

"Brigade Enterprises Limited Q2 FY15 Earnings Conference Call"

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MANAGEMENT: MR. SURESH KRIS – CFO, BRIGADE ENTERPRISES LIMITED



Moderator:

Ladies and gentlemen, good day and welcome to the Brigade Enterprises Limited Q2 FY15 earnings conference call. 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 now hand the conference over to Mr. Suresh Kris – CFO of Brigade Enterprises Limited. Thank you and over to you sir.

Suresh Kris:

This is Suresh, CFO, for Brigade Group. I hope you have all the presentations for Q2 and would like to have the highlights of Q2 especially on our earnings first, then about the status as of September.

Total revenue for 6 months close to around 500 crores this time and then year-on-year basis, it is around 47%, higher than the last year 6 months. Of course when you compare with Q-on-Q basis with the previous quarter with this quarter, it is about 100% more and again the last year same quarter, it is around 82% more which is on standalone basis. And the PAT is also great. It is around two times more than the last quarter and around 13% more than the last year even if it is for 6 months or for 3 months.

And the segmental reporting, as usual we are into that about 70% of our total revenue that is for the real estate and about 15% each for hospitality as well as for the lease rental income, may be around 2% here and there but we are into the same range. But again going forward on a higher base, you would be in line up 80% to real estate and about 10% each for lease rental and hospitality going forward. And then in this Class 41 or even if it is kind of presentation, we may have to regroup some of the items as per the advice of the auditors. So earlier Class 41 was on the net basis. Actually from this year onwards or this quarter onwards, this will be on a gross basis and we have also given our comparisons of June 2014, March 2014 and even September 2014 in the same basis. So that the ratios are comparable for you. Of course those who are having our business model for projection and all those things based on the earlier this one, they may have to review and revisit their computation especially on to those numbers. So that they will be in a position to go and adjust with the same format. May be for this quarter, you may have to go and change your format because earlier it was on net basis and from this quarter onwards, it will be on a gross basis.

And some of the few highlights which may not be available to you is based on the new Companies Act 2013, we have also provided extra depreciation to the extent of 14 crores which we have taken hit during the 6 months and about 4 crores of tax provision which pertained to earlier year has been taken during this quarter. And again straight lining of the lease has been taken which is amounted to about 4 crores extra income that has been considered and again revised estimate, this is not revised estimated cost of the construction. Only thing, methodology



for working of percentage completion, we wanted to go include the estimated interest which will not get changed for the projects. So that the percentage of completion has reduced to that extent and may be the gross margin would also be reduced to that extent and we have taken about 14 crores hit during this quarter. So after this percentage of increase, we have realized. These are the things which have been already quantified into our class 41 which has been given to stock exchange as notes.

And the consolidated of course, we have gone to around 565 crores, but going forward some more income will get recognized from other STPs especially the Cosmopolis BPPL that may come into next quarter that will be huge amount. And as far as the funds deployed is concerned, we are into the 0.68 debt-to-equity ratio and there is a slight improvement in our debt. This is due to as some of the bankers compelled us to go and withdraw the money and of course which has been spent for our CAPEX and our land purchases and the advances to land owners even on JD basis. So the net incremental is about less than 50 crores for 6 months. And our average interest rate is around 12%.

Another thing is we have ratings on the CRISIL which is also A. Very few developers in India is having A rating. Even though we do not have any immediate benefit out of this on to our interest rate because we are not availed about 520 crores of banking limit, even though these are all available and even repayment has also started. So for us, about 520 crores is available for drawing without any purpose in the sense there is no end use for those things. So far about 6 months, we have sold around 1.3 million square feet and 0.8 million square feet is for the last quarter that is O2 and which are more or less equal to the last quarter cumulative sales in volume terms and in terms of average realization, the same has last year about Rs. 5,100. And the collection, I think would have been better because some of the project which has been launched during September, even the first installment or the agreement is not due. Hence the collection was lower compared to the same quarter last year. And we going forward will be having a good collection because the sales is good for this quarter whereas the collection is not up to that mark whereas in Q3 or Q4, this will get improved. This is what we go and this project launches during this quarter is around Rs. 4,100 and when you now see the comparison of the same product mix of last quarter or last year, there has an upward increase of about 5-10%. So the average realization is same.

And as far as the hospitality is concerned, we have two operating hotels and the occupancy rate is good compared to any other hotel in Bangalore that has been already given in the presentation. And we have about 1.6 million square feet of leasable area, out of which 1.53 million square feet leased out. So we do not have issues.

