"Oberoi Realty Limited Q1FY 2018 Earnings Conference Call"

July 31, 2017

MANAGEMENT: MR. VIKAS OBEROI -- CHAIRMAN AND MANAGING DIRECTOR, OBEROI REALTY LIMITED
MR. SAUMIL DARU -- CFO, OBEROI REALTY LIMITED.

Moderator: Good Day, Ladies and Gentlemen, and Welcome to Oberoi Realty's Earnings Conference Call for the Quarter One Financial Year 2018 that Ended on June 30th, 2017.

We have with us today from the management; Mr. Vikas Oberoi -- Chairman and Managing Director of the Company; and Mr. Saumil Daru -- CFO on the call with us.

Please note that this call is for 60 minutes and for the duration of this conference call all participant lines will be in the listen-only mode. This conference is being recorded and a transcript for the same may be put on the website of the Company.

After the management discussion, there will be an opportunity for you to ask questions. Should anyone need assistance during this conference call, then you may signal the operator by pressing "*" and then "0" on your touchtone telephone.

Before I hand the conference over to the management, I would like to remind you that certain statements made during the course of this call may not be based on historical information or facts and may be forward-looking statements, including those relating to general business statements, plans and strategy of the company, its future financial condition and growth prospects. These forward-looking statements are based on expectations and projections and may involve a number of risks and uncertainties, and other factors that could cause actual results, opportunities, and growth potential to differ materially from those suggested by such statements.

I now hand the conference over to Mr. Vikas Oberoi -- Chairman and Managing Director of the Company. Thank you and over to you, sir!

Vikas Oberoi: Good Morning, Good Afternoon, and Good Evening to you all as per the time zone from where you have logged in and welcome to the conference call of Quarter One, Financial Year 2018 Results and Business Update. Thank you all for taking this call.

I will give you a quick update on business in general. As you all know that we have implemented a zero GST impact scheme for all our existing and future customers in Goregaon, Borivali, and Mulund from 1st of July 2017. We believe that by passing these GST benefits to our customers, we have taken an initiative to increase transparency to our customers. For Worli of course, we were not able to negate the entire impact of GST. These customers may have to pay a little more than what they were paying but still less than 12%.

We have also completed our filing for RERA for all our projects. We believe that RERA itself will boost the market sentiments, encourage customer's confidence and create a level playing field for credible players in Real Estate, leading to a win-win scenario for all of us.

As for our projects, we continue to focus on execution and we believe that this is going to become the key differentiator. One does not deny the fact that there is huge demand and there is enough customer base in the country. So, we genuinely feel that the focus will only be on execution and players who can actually live up to their promises.

With this I will now hand over the call to Saumil for detailed numbers. And I will be more than happy to address any of your individual questions at the Q&A time. Thank you.

Saumil Daru: Thank you, Mr. Oberoi. I guess most of you must have received the Presentation by e-mail from the IR team and if not, the same is also available on our website along with the results filed with the exchanges.

To go through the numbers in terms of consolidated financials, we have achieved consolidated revenue of Rs. 270 crores for this quarter, this was as against Rs. 302 crores for the earlier quarter and Rs. 329 crores for Q1 FY 2017.

Consolidated PBT, Rs. 131 crores for this quarter, as against Rs. 150 crores for preceding quarter and Rs. 162 for the same quarter last year.

Consolidated PAT numbers Rs. 90 crores for this quarter, Rs. 101 crores for the immediately preceding quarter and Rs. 107 crores for the same quarter last year.

Moving on into our asset level performances and beginning with our investment properties:

Oberoi Mall, this contributed about Rs. 26 crores to the top-line for this quarter as against Rs. 25 crores for Q4 FY 2017 and Rs. 24 crores for Q1 FY 2017. The EBITDA margin in this vertical is at about 92%.

Commerz, our office space asset, contributed Rs. 12 crores to the operating revenue for this quarter as against the same number for the last quarter and Rs. 11 crores for the same quarter last year. The EBITDA margins here continue to be well in excess of 97%.

In Commerz II Phase-I, this contributed about Rs. 11 crores this quarter as against Rs. 8 crores for the immediate preceding quarter and about Rs. 3 crores for the same quarter last year.

Lastly, The Westin Mumbai Garden City, this contributed about Rs. 30 crores to the operating revenue for this quarter as against Rs. 33 crores for the March quarter and Rs. 28 crores for the same quarter last year. The EBITDA margins in this vertical continue to be in excess of 34%.

We now move on to the development properties: for Esquire, out of the total project area of 21.22 lakh square feet, we have booked a little over 12,263 square feet in this quarter, till date we have booked about 12.17 lakh square feet which is about 57% of the inventory. Total booking value in this quarter is Rs. 26 crores as against Rs. 38 crores in Q4 FY 2017 and about Rs. 16 crores in Q1 FY 2017. Cumulative booking value till date Rs. 1,768 crores and total revenue recognized for the project in this quarter is Rs. 107 crores. Cumulative revenue recognition till date is about Rs. 1,362 crores.

