



“Oberoi Realty Limited Q1 FY 2020 Earnings Conference  
Call”

**July 25, 2019**



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MR. SAUMIL DARU -- DIRECTOR (FINANCE), OBEROI  
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**Moderator:** Ladies and Gentlemen, Good Day and Welcome to the Oberoi Realty Q1 FY 2020 Earnings Conference Call. We have Mr. Oberoi -- the Chairman and Managing Director of the Company and Mr. Saumil Daru – Director of Finance of the Company with us for the call.

Please note that this call will be for 60 minutes. And for the duration of this conference call, all participant lines will be in the listen-only mode. This conference call is being recorded and the transcript for the same may be put up 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, you may signal the operator by pressing “\*” then “0” on your touchtone telephone.

Before I hand the conference call 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 maybe forward-looking statements, including those relating to general business statements, plans and strategy of the company, the future financial condition and growth prospects.

The forward-looking statements are based on expectation and projections and may involve a number of risks and uncertainties and other factors that could be caused actual results, opportunities, and growth potential to differ materially from those suggested by such statements.

With this, I now hand the conference over to Mr. Oberoi -- the Chairman and Managing Director of the company. Thank you and over to you, Sir!

**Vikas Oberoi:** Good morning, good afternoon and good evening to all of you as per the time zone from which you have logged in. And welcome to the conference call of first quarter financial year 2020 results and business updates. Thank you for taking the time out and attending this call.

Before I begin, I would like to tell you that we have sold the highest area in a single quarter in our project Sky City since the launch. The area is about 125,000 square feet this quarter. Our annuity assets also continue to do very well. Commerz-II has achieved 96% occupancy.

We also have had this quarter where we had an election year. And a lot of headwinds with regards to NBFC issues and so-called subvention scheme stopping. So, a very interesting time ahead. I am sure you will all have a lot of questions towards that, and I will be very interested in talking to you guys about that.

For now, I will hand over the conference to Saumil, he will take you through the details. And like I said that I would be very happy to answer your questions. Thank you.

**Saumil Daru:**

Thank you, Mr. Oberoi. I guess, most of you must have gone through the presentation for the results. If not, the same is also available on our website along with the results filed with the exchanges.

In terms of consolidated financials:

The total consolidated revenue for this quarter was Rs. 618 crores as against Rs. 597 crores for Q4 FY 2019 and Rs. 895 crores for Q1 FY 2019. The consolidated PBT for this quarter was Rs. 216 crores as against Rs. 220 crores for Q4 FY 2019 and Rs. 454 crores for Q1 FY 2019. Similar numbers for the consolidated PAT Rs. 152 crores for Q1 FY 2020 and Rs. 155 crores for Q4 FY 2019 and Rs. 309 crores for Q1 FY 2019.

Now to move over asset-level performance and to begin with, the investment properties:

Oberoi Mall which is the retail asset contributed Rs. 39 crores to the operating revenue for this quarter. This is as against Rs. 38 crores for the last quarter and Rs. 35 crores for the same quarter last year. The EBITDA margins in this vertical are at about 95%.

For Commerz, which is the office space asset, this contributed about Rs. 10 crores to the operating revenue for this quarter as against the same numbers for the preceding quarter and for the same quarter last year. The EBITDA margins in this vertical continue to be in excess of 94%.

In Commerz-II Phase-I this contributed Rs. 29 crores for this quarter as against Rs. 25 crores for the immediately preceding quarter and Rs. 16 crores to the same quarter last year. The EBITDA margins in this vertical are again above 93%.

The Westin Mumbai Garden City, that is the hospitality asset contributed Rs. 32 crores to the operating revenue for this quarter as against Rs. 37 crores for the immediately preceding quarter and Rs. 30 crores for the same quarter last year. The EBITDA margins in this vertical, hover around 32%.