And then when you come to about synopsis of total ongoing projects, we have around 13.73 million of total launched ongoing projects for residential on saleable basis. Out of which, 2 million square feet is towards the owner share balance 11.1 million square feet. Out of which, 6.1



million square feet has been already sold till September and then 5.52 million square feet is still to be sold. The total saleable value of all the projects launched is around 5,700 crores. Out of which, we have sold around 2,700 crores. So the balance 3,000 crores is there as an unsold stock which is at current value. Out of 2,700 crores, we had collected 1,500 crores. And out of this 2,700 crores, we have recognized only around less than 1,000 crores so far. So still about 1,700 crores is lying un sold units again which needs to be recognized and when you go and add this 3,000 crores also which is unsold stock. So we have around 4,700 crores revenue to be recognized come what may within 3 years maybe the maximum period for any project. Within 3 years, we may have recognized 4,700 crores in our balance sheet. This is it and out of the total estimated cost of around 4,000 crores, we have incurred around 1,700 crores out of which. So balance 2,300 crores is there. Even when you go and reduce the present borrowings, we will be having around 1,400 crores as the net operating cash flows from these launched project. Even if you do not launch any one projects, as of date. This is the total operating cash flows for the company. And even when you say about the total gross profit, it is around 1,650 crores. We have recognized only 220 crores. So still we are having around 1,400 crores of gross profit to be recognized. These are the highlights which have been given in the presentation.

And then presently Brigade Group is having around 16 million square feet which is ongoing. Out of which, around 13.6 million square feet which is residential and balance towards commercial and hospitality projects. And we will also talk about the land bank and this one. We have 359 acres of land. The cost is around 600 crores, out of which 450 crores have been paid. So balance 150 crores is payable. It is towards one land in Bangalore with the government and this 359 acres are capable of developing 31.6 million square feet. Out of which, there is a residential segment and in location wise, again majority it will be in Bangalore which is around 22.3 million square feet, all kinds of products together. So this is our presentation onto the Q2 results and if you have any specific questions, we would like to take up.

Moderator:

Thank you very much sir. Participants, we will now begin with the question and answer session. We have the first question from the line of Prem Khurana from Batlivala & Karani Securities. Please go ahead.

Prem Khurana:

Sir to begin with, would it be possible for you to explain this MoU that you have entered with Gujarat government for Rs. 500 odd crores of investments. How do we intend to fund in and what kind of development plans are there and this 500 crores is a total project size or this is only the sum that you would be required to pay for land acquisition.

Suresh Kris:

Firstly, we have been allocated about 1.1 million square feet in GIFT City which will be having a mixed use, one as a residential, commercial, retail as well as the hospitality and this 500 crores is towards the CAPEX project, not for residential project which will be incurred over a period of 3 to 5 years time.



Prem Khurana:

Sure and how much is the land cost of this transaction, 1.1 million square feet and could it be possible for you to break this 1.1 million square feet down into three parts residential, commercial or retail.

Suresh Kris:

You can now take may be around close to around Rs. 1,000 per square feet on an average because it will range from Rs. 950 to Rs. 1,250 per square feet on FSI cost, not on land cost or unit. And in fact we want it to keep around 4 lakhs square feet towards the retail part during the last leg whereas about 2 lakhs -2.25 lakhs square feet will be raised towards residential and around 1.5 lakhs towards hospitality, balance towards the commercial. And the infrastructure cost out of this itself could absorb 25-30%. So the land cost is only about 70% to consider.

Prem Khurana:

Sure. So when you said Rs. 1,000 per square feet of average it inculdes 25%-30% that you would be required to spend for infra or that would be over and above you Rs. 1,000 a square feet?

Suresh Kris:

Not over and above.

Prem Khurana:

Includes.

Suresh Kris:

Includes, you are right.

Prem Khurana:

Sir just one understanding. Is there any change in our strategy because if I am not mistaken whenever we have spoken the past, you always kind of wanted to remain confined to Southern real estate markets and now we are all planning to move to Gujarat and if I am not mistaken what I have heard or what my channel checks suggested that you are also planning to move to Pune or you already start looking at some land parcels there. So is there any change in strategy or how should we take it. Is it that Bangalore, there is no store, scope for further growth. So therefore you look at some other geographies?