Exquisite, out of the total project of 15.47 lakh square feet, we booked close to 13,910 square feet in this quarter, till date we have booked about 13.75 lakh square feet which is about 89% of the inventory in this project. Total booking value in this quarter is Rs. 33 crores as against Rs. 16 crores in Q4 FY 2017 and Rs. 40 crores for Q1 FY 2017. Cumulative booking value till date Rs. 2,231 crores. the total revenue recognized in this quarter is the same as the booking which is Rs. 33 crores and the cumulative recognition till date is also at Rs. 2,231 crores on account of the 100% project completion.

For Prisma, of the total project of 2.68 lakh square feet we have booked another 3,178 square feet in this quarter, till date 1.82 lakh square feet which is 68% of the inventory in this project. Total booking value for Q1 FY 2018 is Rs. 5 crores as against Rs. 22 crores in Q4 FY 2017 and Rs. 34 crores for Q1 FY 2017. Cumulative booking value till date is Rs. 316 crores and the total revenue recognized for this project in this quarter is Rs. 5 crores versus cumulative revenue recognition till date of Rs. 189 crores.

In Mulund, for Eternia and Enigma: in Eternia in Q1 FY 2018 we have booked 3,120 square feet, till date about 4.74 lakh square feet and the total booking value for this quarter was Rs. 4 crores as against Rs. 20 crores in the immediately preceding quarter and Rs. 8 crores for the first quarter. Cumulative booking value till date is Rs. 695 crores.

For Enigma, in Q1 FY 2018 we booked 2,075 square feet, till date a total of 3.31 lakh square feet. Total booking value this quarter Rs. 3 crores as against Rs. 16 crores for the immediately preceding quarter and Rs. 22 crores for the first quarter of last year and the cumulative booking value till date is about Rs. 487 crores.

In Sky City, we have booked 31,898 square feet in this quarter, till date 11.79 lakh square feet. Total booking value in this quarter was Rs. 52 crores as against Rs. 43 crores for last quarter and Rs. 46 crores for the same quarter last year. The aggregate booking value till date is about Rs. 1,887 crores.

In Worli for Oasis, we booked about 29,057 square feet in this quarter. Till date we have booked about 3.7 lakh square feet. The total booking value in this quarter was Rs. 146 crores and till date, the booking value is about Rs. 1,438 crores.

Coming back to some key financial parameters, EBITDA margins in this quarter was 53.68% and for Q1 FY 2017 was 53.5%. PAT margins were 33.5% for Q1 FY 2018 and 32.6% for Q1 2017. The EBITDA margins for Mall and Commerz are much higher than these averages as mentioned before and excluding them our margins for our pure residential business is about 45% for this quarter.

With this, we would now like to open the floor for any questions that you all will have. Thank you.

Moderator: Thank you very much. We will now begin the Question-and-Answer Session. The first question is from the line of Abhishek Bhandari from Macquarie. Please go ahead.

Abhishek Bhandari: I had one question. In various places of your Presentation and also in your prepared remarks, you mentioned that you have passed on the benefits accruing out of GST to the customers. So, could you please help us understand what kind of cost savings you have seen because of the input credit available under GST which you have passed on?

Saumil Daru: Firstly, we have told you that there is a zero GST impact. It means that instead of charging customers at 12%, they will continue to pay the 5.5%. This necessarily implies that your savings will be in the region of 6.5% because only if you are able to cover that will you be in a position to be able to pass on the entire benefit. So, that differential of 6.5% is roughly the benefits that we anticipate will come out of this whole thing.

Abhishek Bhandari: Okay. And second thing is on the RERA registration, are all your projects registered by now?

Saumil Daru: Yes, we have filed all our applications.

Moderator: Thank you. The next question is from the line of Abhishek Anand from JM Financial. Please go ahead.

Abhishek Anand: So, my first query on the whole exercise of price distribution will be, so we need to sign new contracts with the customers and what is the timeline for that?

Saumil Daru: For which one, sorry?

Abhishek Anand: Basically wherever we are revising for Mulund, for Borivali, we are revising the price of the contracts with our existing customers. So, we need to redo the contracts with them a sale agreement or the existing sale agreement will work?

Saumil Daru: So, the existing sale agreements will work for those who have already entered into the agreements. For people who have not entered into the agreements under the MOFA regime and sales have already been concluded there the revised agreement will be in line with the revised consideration. So, that is the way it would go. For those people who we have already entered into with an agreement, we will figure out what is the way to communicate with them, in terms of what the revised consideration is going to be.

Abhishek Anand: Okay. So, what percentage or proportion will be between the two who have signed the agreement versus who have not signed, any ballpark number.

Saumil Daru: Typically about 25% to 30% of the people end up signing within the first 30 days and the remaining take their own time. So, basically if there are people who are on home loans or something they will immediately tie-up, the remaining people will want to do it over a period of time as per whatever is convenient to them.