Now, moving on to the development properties:

For Esquire, out of the total project of 21.22 lakh square feet, we have booked over 63,200 square feet in this quarter, till date about 16.55 lakh square feet, which is about 78% of the inventory. The total booking value for Q1 FY 2020 is Rs. 124 crores as against Rs. 97 crores in this quarter in Q4 FY 2019 and Rs. 267 crores for Q1 FY 2019. The cumulative booking value till date is about Rs. 2,678 crores and the total revenue recognized for this project this quarter was Rs. 119 crores and the cumulative revenue recognition till date is about Rs. 2673 crores on account of 100% project completion.

For Prisma, of the total project of about 2.68 square feet, we have booked a little over 8,000 square feet in this quarter, till date about 2.4 lakh square feet, which is about 89% of the inventory in this project. The total booking value for Q1 FY 2020 is Rs. 16 crores as against Rs. 26 crores for Q1 FY 2019, the cumulative booking value till date is Rs. 424 crores. The total revenue recognized for this project in Q1 FY 2020 is Rs. 16 and the cumulative revenue recognition till date is about Rs. 424 crores on account of the 100% project completion.

For Mulund, Eternia, again we have booked a little over more than 20,250 square feet, till date totally 6.16 lakh square feet. The total booking value for Q1 FY 2020 is Rs. 27 crores as against Rs. 14 crores in the preceding quarter; and Rs. 42 crores for the same quarter last year. Cumulative booking value till date is about Rs. 898 crores. The revenue recognized in this project for this quarter is Rs. 59 crores and the cumulative revenue recognition till date is about Rs. 428 crores.

For Enigma, in this quarter, we booked over 22,500 square feet till date about 4.31 lakh square feet, the total booking value for this quarter is Rs. 34 crores as against Rs. 17 crores for Q4 FY 2019 and Rs. 19 crores for Q1 FY 2019. Cumulative booking value till date is about Rs. 636 crores. The total revenue recognized for this project in this quarter is Rs. 28 crores. Cumulative revenue recognition till Rs. 161 crores.

For Sky City, as Mr. Oberoi explained, we book close to about 124,000 square feet in this quarter. Till date, we have booked 17.23 lakh square feet. The total booking value for this quarter was Rs. 187 crores as against Rs. 83 crores for Q4 FY 2019 and Rs. 89 crores for Q1 FY 2019. Till date, the booking value is Rs. 2,748 crores. The total revenue recognized for this project in Q1 FY 2020 is Rs. 240 crores and cumulative revenue recognition till date is Rs. 1,462 crores.

For 360 West, till date, we are booked about 5.53 lakh square feet and the booking value till date is Rs. 2,252 crores.

Key financial parameters, our adjusted EBITDA margin for this quarter was 41%, PAT margin was 24%, and the EBITDA margin for Mall and Commerz are much higher than the average as mentioned before and excluding them, the margin for our pure residential businesses is 32%.

With this, we want to hand over to any questions that you all may have. Thank you.

**Moderator:**

Thank you very much, sir. Ladies and gentlemen, we will now begin the Question-and-Answer Session. The first is from the line of Tanuj Makhija from Bank Of America. Please go ahead.

**Tanuj Makhija:**

The first is an obvious question on the subvention scheme. Now Oberoi Realty reported fantastic sales last year on the back of subvention schemes and Esquire and probably this quarter in Sky City. Sir, I would like to know your thoughts on the subvention scheme. And going forward, what is the alternate plan for Oberoi Realty?

