelopment – because it is not a one person who is taking a call, it is a combination of people who are taking the call, trust plays a significant role and I believe the we are ahead of the curve over there. We think that we are in good terms in that space.

Yash Patil: In BDs there are more than 15,000 societies coming up for redevelopment. It is a big space and there are only a few brand developers who can really encash on this opportunity.

Rahul Talele: Regarding the second part of the question, we are not only looking at redevelopment deals in Mumbai but also, at the same time, are open for other kinds of deal structures. We are evaluating a couple of deals on the outright and joint development space as well. However, we are very selective on choosing the micro markets in Mumbai, because MMR is a very big region. We do not want to have the project spread across MMR to begin with.

Moderator: The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Given the demand scenario and the kind of projects that are going to be launched over the next three years, is a Rs. 5,000-5,500 crore kind of a revenue level that one can envisage over the next three years?

Pawan Lohiya: From the P&L perspective, we follow the completed contract method (CCM). We have 9 mn. sq. ft. of work under-development that is going on. This will get delivered over the next three years which will add to our top line of close to ~Rs. 5,000 crore.

Deepak Poddar: What are the margin levels that we are looking at?

Pawan Lohiya: Margins are expected to remain consistent. EBITDA is going to be in the range of somewhere ~20-25%.

Deepak Poddar: PAT maybe about 10%-15% is that what the Company had guided earlier?

Pawan Lohiya: That is right.

Deepak Poddar: Would the heaviness of this revenue be skewed towards FY24, will that be a right assessment?

Pawan Lohiya: I would say it would be evenly spread between FY22, FY23 and FY24.

Moderator: The next question is from the line of Himanshu Upadhyay from PGIM Mutual Fund. Please go ahead.

H Upadhyay: On the Goregaon project, Verve, which was I believe was launched in Q1 FY22 – the sales momentum here is slow even though the market is doing well; also the cash received is less and the realizations are lower than Evara in Borivali. What would be the reason for this as it is now two quarters since the launch? It is one of the largest projects in Mumbai with 0.23 mn. sq. ft. of sales.

Yash Patil: We have got a good traction in Verve, but however they have not been converted into sales because we are in the process of purchasing TDR for the C-tower and D-tower. We have already paid the first tranche of 10% for the TDR purchase and hopefully the TDR will be loaded within 20-25 days. In this quarter, you will see all those sales flow into registrations ultimately. EOI's have been picked up and many people's interest have been taken but because we have not loaded our TDR and they could not log into our sales. Customers are waiting for 3-4 months. You will see all those sales coming into this quarter in fact by this month.

H Upadhyay: Even when we look at the Rs. 69 crore of sales value, the collections are only Rs. 5 crore. Generally, the Company has 20%, at that point of collections.

Rahul Talele: It depends on what stage of project it is. So, we have just started with the construction over there and even what Yash mentioned, the registration is happening and we are pushing for that. Post registration, you will see good momentum in terms of collections as well. At the end of the day, it must be backed by good construction progress and we are confident about that.

Yash Patil: Just to add, there is good sales, but there is some backlog. Just because of our TDR, it has taken a bit of time, but by next month it would flow in. The collection as per footing, over 20% would come after the registration.

H Upadhyay: On Jai Vijay – we see small sales every quarter, how much is pending here? I believe that it has been nearly two years since the project was completed however it is taking more time to sell.

Rahul Talele: The inventory remaining is ~10,000-12,000. Those are the non-premium units and because of certain non-premium view, there is slow traction there, if you see our October number, it is very good. We believe that in next couple of months we will be through with the inventory at Jai Vijay.

H Upadhyay: On Mumbai – where does the Company want to focus – would it be in the super premium space or would it be a mid-income space where we the focus would be redevelopment? It is particularly on the western line where the Company has focused on.

Rahul Talele: As I mentioned earlier, we are very selective about the micro markets particularly for Mumbai since it is a new market for us. Over there, we want to have BD deals where the APR realization is in the range of Rs. 15,000-17,000 per sq. ft. on a saleable basis. On the ticket size, we would like to continue between Rs. 1.5-3 crore and then very few inventory of Rs. 4 crore.