Abhishek Anand: And also, I saw in our balance sheet, our receivables actually going up by Rs. 170 crores during the quarter. Could you explain that? Is it something to do with again this the low collection and something

Saumil Daru: There are two impacts which are coming in. One is due to the RERA filing, so if you look at it RERA came into effect with effect from 1st of May. So there, pending the agreements, we could not collect more than 10% from the customers and till the GST regime was clear and fell into place. We did not want to revise those agreements because there were going to be consequential impacts under GST. So if you look at it, those collections did not come through. But considering that GST was coming in from 1st of July we had to ensure that we bill out everything as of 30th of June, so you are seeing the impact of GST as well as RERA both playing out. I would believe that, by the end of September you should see the debtors rationalize to the usual number which is always there.

Abhishek Anand: So, just to understand, so basically, we have raised additional or incremental demand letters

Saumil Daru: Correct. Because under RERA you cannot collect more than 10% without an agreement in place.

Abhishek Anand: Correct. But for rest of them, that 20% - 25% who usually sign they would be.

Saumil Daru: Correct. So, where people have already signed agreements, there the collections come through.

Moderator: Thank you. The next question is from the line of Puneet Gulati from HSBC. Please go ahead.

Puneet Gulati: First of all, if you can help me understand, you said, you filed for RERA registration, does that mean you have not yet received registration number or have you got that?

Vikas Oberoi: Well, Puneet, we all were waiting for someone else to file, so that we understand what sort of positioning, what sort of stand are developers taking. So, obviously, even though we were in a like a ready to go position right from day one, we were waiting for other developers to file, so that we could understand what sort of position they are taking. We only have five projects to apply for, and RERA required us to file before 31st which is today, which is what we have done. Typically, it takes anywhere between 4 and 7 days. They have been very efficient. I must say that not even once we had any glitch in the IT and all that, so they were so well organized that whatever we were trying to load - payment, gateway everything was really done beautifully well. So, we have already applied and anywhere between like I said that between 4 days and 7 days is what they said that they will be issuing registration numbers and all that. So, we have done our bit. And you know papers have been covering that in the last few days they had a huge rush and that is what is there. So, basically most of the developers literally brought in all their projects in the end, they were all wanting to see what sort of document everyone else is filing, what position people are taking and that is exactly what we have done really.

Puneet Gulati: So, does it prevent it from advertising or selling until you get a registration number?

Saumil Daru: I believe yes, but this is only a matter of 3 - 4 days as such.

Puneet Gulati: Okay. Secondly, if you can help me understand a bit more on the GST thing. Did I get it right that even for the customers with whom you would have signed the agreement may be last year will also be entitled for the reduced rate or will you be refunding money back to them?

Vikas Oberoi: No, so whatever money they paid obviously they paid, for the balance payment as per the new GST they would have been required to pay let us say 12%. In the old regime, they were paying only 5.5%. Even for existing customers, we are only taking 5.5%, their new price will work out to a gross price which will probably be only 5.5% what they were paying earlier. So, they will not get any hit of this new increased GST.

Puneet Gulati: Okay. But you also incorporated some impact in the 1Q numbers which is before the GST regime actually kicked-in.

Saumil Daru: Correct. So, Puneet, Saumil here. The way it will work is that for example, if for an existing customer, 50% of the money was due then on 50% we would have already raised our invoicing under the earlier regime which is the 4.5% Service Tax and 1% VAT regime. And on the balance 50% which he has to pay, he will be billed under the new regime, where he will get the benefit. So, if a customer were to come in today it is a different story but for the existing customer whatever is the incremental billing which will happen, they will all get the benefit. So, my consideration will reverse only for the incremental billing which is yet to be done after 30th June.

Vikas Oberoi: And even that is at 5.5% only. So, basically what we are simply trying to say that the GST impact beyond 5.5% does not affect the customer, they will continue to pay in the way they were paying in the old regime that is how it is.

Puneet Gulati: Okay. So, which is why you readjusted the booking value of the previous years as well?

Vikas Oberoi: Correct. In fact, Puneet, we would not be out of place to say that finally we want to drive the industry to a MRP price of the apartment. This will do two things, one, it will bring in complete clarity and say that this is an all-inclusive price. Whichever way somebody wants to pass on GST, somebody does not want to pass on GST all that will go away, so it will only bring in additional transparency. The second good thing it will do is, that once it is MRP price, once you complete the project and it is ready, you do not have to reset the price, under construction is with GST, the ready apartment is without GST, both of them are without GST, they all bundled in a price. So, for the customer also it is easier to buy.

Puneet Gulati: Okay. But why would you revise the booking value in the first quarter? Should it not have been in second quarter onwards when the GST really kicks in?

Saumil Daru: So, technically you have your Accounting Standards on events accruing after balance sheet date. So, this would be a critical event occurring after balance sheet date because for example wherever I am doing a revenue recognition, I will have to factor in the fact that the top-line is going to get revised. So, I think what is critical over here is that while the margins are not getting revised it is the top-line which is getting revised. So, from that perspective, if I am doing any revenue recognition in this quarter knowing fully well that consideration is going to rework I will have to give effect to the revised consideration. It just comes from the conservatism principle in accountancy.