**Vikas Oberoi:**

Okay. So, you know, I clearly believe that the Government's intervention in disallowing subvention is probably a positive for Oberoi Realty. And it is one more step closer to I think, consolidation of developers. So that is a huge positive. The second thing is that historically if you go to see, we have less than 1% of our sales that actually have been, targeted through subvention. In fact, it is even less than 1%. We all know that we started using subvention only last year. So, we ourselves have been detesting this entire bit because this is nothing but another way of discounting your product, number one. Number two is that our subventions were very different from a lot of other developers. Most of our subvention or rather all our subventions are given only to people who are bank loan approved, so there is no developer subvention. These guys who I have sold apartments to have been approved by banks and only then have been eligible for some sort of subvention. So, whether I pay interest, or they pay interest is the only differentiating factor. Their credibility at no point in time is of doubt because they are already approved by the banks. And why is it important for me to say that is because, going forward, if the customer has to pay the interest when the building is under construction, we hope that he is going to use or be very prudent in choosing the developer. And this is why I say that it is a positive for Oberoi Realty with a track record that one has and because he is going to be choosy about picking a developer, we see or we feel that there is bound to be a huge consolidation that will happen in the industry. But my first belief is that real estate is not going out of fashion. People who want to buy a house, want to buy a house, whether subvention or no subvention, people look at the ultimate price. In a subvention, the customer thinks that he is de-risked, to give any installments until the apartment is ready for him to move in. All our subventions require people to pay up to 25% out of their own pocket to be eligible for a loan and that is the loan criteria as well. So, all in all, one, the removal of subvention does not affect us at all. In fact, if it does, it actually helps us because I guess that there will be consolidation in the industry. And we also believe that the customer will become that much more prudent when he will buy an apartment, he will choose the right developer.

**Tanuj Makhija:**

Okay. So, Vikas clearly, I agree with you that the market will consolidate over a longer period of time. But in the near-term like next 12 months, there will definitely be an impact on sales velocity of your say Goregaon and Mulund project, particularly.

**Vikas Oberoi:**

You know it is really funny, Mulund people, most of our customers are actually paying out of their own pocket because they just do not end up qualifying. These are businessmen who are not able to show their income, they have money, but they are not able to show their income to be qualified for getting a bank loan. So, they do not even end up qualifying for the subvention scheme. So, in fact, Mulund, I hardly have like a push in sales because we brought in subvention, everybody comes in and says, that I will pay you at a regular term. What sort of rate are you going to charge me, if I do that? And if you see that, in all our projects, we have always maintained that construction linked program payment is this and subvention is this. So, we have always created a differentiation and always given a better price to people who buy without subvention, which clearly shows that we have actually not discounted it, whatever be the cost of

interest gets added on to our price, which is what the customer pays us. So, we technically do not have any subvention as such.

**Tanuj Makhija:** Understood. And the second question was on your plans for Thane launch, given that Government has put a cap of Rs. 45 lakhs to claim income tax benefit. Could you please guide us regarding your approval and launch timeline for Thane? part one. Part two, what is Oberoi Realty's long-term plan for its Oberoi Aspire brand?

**Vikas Oberoi:** So, again, we are gearing up to launch Thane somewhere in the Diwali and we are hoping that we will get all our approvals before the scheduled date so that we come under the old rule. And hence, we will not get that upper cap of Rs. 45 lakhs and we will probably be able to go through. And again here, a very small component of our project or I would say probably 10% - 15% of our project is designed to be fitting that areas, we are not looking at the entire project. So, that is where it is. The Aspire brand will obviously continue and this will be maybe 1,000 square feet - 1,200 square feet - 1500 square feet. So, these are apartments between, let us say Rs. 1 crore and Rs. 3 crores, is what we are going to bring it under the Aspire brand more like Rs. 2 crores, not even Rs. 3 crores, between Rs. 1 crore is what we are really looking at during this.

**Moderator:** Thank you. The next question is from the line of Abhishek Bhandari from Macquarie. Please go ahead.

**Abhishek Bhandari:** I have two questions. Basically, do you think the industry is heading towards a scenario where the working capital cycles are likely to remain long? Where I am coming from, you know it has now become kind of a practice that we are able to sell very little during construction excluding the Borivali project. And bulk of the sales probably are now happening after completion or towards completion. Do you think am I right in my observation over here?