Suresh Kris:

We know better that we wanted to expand and we wanted to have a higher base for our total revenue. Now we are about 1,000 crores plus like that, even though last year we could not make any 1,000 crores, may be slightly lesser than 1,000 crores. In P&L, it will be around 30%-40% ahead than the previous year because for which we sold revenues in our books. But only thing they have to incur the cost during this period so that we have the revenues. Going forward, we should have revenue and we do not want to depend only on Bangalore and we are comfortable in South, there is no doubt. But at the same time if you are now able to get those kind of comfort in other parts like GIFT City. So we have to consider that. Hence we wanted to do. It is not that the demand in South is reducing, demand in South is increasing which you know. Only thing we wanted to increase our base, we wanted to go and explore the possibilities in other parts of India.

Prem Khurana:

So if you have to look at any land transaction, cities other than South Indian cities. So you would want to go solo or you would want to do JDA or JV because it is always safer to enter into these new more geographies with some local partner. So is it fair to assume that if you were to look at



some geographies, it would be in JV or JDA with someone and not on a standalone basis or on our own basis?

Suresh Kris:

Presently, we are now looking on all the basis, not only JDA, JV or leasing, owning; all basis we are seeing. And we have MoU with GIC Singapore also to give us around 1,500 crores in these kind of projects in South. So we are open for any kind of land and which will give growth for us in coming years. So we are open for any type of land deal as long as it gives good cash flow and profit.

Prem Khurana:

Sir this GIC deal that we have done for Rs. 1,500 odd crores of investment, this is only meant for Southern real estate markets or is it possible to kind of use these funds for some other geographies as well?

Suresh Kris:

No, we wanted to use this only for South.

Prem Khurana:

We used to give out this target of around Rs. 300 odd crores of growth CAPEX, the CAPEX that you used to talk about for land acquisitions. So 300 crores forms a part of this 1,500 crores or 300 crores is over and above Rs. 1,500 odd crores of the transaction that we have done with GIC.

Suresh Kris:

No, GIC 1,500 crores is separate. Again 1,500 crores is only for the acquisition of land we can say. Balance CAPEX is only for building our commercial and hospitality projects.

Prem Khurana:

If you could throw some light on hospitality vertical, their margins seem to be under pressure for last two quarters. So if I were to look at our EBITDA margins and the segment results that you post, there the margin seems to be only around 4 odd percent. Why would these margins be so low?

Suresh Kris:

Correct because there is1-4- 2014 onwards because of the new Companies Act are supposed to depreciate based on useful life of the asset. So about 11 crores has been added into depreciation. Even then you go and see the last year's depreciation, 6 months vis-à-vis there, you can see 37 crores vis-à-vis 47 crores. 11 crores has been added to this only because of the hospitality and commercial assets.

Prem Khurana:

So it is largely to do with depreciation.

Suresh Kris:

Depreciation, not with towards margin.

Prem Khurana:

Sure. Just some bookkeeping kind of numbers. Could you please share CAPEX number for the quarter, how much that we spent on our commercial real estate properties and what is the target for the remaining half?



Suresh Kris: Now I will give you for the last 6 months how much we have done. About 76 crores has been

spent on CAPEX construction for 6 months and around 40 crores has been spent for the land owners deposit or some parcel of land, small parcel of land like that. So these are the CAPEX.

And going forward, we will go and touch our own 250 crores during this year.

Prem Khurana: Okay, this 76 crores is for the 6 months and not for this quarter say 2Q?

Suresh Kris: You are right, 6 months.

Prem Khurana: And sir just one last. In WTC, there this increase in area. So what explains that? Are these kiosks

or we had some area which was kind of earlier did not form a part of the project.

Suresh Kris: Earlier total area is about 11.33 lakhs square feet. We have actually identified some of the areas

not leasable earlier which has come into leasable area which we wanted to lease now. Actually

we have not constructed anything new.

Moderator: Thank you. Our next question is from the line of Akshay Rao from Edelweiss. Please go ahead.

Akshay Rao: Sir firstly, I just like to start on the sales bookings. We have seen a ramp-up during this quarter.

What would be the major contributors to this and how much of this would have been from the

new launches that we have seen during the quarter.

Suresh Kris: Out of the 8 lakhs square feet, about 3.5 lakhs has been contributed by launch of Cedar and

Deodar and next one comes to around our Golden Triangle. I will give you only the maximum contributor and then you have Meadows about 75,000 square feet and Lake Front around is 85,000 square feet and Symphony Mysore 23,000 square feet and then Exotica 45,000 square feet, Golden Triangle II 255,000 square feet, Omega around 40,000 square feet and Magnum which is 61,000 square feet. These are the main contributors and the Cosmopolis around 95,000

square feet. These are the contributors.