Puneet Gulati: Okay. And lastly, now that RERA is finally implemented, does it change any of your launch plans for the third phase of Exquisite or any other that you may be coming up with.

Vikas Oberoi: Well I mean barring the fact that RERA will take 7 or 10 days for approval, nothing will really change, we are absolutely scheduled to do everything that we envisage to. So, RERA per se will not be the reason. For any other reason, we work something else out it could be that but not for RERA. RERA is absolutely, non-event, rather if I would say that it is an event which is positive, so for us it is not at all an issue.

Puneet Gulati: Great. And if you can give an update on the potential platform deal that you are evaluating for the Worli property and Borivali Mall?

Vikas Oberoi: We continue to get offers, we are not evaluating or rather I would say yes, we continue to get offers and we continue to evaluate. But as of now, we are fully capable of building those and taking it through to its logical conclusion from our own cash flows. We do not have really have any issues on that account. We have great demand even our existing mall is seeing excellent demand and we have been able to revise all the contracts with our existing retailers. So, we genuinely do not have any issue, we do not need to. And more over, anybody who wants to get in, wants to really look at least a 12% IRR on investment, whereas our borrowing cost is sub-9 today. So, it really does not make sense to sell your assets at 12% and when your borrowing cost is sub-9 that way.

Moderator: Thank you. The next question is from the line of Abhinav Sinha from CLSA. Please go ahead.

Abhinav Sinha: Just on the GST bit Saumil so you had earlier mentioned that there was some revenue recognition write back which would happen this quarter say around Rs. 12 odd crores Rs. 15 odd crores, how did it impact margins?

Saumil Daru: So far, basis what we are estimating right now, we are not seeing that as an impact on margins. Over the period of the project there will no impact on the margins. Obviously, if I have Rs. 12 crores coming off within the quarter it will hurt the margin of that particular quarter**.**

Abhinav Sinha: Okay. So, proportionate margin recognition would have been reversed is that correct?

Saumil Daru: Sorry.

Abhinav Sinha: Proportionate margin recognition would also have been reversed.

Saumil Daru: It is obvious.

Abhinav Sinha: Okay. Sir, secondly on again, I mean when you have advertised the new pricing…

Saumil Daru: Just one thing one thing to clarify because if the proportionate has got reversed then it will even come back when that recognition comes back.

Abhinav Sinha: All right, I understand. So, secondly, when you advertise the no GST impact pricing, you have also started some 10 - 70 sort of plans. Do they carry different pricing, I mean this is something I think which we have not seen from your company so far? So, is this like a change in marketing strategy?

Vikas Oberoi: No, not really. I will just tell you. Basically, what we are telling the customer like what our sales team came up with this saying that we insist on people getting at least 20% before we actually execute the agreement and all. RERA requires us to do an agreement at 10%. So, we have simply reworked it in such a way that when we say 10% - 70%; 10% you pay, we give you an agreement, 70% you can borrow from the bank and give us, so there is no price change, it is just that if you choose to go to a bank the 70% can come from the bank and the rest of it then again, banks give you up to 70%. So, it is only reiterating like we are open to bank loans and earlier we were insisting on 20% as our minimum today it becomes 10% because RERA requires you to do an agreement at 10%. So, I cannot be the one insisting 20%. So, we just clarified it. That is it.

Abhinav Sinha: Okay. So, that 70% you can start receiving that from the banks or whichever way before registration or not at all?

Vikas Oberoi: No.

Saumil Daru: Bank will not disburse before registration.

Abhinav Sinha: Sir, second question is on the leasing side, so we have seen good progress on Commerz II this time, so on track to lease it out by year end?

Vikas Oberoi: We really hope we can do that, we have got two very good tenants. Samsung in fact has done its fit out and moved there, all 4 floors. We have got Teva Pharma, who has consolidated. And so, I mean you know we are really hoping, fingers crossed and let us see how things go. We have enough inquiry. We are very keen to close it ourselves also and yes, so hopefully, what you are saying could come true.

Moderator: Thank you. The next question is from the line of Saurabh Kumar from JP Morgan. Please go ahead.

Saurabh Kumar: First question is essentially on your pre-sales. So, they seem to be a bit low this quarter and especially, in relation to Worli and Mulund. So, sir, if you could quantify how much of this is due to RERA? And how do you think your pre-sales pan out for this year, just on your ongoing projects with...

Vikas Oberoi: I really wish I was allowed to tell you what is happening after the entire RERA suspense and all is gone. Anyway, having said that, you are absolutely right, this is all due to GST and RERA, both coming together and literally kind of confusing. But after our ad, we have seen very good traction I mean, it has been good. So, I would say that, yes, you are absolutely right. It has been GST and RERA. Once, we as a company, have clarified, people have really responded very well. And now, you will see, once we get RERA registration, we will advertise on that account. We also want to communicate with the new buyers with regards to all sorts of added advantage the project has. So, we will be going out to the customer and specifically, explaining the project.

Sourabh Kumar: Okay. And sir, if you can just tell us, if you still expect your revenue recognition thresholds to be much for Worli, Mulund, and Borivali this year?