H Upadhyay: And one small last thing. Welcome, Rahul. At Kolte-Patil, we have seen that CEOs have left in ~3-4 years and very young people have been CEOs over the last 10-years where it is not that they are retiring. Is there a strategy where the Company can maintain CEOs on a more longer-term? I am aware that many of them were with the Company for pretty long period of time.

Yash Patil: Change is inevitable in any company. Rahul has been with us for 10-years and he has been very instrumental in revamping Life Republic and the overall setting up of the Mumbai division. Even in the past, the CEOs have performed and also with Rahul now, we have a great growth plan. Apart from that, the market is also in an upcycle and the entire team is charged up to achieve our target for the next three years.

Rahul Talele: At the same time, we are strengthening our strategy team as well to ride on the next level of growth; so, we are hiring project directors and they will be the future leaders for the Company.

Moderator: The next question is from the line of Faizal Hawa from H. G. Hawa & Company. Please go ahead.

Faizal Hawa: Is there any technology that the Company has adopted in designing for customer-centric approach with AR and VR becoming really prevalent in Facebook, adopting it. You could actually showcase the Company's products to the entire world.

There is a fair amount of increase in the IT industry and Pune is coming up. How would this pan out in reducing the inventory? If the inventory reduces further, could there be a short squeeze of supply that could cause prices to almost increase, because you may have a very little supply in the market? Is there any reason why you are not concentrating more on the Bengaluru market as it has almost similar characteristics to Pune?

Rahul Talele: With regards to technology, certainly, we are taking the advantage there. Even during the COVID lockdown period because of the technology, we could sell a good amount of inventory. Yes, we are bullish to take the benefit out of this technology. It is quite visible through our marketing spends as well. Earlier, the primary spend in marketing was the print and hoarding media and now we are focusing on the digital tools to optimize the cost there.

Yash Patil: To answer the Bengaluru question, you are right, now we have Raaga front development, that is called Raaga Phase-III which is going to come up and we are looking at signing 2-3 more deals in Bengaluru. For this, we have brought in a new Business head in Bengaluru and are hoping that we can announce something by mostly Q4 of this year for this market.

Moderator: We take the last question from the line of Pritesh Sheth from Motilal Oswal AMC. Please go ahead.

Pritesh Sheth: I think that it is very important to mention about your dividend distribution policy. I believe that this is the first time that we are seeing someone coming from the real estate space with a very great distribution policy. Probably in the last couple of quarters, we are seeing some of the surplus cash flows getting used to deleverage the balance sheet but from hereon we might not see that and we might see some return to equity shareholders as well. If you could please elaborate on your distribution policy?

Rahul Talele: Pritesh, it is again an important question. The point is, as I mentioned earlier, we are really bullish on the market sentiments and want to close multiple deals in the coming quarters. The guidance from the board is to preserve this capital for the growth and that is the reason that we are not going ahead with the dividend at this moment.

Pritesh Sheth: Probably for next couple of years also your focus would be purely on business development and we might not see any dividend getting distributed, right?

Rahul Talele: No, this is a short-term guidance. If you see our debt-to-equity ratio, it is almost at an all-time low. From the board, we have a guidance to replenish at 0.5 debt-to-equity ratio. We have a possibility of raising further capital through the debt route. Apart from that, there are very strong operating cash flows in the Company. Having said that, we are pretty conservative at least for the next 3-4 quarters for the distribution of dividend.

Yash Patil: It would not be for the next year. Again, the board will decide after two quarters and as per our discussion, we would let all of you know.

Moderator: Ladies and gentlemen, that was the last question for today. I would now like to hand the conference back to the management for closing comments. Over to you, all.

Rahul Talele: Thank you once again for your interest and support. We will continue to stay engaged, please be in touch with our investor relations team for any further details or discussions. Look forward to interacting with you next quarter. Wishing you and your near ones a very Happy Diwali on behalf of entire Kolte-Patil family. Thank you.