Akshay Rao: And sir what would be the average realizations for our Cedar and Deodar?

Suresh Kris: Cedar and Deodar is 4,065 is the average realization.

Akshay Rao: Secondly coming to the revenues, so again in revenues also we have seen a ramp up. This was I

think because of the 6 projects that hit your revenue recognition. Do you see this momentum continuing in the second half as well and what would be the key projects that would be hitting

the threshold?

Suresh Kris: Threshold in the standalone basis, we may not have so much of it, but in the consolidation basis

will be having a thrilling effect where the Cosmopolis may come into picture. There it could be

not less than 130-150 crores.



Akshay Rao: So this is more likely to be in Q4 or in the coming.

Suresh Kris: It is definitely in Q3. Q2 missed the border. So Q3 is 100% sure.

Akshay Rao: So this would not come in standalone, but overall we will see this impact.

Suresh Kris: Yes, overall it will come.

Akshay Rao: And sir on the net debt, so debt has gone up slightly during the quarter. So just can you give a

breakup as to how much we spent on payment to land owners and how much was our cash

collections and cash outflow on construction during the quarter?

Suresh Kris: You can say, 532 crores is the total collection and we have spent on construction around 260

crores and then CAPEX 76 crores just now I told you and 40 crores for the land and the land owners, 95 crores towards salary and over heads and 30 crores towards tax, 22 crores towards as a dividend payment. So 48 crores is the deficit apart from 160 crores for interest and the

repayment. So the net increase is 48-50 crores.

Akshay Rao: So in terms of collections, do we see this going up going forward considering your sales has

increased.

Suresh Kris: Sure, definitely because in Q3, we expect that some of the sales which was due or which was

during Q2 rather have been collected, the initial payment in Q3. So we will expect substantial

improvement in collection during Q3.

Akshay Rao: And one more thing on interest cost. So that has I think gone up significantly during the quarter,

this is based on your accounting or is there some additional charges that were paid during this

quarter.

Suresh Kris: It is not significant because may be in your model would have accounted only net last quarter or

last year. We have changed the accounting practice of accounting the gross. Earlier what we used to do is we used to put those interests in the schedule and whatever is for the projects, we will transfer and balance will come to P&L. We are now doing the total into P&L and from there only the closing WIP, it will go. So whatever used to be charged, we have to charge. So that is why even during the opening of this meeting, I told that the accounting has been done on a gross basis and not on a net basis. That is why we would be having a huge amount. Of course for the computation of EBITDA or gross margin or anything, then obviously the ratio would have been improved this also, but it has been assessed by E&Y or the new auditors and they are saying

gross accounting is as per requirement of SEBI as well as by the accounting standards.

Akshay Rao: So going forward we will see this as a steady state for you?



Suresh Kris: Yes. Sorry about that, but again you may have to go and change your modeling research report.

So to that extent, we may have to work.

Akshay Rao: And sir just one more on deliveries, have we delivered anything this quarter and what is expected

for FY15 as a whole?

Suresh Kris: Normally we are not again going by finished products this has been delivered. We are going by

the equivalent production like the actual cost or the estimated cost per square feet. So on that basis only we are going and measuring it. We think that at least 3-3.5 million square feet will be

able to deliver in a sense we will be able to construct during this year.

Akshay Rao: And what was the same figure for last year?

Suresh Kris: It was around 2.4 million square feet last year.

Akshay Rao: And going forward since the numbers of launches are increasing, how do we see this ramp up or

in the coming years?

Suresh Kris: Scalability is not a question for us because we are now using the outsourcing model or internal

construction model. So we do not have the kind of issues and on the project launched, we have already appointed the contractor. So we are able to deliver whatever which is possible because

again based on the sales, we will go and deliver it.

Akshay Rao: And sir this Holiday Inn that we launched during this quarter, like when is it expected to

commence operations and what is the cost we are looking at for this and how..

Suresh Kris: You are talking about Holiday Inn Express, not Holiday Inn.

Akshay Rao: Yes, the Holiday Inn Express.

Suresh Kris: Holiday Inn Express in Seshadri Road in Bangalore. Yes, will be there. May be around 100

crores could be the expected cost for this hotel and we may expect around 300 rooms.

Akshay Rao: Okay, they are 300-room projects.