Saumil Daru: For Worli, Sourabh, we have got this additional area in Tower A. Now, we are just awaiting that height approval in Tower B and if that area comes in, then I have to sell 25% of that incremental area also because that becomes the part of the project area. So, it all depends on that particular thing. So, the good part will be that you will have additional area. But if that additional area comes in then maybe the recognition for Worli may get pushed into the next year. For Borivali, we are very confident that we will be able to do it in this year. Mulund, as I have said earlier also it all depends on the pace of construction as well as the pace of sales over there. Once we have a little more handle on that which I think we should have by the end of next quarter. I think we should be able to let you know as to how is it working for Mulund also.

Sourabh Kumar: Okay sir. And just one final question on GST. So, for Exquisite, especially, so Esquire will be out, I guess...

Saumil Daru: Exquisite will be out. Esquire will still be...

Sourabh Kumar: Esquire will be in, correct. So, like your input rate is about 28% and Esquire is substantially completed. So, I understand like Borivali and Mulund will be neutral but for Esquire and Worli, GST is clearly negative, right? Because on Esquire, you cannot claim the input credits fully and Worli anyway the rate is too high for you to get any substantial input credits on that?

Saumil Daru: Okay. I can discuss this with you offline. But I can tell you that if you look at my percentage completion in Esquire, it is at about 72% or 73% or somewhere there about versus my collections in Esquire which are already at about 84%. So, from the balance 16%, which I have to bill the customers, I can easily recover the credits from the 28% of cost to be incurred. You can work out the math.

Sourabh Kumar: No. But for incremental sales effectively price hike of 6%, for them?

Saumil Daru: Yes, we will have to see how that goes. But what happens, Sourabh, is with the way we work up our budgeted cost. See, if for whatever is left unsold at the end of it the credit that you have accumulated on that unsold part is any which way a cost. And my budgets take care of that particular part. So, there would not be any incremental hit to the margins that you will see on account of that coming in.

Vikas Oberoi: And Saurabh, if you note, Esquire, we are getting ready to give possession by December and look at the price of Esquire versus the price of Exquisite. So, today, Esquire looks like it has become a very attractive preposition for people to buy. And they all know that this difference is going to go away. So you can, in fact, even expect a price correction immediately upon OC. So, whatever input credit or whatever value we will lose out on that, will go back into increasing the price for a ready product.

Sourabh Kumar: So, that was exactly my question that people, we would expect now people to wait for Esquire to complete before they buy, right?

Vikas Oberoi: If they wait, they will either pay us a higher price because once OC is there, there is no difference between Esquire and Exquisite. If Exquisite is 17,500 and this is at 15,000, they will pay us 17,500. So, it depends how he wants to come in today, whether he wants to come in with 5% - 5.5% GST and lock in the sales or he wants to come in when the project is ready with occupation certificate and pay us an increased price.

Sourabh Kumar: Okay, that is clear. And just last question on this Worli. So, this 50,000 is just because of the sales price which works out to Rs. 50,000 a square foot. That is because it is a Penthouse or a large apartment sale?

Vikas Oberoi: It is not a Penthouse. It is an apartment.

Saumil Daru: It is a large apartment.

Vikas Oberoi: Larger apartment.

Saumil Daru: Yes. And it is a mix of one transaction in the Tower B and one transaction in the Tower A, so a large apartment. So, that is where you are seeing that number come through.

Moderator: Thank you. The next question is from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.

Sameer Baisiwala: Vikas, on your point on making GST a zero effect, how is industry taking it? Are you in minority? Or this is what is becoming industry practice?

Vikas Oberoi: It will have to become industry practice because the customers are on my side for once. So, unfortunately, for a lot of people, they have been calling me and telling me how have you done it, how is it? Because now customers are going to push other developers to also give them zero impact of GST or at least give a reasonable explanation of why they are not doing it. I completely understand that it may not be possible for all projects. Projects, where the land cost is very high because they have considered 33% of it as land cost and today they are giving you the 6% input from 18% they are bringing down to 12% and thereby, superficially telling you that we are not charging you and so on and so forth. So yes, customers are going to push other developers and at least get them to do that. I do not think I will be in a minority for too long.

Sameer Baisiwala: Okay, excellent. And second is on RERA. How are you coping with the 70% escrow requirement and what does it mean for your ongoing projects?

Vikas Oberoi: Sameer, it is very ironical. We have been doing this for all our projects from literally 1998 or 2000, almost 15 - 17 years and plus of very similar practice. All our projects have a separate account. We actually take monies in that specific project, use that money judiciously only towards building that project and not divert funds. So, for us, I mean, this is business as usual. And in fact, if you see our sales strategy is also, when the markets used to go up were driven around generating enough cash flows from sales and building that project and then, as the project comes up, sell it at a higher price and garner the premium. Today, the only thing is that markets are not going up the way they used to in 2007 - 2008 - 2009. But the rest of the practice continues to remain the same. So, for us, we are absolutely even-steven on this. So, absolutely no issue. I think, this is a good thing if customers feel that their monies are not going anywhere and it is always going to lie in escrow and they will be judiciously used in only building that project, they might get the confidence and this entire pre-booking and all that will come back. So, I think it is a huge positive for the industry. For us, like I said that fortunately or unfortunately we were practicing this right from the beginning. So, we do not have much of an impact.