Suresh Kris: Yes. It is in the very posh area and lot of traffics may be there.

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Akshay Rao: And what are we looking at for the average room rentals for this?

Suresh Kris: Could be around \$80-\$100.



Akshay Rao: And sir just lastly on the GIC one, are we closed to adding any projects now or will we see it

may be in the coming years or something?

Suresh Kris: We are on the lookout for land both in Bangalore and other cities. We hope that we will go and

do at least one or two during this quarter.

Akshay Rao: And how will we fund our part of the land payment for this?

Suresh Kris: That is why I told, we already have about 520 crores unutilized limit in the banks, for which we

are already starting repayment. So the project has been contained by internal accruals and equity. So this is the amount available already. About 520 crores is available for us which is an equity for us. There is no end use now. Either way to avail or the repayment to that extent will be short,

that is all.

Moderator: Thank you. We have the next question from the line of Rahul Jain from Dolat Capital. Please go

ahead.

Rahul Jain: We have booked this 0.8 million which is the best ever square feet sales for us in a quarter. So

just wanted to understand how is the momentum on monthly basis. Is this being going up month-

on-month basis or it was more of a function of a pent-up demand because of a weak H1CY14.

Suresh Kris: During first, second, third of August, we had this showcase event. July was not that much great

whereas August was great and September also better. And again going forward, October is okay, November will be good, December may not be to that extent because we will be having around last 15 days inauspicious month so that we may not come and book. So these are the

expectations, but it will be more or less similar to Q2.

Rahul Jain: And as in you talked about the showcase event which we have done during the quarter. Has that

also impacted the realization which has gone down by 2% on QoQ basis despite the strong commercial sales which I assume has to be better realization. Is it because of the discount offered

during the event?

Suresh Kris: You may be right. May be 2%-3% or even some case it is 4% has been given and you can say

that, average realization would have come down because of that also compared to the previous

quarter.

Rahul Jain: So instead of a hike during the period, we might have actually given a 2%-4% discount on like-

to-like basis.

Suresh Kris: Correct. When you compare the same product mix of last quarter or last year, there is an increase

of about 5%-10%. But the new launches of the Orchards like Cedar and Deodar where the

average price is only about 4,065.



Rahul Jain: So you mean to say like-to-like basis, it is 5%-10% up. Mix change has impacted the risen.

Suresh Kris: Average realization, correct.

Rahul Jain: And when I see your P&L statement is a big change in the change in inventory section from (-

1260 crores to (+14) crores, how you explain we should read this? Does it imply soft data on the

finished inventory sales or how we should read that?

Suresh Kris: Earlier what happens, only the finished goods has been reflected and the balance has given as the

net for touch cost of production earlier within one line and now the auditor was saying you have to give in the SEBI format like material consumed only construction cost and other overheads and other things has to go and change in inventory includes finished goods and the WIP portion, that is why the amount is more So that is why I am saying, again financial modeling has to be

changed to some extent to go and reflect at least this same format during coming quarters.

Rahul Jain: So what has been clubbed or regrouped you said, I missed that.

Suresh Kris: You are right. What has been clubbed earlier has been regrouped like this. Earlier only change in

inventory has only the finished goods and then change in the WIP has been classified into cost of production itself as a net figure. Actually we are not giving net figure, we are giving the gross figure and one more line item has been added to reflect the WIP also. That is why it is more.

Rahul Jain: And tax rate has also been very high for the quarter. So reason for it and ideal effective tax rate

for us?

Suresh Kris: Tax rate, you are right. Tax rate is more than that because we have taken a hit of about extra 4

crores where the provisioning has to be done for earlier years, even though the tax has been paid. So that kind of entry we have taken which you can also see in the notes, otherwise our tax rate is

33%. We are into regular taxation and not under MAT.

Rahul Jain: So 33% is what we should model for going forward.

Suresh Kris: Net-net you can take, yes.

Rahul Jain: And the Holiday Inn, Bangalore, this ARR how much you said?

Suresh Kris: It is \$80-\$100 per day and the expected period for construction is about 3 years.

Rahul Jain: \$80-\$100, okay. And you said 3 years' timeline and this would be typical 45-50 lakhs per room

kind of a CAPEX.

Suresh Kris: Yes, may be 40 you can say.



Rahul Jain: 40 lakhs.

Suresh Kris: So roughly 35:300 comes to around 100 crores.