Sameer Baisiwala: Okay. But just for understanding, in practice, do you need to do it for the entire project as it is ongoing, or do you need to do it only incrementally from here on?

Vikas Oberoi: No, for the entire project. In the sense like whatever you sold and whatever you have taken monies for obviously, you are not required to put it back. But going forward, whatever you sell, you will have to maintain those ratios... We have not taken more money or drawn anything more. In fact, we have a positive on this. Whatever money we collect the 30% that one is allowed to, we have yet to remove all that money even from the monies that we have received in the past. So, there will be a positive cash flow in all our projects, so barring probably, Esquire. But Esquire is like 3 or 4 months away from completion. So, barring that, all our projects can actually generate positive cash flow. Every time we sell, we do not need to deposit it because we spend more than the amount that is required.

Sameer Baisiwala: Okay. And just one final on the impact of RERA and I guess also GST. Is it getting you more deals on the table? Are you seeing the smaller players who were unable to cope-up with these requirements looking to sell out or is there anything on the ground movement that you are seeing?

Vikas Oberoi: No, it is too early. I mean, I completely resonate with you and I feel that that is likely to happen. But I guess, maybe it will need a few quarters. People will have to absolutely believe that yes, they are not in a position to work things out because of RERA because of all this. And then probably you will see a shift. But this RERA will bring in consolidation. And it is not everyone's cup of tea to be disciplined I would say. And then the government is requiring the developer to be very disciplined. So I guess, there will be some casualty on the way.

Moderator: Thank you. The next question is from the line of Abhishek Anand from JM Financial. Please go ahead.

Abhishek Anand: Vikas, actually, I wanted to understand from you. Now that we are in a regime where almost we are in 18% to 20% transaction tax regime, so do you think the cash component or the unofficial component in the sector is likely to go up going forward? Or there are certain checks in place which will not allow this to go up further?

Vikas Oberoi: Firstly, you have the ready reckoner and ready reckoner is pretty much now governed by the market because now they drive ready reckoner on the basis of registrations that you do, so that is one. In fact, most of the developers hate us wherever we do the project the ready reckoner rate goes up because we obviously, we do full cheque, so that is one bit. See, wherever you have transaction tax increase happening there is always a reduction in Income Tax and if you see our Finance Minister has already said that. I actually try to tell this in every forum that wherever you are seeing, you are seeing GST, you are seeing the indirect taxes going up, you are also seeing Income Tax coming down. I mean, he has already promised to bring this down to 25%. So nobody actually is talking about the positives. So, I guess, once he has the confidence that yes, my Indirect Taxes are giving me the kind of revenue I need then obviously, the most revenue generator in terms of the direct taxes which probably come down. So, I think you would not see any leakage or pilferage or cash coming into the business.

Abhishek Anand: Okay. And secondly, so basically, as we understand, we have been pursuing a few land transactions, so have you seen the tone change post RERA? Do land owners prefer a JD model or an outright sale model? What is the trend you are seeing there?

Vikas Oberoi: Well, I was reading the papers that landowners have gone to court seeking that landowners should not be a part of developer in RERA. That clarity is not yet done. If that be the case, most of the developers will want to bring in a developer who has enough to lose if things go wrong in RERA and only then partner with him because he is sailing in the same boat or they will prefer to sell. And if they prefer to sell, then obviously, you can expect prices to correct as far as lands go. So, I would say all-in-all, positive.

Abhishek Anand: But we have not yet seen or have you started seeing?

Vikas Oberoi: No. It is too early. Everything in India takes time, like let people understand the real effect, real impact and all that. We have lived RERA in our system, in our minds for a very long time and I mean, so have you all I would say because you all analyze everything well. But most of the developers unfortunately still are in a denial mode and all that. So, let them literally firstly understand the impact and then call land owners then they will probably come around.

Abhishek Anand: And then finally, on zero GST scheme impacts. So any particular projects that we are seeing more traction? Will it be Mulund, Borivali or Esquire which will be the project or which is the project you are seeing more traction?

Vikas Oberoi: Okay. We are obviously seeing a huge traction in Borivali for one, followed by Mulund and then it is Esquire. Esquire more because it is anyway nearing completion and in the minds of people, they know that whether I buy it today or buy it 4 months later when I have occupation, anyway I will not have that impact. So, we want to only educate them that once this is ready, it will start commanding the price of a ready project and then, they will anyway be paying for that. But to answer your question, Borivali and Mulund both we have seen very good response for this.

Moderator: Thank you. The next question is from the line of Parikshit Kandpal from HDFC Securities. Please go ahead.