Rahul Jain: And when do we see the cash outgo happening for any towards this GIFT City project and when

we expect this to start reflecting in the numbers?

Suresh Kris: At least till March, you cannot expect so much on construction, but for payment you can see

another 15-20%. Even the payment for the GIFT City is over a period of 5 years. So it is not immediate outgo on the land side which is on FSI basis. And the planning, other things, we may have to start. We have not started anything on to that. May be from March 2015 onwards, we

may start something.

Rahul Jain: Okay. So any development one should assume only in next fiscal, not this fiscal.

Suresh Kris: You can say, correct.

Rahul Jain: And we have been sounding 6 million over the Q3-Q4, sounds little aggressive. So what is your

thought on that?

Suresh Kris: We have planned for about 7 million for this financial year. Out of which, 3 million has already

been launched. Balance 4 is there. And on commercial and other segment, it was 2.7 million. Out of which, around 0.6 million has been launched, balance is there. And I hope we will be able to do excepting may be one or two projects which we may think that better realization can be there for the next year like that. Otherwise, we are very positive and even during this Q3, we wanted to

launch another one or two projects in Bangalore and Mysore.

Moderator: Thank you. Our next question is from the line of Adhidev Chattopadhyay from HDFC. Please go

ahead.

Adhidev Chattopadhyay: I have a few questions. Firstly like on a core real estate business, the EBITDA margins for this

year, the first 6 months is around 13%. So going forward, what is the sort of margin trajectory that you would be looked to work with our own target over the second half and over the next 2-3 years? Do we expect margin to significantly improve from here or will it remain in certain

range?

Suresh Kris: As far as the EBITDA is concerned, EBITDA is around 18% for real estate.

Adhidev Chattopadhyay: I am looking at the consol number I guess on Slide #9 of your presentation.

Suresh Kris: Consol, it was less because of the lesser realization or loss in one of the subsidiaries, that is why

it is less. The same consol during next month would increase at least by around 5%-7%.



Adhidev Chattopadhyay: Sir on a consistent basis, then what would be the sort of margin you are targeting?

Suresh Kris: We can say around 20%...

Adhidev Chattopadhyay: And sir whatever has led to some cost overrun, it was lower or some other reasons?

Suresh Kris: Cost overrun only because at that time we have launched one project during 2011-2012 like that.

So the estimated cost was something and the estimated sales was something because it is a new project which is in a big nature which is in Devanahalli. So those two products you can say. Even though we are having about 130 acres, this we have launched in very few acres and it is only about 5 lakh square feet each. It is now coming and touching 25%. So we have provided for the loss for the entire project itself on that product, that is why we have the EBITDA budget coming

from. Going forward, it is only positive. This is as per the accounting policy we had.

Adhidev Chattopadhyay: Sir second question is pertaining to your investment in the GIFT City, so just wanted to

understand like we will first do the residential development or will the commercial and mall other development happens first and secondly, especially rental what you are looking to build the mall and office space, will you only start construction after you got some committed tenants over there and do you have to do the marketing to get those tenants or will the GIFT City wholly take

care of that for you? What does it like sort of arrangement, just wanted to understand.

Suresh Kris: Again, they will give only land now. They will not do the marketing. We have to develop and we

have to market whether it is for the commercial or it is residential.

Adhidev Chattopadhyay: So just to understand, do you have some exclusivity period or something or you will be

compared to lot many other developers also who will also be looking to do similar projects. Just

trying to understand the demand-supply dynamics?

Suresh Kris: As we say exclusivity because we are also a core developer and we have taken only partial.

Suppose you want to take some more portion, you can go and get it. There is some preferential basis, first you wanted to do the resi and then the office space second and hospitality third and

fourth is retail.

Adhidev Chattopadhyay: And are continuing on that sir. What will be the indicative lease-rental around Rs. 30-35 you

would be getting over there like what do you anticipate or would it be higher in for such a

development?

Suresh Kris: We have not worked out now immediately. Going forward, we wanted to do that. And then may

be in some time based on the client profile and the clients demand, we will go and make the building and then get the rent. We do not want to say right now that Rs. 43 or Rs. 33 will be like

this because we have to see the market.



Adhidev Chattopadhyay:

So because the reason I asked you is now construction cost for commercial at least would be Rs. 2,500-3,000 per square feet of a decent office building or even a mall. So I am just saying because rentals in Ahmedabad also is if I can use that are not more than Rs. 30-Rs. 40. So just wanted to understand what was our thinking that is all I am trying to get it. So that is broadly the thing. And sir your debt position now on a consol basis, where do you see it heading over the next couple of years broadly. Would you like to maintain a certain ratio or is it more absolute number you will have to work with?

Suresh Kris:

Yes, we have both. First one, we do not want 3,000 crores. Now we are 850 crores net debt. We do not want to touch 1,000 crores is the first one. Second one on any case, we do not want to exceed 1:1 ratio.

Adhidev Chattopadhyay:

And sir last question. So for the year, what is the target for collections overall and what is the budgeted construction cost we want to spend for this year?

Suresh Kris:

We are now expecting on a consol level around 1,200 crores to 1,300 crores as collection. This is the collection target on consol basis and construction could be around 800 crores.

Adhidev Chattopadhyav:

Sir in first half, how much would we have done if you have the figures handy in collections and construction spends?

Suresh Kris:

On a standalone basis, I have around 532 crores as the collection and construction spend only for real estate, it is 260 and the CAPEX projects 76. So around 336 we have done.

Moderator:

Thank you. We have the next question from the line of Ravi Dodhia from CRISIL. Please go ahead.

Ravi Dodhia:

So I have basically two-three questions. One is on the gross operating profit if we look for the hotel business, it has declined year-on-year or Q-on-Q basis and that is mainly because of occupancy and ARR both were under pressure. So what are the reasons on this or is it just a seasonal thing.

Suresh Kris:

As you said, this is only seasonal thing, but again compared to last year, the year-on-year basis, it has come down. We think that we will be able to make up at least in the case of Grand Mercure whereas in Sheraton, we may not be because it is around 70% as of now, may go to around 72%-73% that is what we think even though it is seasonal. But compared to any hotels in Bangalore or any hotels in India, I think we have the star performance so far. And even these kind of occupancies, nobody is able to get. That is one and on any other operating profit or EBITDA, we have also provided extra depreciation due to new Companies Act. Even for the whole company, it is around 11 crores and only in hospitality, we have provided extra depreciation of about 4 crores. Otherwise the operating profit, when you see the cash profit, it is positive and well within our expectations.



Ravi Dodhia: And with respect to the space of around 20,000 square feet in Orion Mall. This has been vacated

in last quarter.

Suresh Kris: Orion Mall 38,000 is there. It is not vacated or something.

Ravi Dodhia: So area to be leased if we look at compared to last quarter, there has been a decline of around

20,000 square feet.

Suresh Kris: May be we may have to add and I did not see because last time to be leased out and the pipeline

will be there, both will be there.

Ravi Dodhia: So in the current quarter, leased out which is mentioned is 779.

Suresh Kris: Yes, correct, 779 and 38.

Ravi Dodhia: And in the earlier quarter Q1, it was 797 leased out. So any of the tenant have vacated which was

occupying 20,000 square feet.

Suresh Kris: I do not know really, but definitely will check and let u know about that.

Ravi Dodhia: Sure and last thing is on the capital employed reallocation after the accounting changes which

you have done. So if you look at only for the real estate business, there has been a change of around 330 crores in the current quarter. So if I look at your last quarter and the current quarter number, earlier you were not mentioning about this allocated capital employed. So this 330 crores is to the extent of what particular thing which cannot be allocated to this three businesses?

Suresh Kris: Okay, you are now seeing from Class 41.

Ravi Dodhia: Yes, the recent one which you have mentioned in your Q2 results.

Suresh Kris: Correct, but when you see the Page #8 in the presentation, we have given proper allocation as per

our old method only because we were used to that. Capital and debt and then when you go and add, it will become capital employed. So there is no question of non-allocation of debt because the auditors feel that as per SEBI, when the interest is not allocable, then even debt should not be allocable. So the definition as per the AS is capital employed is equal to equity capital only whereas within our parameters, we used to have debt and equity that is with investor that is why

we have given that. So you have explanation in page #8.

Moderator: Thank you. We have the next question from the line of Nitin Idnani from Axis Capital. Please go

ahead.



Nitin Idnani: Can you just help me with how much is the cost that has been incurred on our ongoing

commercial and hospitality projects?

Suresh Kris: It is 76 crores on the construction of commercial and hospitality project during 6 months.

Nitin Idnani: And can you tell me cumulative for these projects till date?

Suresh Kris: Cumulatively, we have incurred around 295 crores.

Nitin Idnani: And how much of this was hotels and how much of it is commercial?