Parikshit Kandpal: Sir, I just wanted to know, in this quarter, we have seen prices coming up for Mulund so for both the projects, while the Borivali project is continuing to have the same pricing. So, the benefit which you are talking about the GST, so for Mulund is the benefit still higher? I mean on the 7% to 10% reduction, even if I take last 4 - 5 quarters average?

Vikas Oberoi: Every time you sell an apartment, if it is a lower floor, then the realization is lower. If you sell a higher floor, the realization is higher. If in this quarter, I have sold multiple apartments on the lower floor then automatically it reflects on to the price. We have a floor rise of 1% or Rs. 100 wherever the project be. So, that is why you see that. Otherwise, there is no change. We follow a fixed price policy and like almost do not give away anything.

Saumil Daru: And if you know Sky City, we are open till virtually the 55th floor for sale whereas, in Mulund, we are only open till whatever the 21st or 24th floor for sale. So, Mulund, it will always be the lower floors which will come in right now whereas Sky City you will see the higher floors and that is in all possibilities the reason for what you are seeing.

Parikshit Kandpal: And sir, on the Commerz III, so any outlook like on how do we intend to start constructing that?

Saumil Daru: For which one? For Commerz?

Parikshit Kandpal: Commerz III, yes. So Commerz II is now, we have read 44% -45% leased out. So, I think last call, we had said that once we reach 70% then we will start thinking and come back on the drawing board for the Commerz III. So, what...

Vikas Oberoi: Parikshit we have our plans ready. All we need to see is, once we have enough occupancy in Commerz II, we will start Commerz III. Also, like again, we are fully planned, luckily, all of you will now know the potential of the entire project, which Saumil always told me that it should be given to investors only on approval basis. But now with RERA in place, we have to exclusively say what and how much we intend to do and all that. So, that pretty much is out or will be out.

Parikshit Kandpal: And the Phase-III of Goregaon, so any time line that you are looking to launch?

Vikas Oberoi: Well, we are starting work or rather we have started work, we have started excavation. In fact, excavation is done and we should be starting with our concrete work and all by next quarter. We have not yet decided whether it should be this Diwali or something like that or maybe a little later. But somewhere around that time is what we are hoping to. Like I said that, come October - November, Esquire will be ready. We will have nothing to offer under construction in Goregaon and that will be the right time for us to launch this thing. Moreover, 800 odd people or whatever, 400-500 odd people will move in Esquire also. So, they become our brand ambassadors for our Phase-III. So, we are just waiting. We will sequentially do everything, everything is as planned.

Parikshit Kandpal: Okay. And lastly, on the Malls. Now the F&B and all will get the input credits for the GST. So, are we renegotiating our rentals higher in the mall now?

Vikas Oberoi: As far as food goes, we are like on a percentage or a revenue share, we take a top line split. So genuinely, it does not affect us really.

Moderator: Thank you. The next question is from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.

Sameer Baisiwala: Vikas, just on the commercial side, for GST if I am not wrong, the difference is 15% versus 18% and how are you tackling this?

Saumil Daru: Hi, Sameer. Saumil here. So typically, for businesses they will be able to get the input credits for this. So, if I look at the Mall, Sameer, just with reference to the previous question where earlier the retailer was paying 15% and he was not getting any offset into his sale of goods. Because sale of goods was VAT and this was Service Tax. Now in the new regime, he pays us 18% but he gets the full offset. So genuinely, for him the entire 15% which he used to pay earlier becomes his saving and even, if he is paying 18% today it is completely a saving for him. As far as businesses are concerned, they will be able to easily take on the input credit benefit of whatever GST they will pay us for offices which they lease. So, even there it is net neutral for them or in fact, it will only be beneficial for them, if not neutral.

Sameer Baisiwala: Okay. And for you on the P&L, it is a simple pass through?

Saumil Daru: It is a simple pass through. It earlier also was a pass through; and even going forward it will continue to be a pass through.

Sameer Baisiwala: Okay. But you also incur some charges maybe by way of CAM, etc., so you would get some input tax credit?

Saumil Daru: So, typically, if you look at our CAM charges policy for the tenant, it is CAM at actuals. So, even in the earlier regime, when we used to get input credit we used to pass it on the tenants and even in the revised regime, the input credit will continue to get passed on to the tenants. CAM is not typically a profit center.

Vikas Oberoi: Not at all a profit center rather.

Sameer Baisiwala: Okay. But I thought the industry practice is to have 10% - 15% mark up?

Vikas Oberoi: We realized that whichever way you try to skin the cat the customer understands that you are trying to make money. So, he considers everything as his net cost of occupancy. So, we realize that it is best to give one number and not like hide into multiple revenue streams and all. So I think, this has really worked well for us and we would rather continue to do that.

Sameer Baisiwala: Okay. And my second question is on Goregaon. Now, you would have Esquire ready maybe next 3 - 6 months. But you have unsold inventory of roughly about 350 - 360 units, another 40 - 50 units coming from Exquisite, so roughly about 400 units unsold. You had this similar situation earlier with Splendor and also Exquisite at the time of completion. But this seems to be 2x of those situations and on the face of that, you want to launch Phase-III, so just wanted to hear your thoughts on it?

Vikas Oberoi: See, I completely agree with you. We would love to see this number go down big time, having said that, the Phase-III is a different product by itself. This is not for somebody who wants to move in today. It is for someone who wants to probably move in after 3 - 4 years and wants to book today and hold on. So, we would rather take that customer in and whoever wants it ready, obviously, has this available. You are absolutely right that Esquire inventory is 2x of what others were but if you see, we have ramped up production, also. Like the way we are going, this is bound to happen. So, if you look at the amount of construction we are doing, it also is higher.

Sameer Baisiwala: Your philosophy, Vikas, is to price the product adjusting for time value in terms of delivery. So, if Esquire also moved to 17,500, so would you price Phase-III accordingly to adjust for the time value?

Vikas Oberoi: Absolutely. So, Phase-III if it is going to take time it will be a lot cheaper, that itself will create interest and there is no harm. I mean, and like I said that our entire policy is to try and sell. Today, Esquire, 50% has been able to build the entire Esquire. So, the downside is that I am left with inventory but the upside is also that I am left with ready inventory and with RERA kicking in and with all that kicking in there will be very few people who will be able to give you a product. I mean, there is bound to be a slowdown in development and so ready material is not going to be churned out at that speed and in that regime, if you are left with ready apartment which are well-located and well-built so you know this is like literally cash for you. So, if you look at the value of these 400 apartments, they are close to anywhere between Rs. 1,800 crores and Rs. 2,000 crores. All we have to do is sell, collect the cash. We have already billed, paid taxes and the rest of it becomes your cash flow. So it is a huge positive for the company and we hope that the momentum will pick-up and we will be able to sell a lot more.

Sameer Baisiwala: Vikas, philosophically speaking, what is the ideal situation for you? Because you say it is Rs. 1,800 crores - Rs. 2,000 crores and I get that fully. But it is not in the pocket, so there is an opportunity cost loss for 2 years that you would require to sell it down, but it is fine. Philosophically speaking, how do you think about the pre-sales velocity? Is the ideal situation be that during the 4 or 5 years of construction you sell through the complete inventory. Is that the right way to think about it?

Vikas Oberoi: I would love to do that. But my experience says that it does not pan out that way and not for us, not for anybody in the industry. Whoever comes in at the booking stage wants to see some sort of price appreciation, wants to see that whatever he bought has gone up. So like let us say, I am just telling you hypothetically if we were to start Phase-III and the Phase-III were to be at Rs. 14,000 a square foot and the ready is Rs. 17,500. At Rs. 14,000 he pays probably 10% - 20% down and then like as per RERA, he will pay me over time and all that. The interest of all this put together will be about Rs. 3,000 - Rs. 3,500. So basically, he is almost buying at Rs. 17,500 but he is getting the time to pay, One. Two, Phase-III will be a much better product than Phase-I and-II. In the process of evolution, we will also have learned a few things and we will build it better. So, that too is an advantage and let us say, by the time he completes paying me, the market in this area would have at least been Rs. 20,000 or Rs. 22,000. So, like he feels that he will be at an advantage because by then, all the ready products would have been absorbed, sold, and so on and so forth. So that is the real idea. I mean, I am only speaking out of experience. I cannot look into the future and say that this is how it will pan out. But I feel that looking into the past, this is what our experience has been and this is how things pan out.

Moderator: Thank you. We will take one last question from the line of Nitin Agarwal from IDFC Securities. Please go ahead.

Nitin Agarwal: In terms of your plans to go into NCR and some of the newer geographies outside of Mumbai is there a sort of re-think or one way or the other in terms on those plans in the new regime?

Vikas Oberoi: No, there is absolutely no re-think firstly. I mean, like I said that this company is going to live its lifetime, at the right time, with the right opportunities, when we will go out. We are not in a hurry. We are not in any sort of pressing hurry to go out and prove anything to the world. Once we get a good project, a good land parcel, we will completely be open to going there.

Nitin Agarwal: Okay. And secondly, post RERA, has there been any major change in any of your salable areas across any of your major projects?

Vikas Oberoi: Not really. I mean, they have asked us to calculate carpet areas differently but then that is not very much different from what exists.

Nitin Agarwal: And lastly, what has been the additional area for the Worli project you finalized that you will be getting?

Vikas Oberoi: We can let you know off-line. It is a process that we are following, some of it has come, some of it is on its way. We know what we totally want and how it will happen. But that is where we are.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. And I hand the conference over to the Chairman and Managing Director -- Mr. Vikas Oberoi for closing comments.

Vikas Oberoi: I would like to thank everyone for taking their time to attend this Conference Call. We like receiving feedback from you all and this only helps us think harder, work better. Please continue to share your views, inputs, and help us do better. Thank you, again. Have a great day ahead.

Saumil Daru: Thank you.

Moderator: Thank you. Ladies and gentlemen, with this, we conclude today's Conference Call. On behalf of Oberoi Realty, we thank you for joining us. You may now disconnect your lines. Thank you.