Suresh Kris: I will give the figures. Estimate versus the actual which is incurred, about 488 crores is the

estimate for commercial, of which 191 crores has been spent so far. So the balance of 297 is there. And on to the hospitality side, 327 crores is the estimate. We have spent around 104 crores and 223 is balance. Overall, 816 is estimated and 295 crores has been spent and 520 is balance.

Moderator: Thank you. We have the next follow up question from the line of Prem Khurana from Batlivala

& Karani Securities. Please go ahead.

Prem Khurana: Sir just could you please explain the straight lining of rental, what do we mean by that and is this

number sustainable? Would go down to your 1Q number going forward?

Suresh Kris: No, this number is not sustainable. To answer your first, you have a lease agreement which will

be having escalation or let us say 5% per annum. So normally any investor used to go and account as and when he raises invoices, then the escalation will go and account it as an income whereas Accounting Standard says that we have to go and take all the escalations and then put a number and then go and divided by number of month of lease. Obviously that will become a straight line. We have to go and account that thing in our books, even though actual rental rates will be different. So far we have not accounted for the future escalation into the present time. So

when you go and do that, then 4 crores has been recognized as income during the quarter.

Prem Khurana: If I have to look at our notes to accounts, it says it is for prior period. So the date you have taken

these escalations right. So it would have already been billed.

Suresh Kris: We have not billed. That is why you want to go and take this as our additional income during this

period.

Prem Khurana: And just one last. This quarter we seem to have achieved revenue recognition for some 6 odd

projects. So are the total numbers that we booked during the quarter in terms of topline, would it

be possible for you to share number for these 6 projects put together?

Suresh Kris: The 6 projects together, 111 is the number.



Moderator: Thank you. We have the next question from the line of Abhishek Anand from JM Financial.

Please go ahead.

Abhishek Anand: Sir again on the straight line method, this 4 crores which we have booked and mentioned as a

prior period income. Is it going to be charged going forward or is it already being charged. I

think it is going forward right?

Suresh Kris: No, this was the past because from 2012 onwards till now, we should have incurred this as an

income. We have not recognized this as an income because of straight lining.

Abhishek Anand: So in terms of if we are looking at cash flows..

Suresh Kris: Cash flows, this will not get affected. This is only the book entry as per the accounting standards.

Cash flow will not get affected because of these entries. We are supposed to make it as a straight line and not as an ascending capital as far as what lease rental is concerned. This is accounting

policy.

Abhishek Anand: So going forward, we should ideally be subtracting 4 crores from your existing 430 odd crores

of..

Suresh Kris: You can say that is till the lock-in period ends, you are right.

Abhishek Anand: So secondly sir, more on the broader level, recent FDI policies have been slightly modified by

the government. Affordable housing has been given quite a few incentives. What is your take?

Do you see it as an opportunity or do you see competition rising in the sector?

Suresh Kris: The comments on the FDI policy is may be two-three things we can say, but we are staying away

square feet to 20,000 square feet which is a welcome sign because earlier some of the lands may not be available for this kind of development by FDI especially in the SBD area which may be

from the affordable. I do not know about that. One is about the area decreased from 50,000

available now for that. Because of that, what happens there could be a slight increase in the land price because of this kind of FDI policy. Number two, this has also been welcomed this one for

mall management or business centers or other things. I would say coupled with it this will be a

good welcome sign. Then about another condition of this 3-year lock-in period along with 50%

development of the project, the 50% development of the projects from the approval date has been dispensed with in the new policy. So this is a very welcome one, significant one where the earlier

FDI people have invested even though 3-year lock in is over, they are not able to come out

because they could not finish the 50% of the work. So they have to stay there. So now there is an

opportunity for some of the FDI which can exit from the present appliers and they can go and

reshuffle their portfolio and go with their good development. So the opportunity is there on that.

And as far as the affordable is concerned, of course FDI, we could not say that it is cheap money

because the cost of borrowings is let us say about 11.5-15% and again cost of equity may be



much more than this but then this kind of affordable housing will generate this kind of profit is a

question. So these are my comments on this FDI policy.

Moderator: Thank you.

Suresh Kris: Thank you very much. I hope all the question has been answered. In case something is there you

send the mail so that we will be able to answer you. You have our mail id also no? Thank you

very much.

Moderator: Alright sir, we will conclude the call now. Ladies and gentlemen, on behalf of Brigade

Enterprises Limited that concludes this conference call. Thank you for joining us. You may now

disconnect your lines. Thank you.