**Vikas Oberoi:** So, you know, your observation is actually based on only one project, which is Mulund. But if you see, bulk of our sales in Goregaon have been done, in the construction, pre-construction stage, Borivali is again the same. And so, only Mulund is an outlier as such. And of course, I do not count Worli because Worli is very high-end, luxurious and very high-ticket item. So, obviously, people like to see that building complete and done that. But your observation is not, without any basis, the industry is kind of moving towards that. And this will again, require developers to go back to the drawing board become more efficient. So, we are slowly becoming an industry, an industry that will appreciate, a speed at which you build, the quality you build, and so no, fly by night developers, no developers who basically think that I will buy land and hold it and prices will go up. And it is again a huge positive for a company like ours. All of you point out that we do not have a land bank which will last a lifetime in a market where things are consistent. Why would I need a land bank like that? I want land just in time, I want to build it, I want to sell it, I want to make that kind of money. So, this will force industries to become efficient and only the fittest will survive. So, which is great again, we do not know any other business, this is something we love. And we know, whatever little we do and we will try to get

better at it and address this. This is an industry issue and which is great, it is not going to be unique to us.

**Abhishek Bhandari:** Sure. My second question is, if you can probably help us with some of the incremental leasing what you might have done in the quarter for two of your new Malls both Worli and Borivali. And also, if you can probably give some kind of your estimate when these malls will come and the hotel at worldly. Just trying to get a sense of your ramp up on your rental part of the business?

**Vikas Oberoi:** The construction of the mall is happening on schedule. As far as leasing goes, we have not opened up yet. But it is really heartening to see that if one were to you, no one could easily lease the entire mall in this financial year itself. That is the kind of demand we are having. And that is again, thanks to the way Goregaon has done, once you will see the numbers, you will realize that how well Goregaon is doing for us. And again, for the retailers as well. We have people who do not want to go, we have to force people to leave Goregaon, if we want a churn for a better brand to happen. But existing brands are willing to pay more because they know that they want to continue here. So, given that, I think, we are very excited about both Borivali and Worli and like I said that for us leasing is the least of the issue.

**Abhishek Bhandari:** So, Borivali Mall will come up in fiscal 2021 and Worli in fiscal 2023, is that?

**Vikas Oberoi:** No, not 2023, it will be earlier than 2023. So, Borivali Mall is November 2020 launch. So, it is like next year November we will be done. We have already done three levels of basement, we are on the ground floor and we have four levels to go. Our contractors were given a 14 months period to do the entire shell. And we only have to do a little over 100,000-120,000 square feet of interior spaces, the rest of the entire area is done by retailers themselves. So, there is very little that one needs to do, you need to do your facade and we need do the common area. So, we are really gearing up for next year November. And Worli will be a year after that. In Worli again, also we have done entire excavation and are ready for things to roll.

**Abhishek Bhandari:** Sure. So, in one of the earlier conference calls you had spoken about your intention to come to a solution to this 50 - 50 holding at Worli plot. So, any progress over there? The reason I am asking is that at what time probably would want to do it before the mall opens? After the mall opens?

**Vikas Oberoi:** Not really again, we have been busy doing so many other things, this part of restructuring has gone on to the back burner. Not that it is not on our mind. But we continue to think through, speak, engage with investment bankers and see how this can be done because obviously within the company, there is a great valuation that one gets and I am still the largest shareholder in the company. So, again, everything is aligned, including the interest, we are just finding the right way to do it and the right time.

**Abhishek Bhandari:** Sure. And my last question, Vikas in your comment last quarter that many developers will lose shirt and they do not want to participate has caught too much of eyeballs in social media, etc. So, if you could share what has been the experience incrementally since you made that comment? Are you really seeing many more developers go down under and some of the proposals increasing? Not from an asset point of view but in terms of even land being more available to you to develop? That will be my last question. Thank you.

**Vikas Oberoi:** You know, honestly, whatever was put on the WhatsApp message, obviously, was what I said. So, I do not blame somebody putting it that way, they genuinely were my thoughts. They were, of course, multiple sentences picked and put together. And they were not meant to sound as harsh as they did. But so they were like they were statement made for different questions. But obviously, like I said, that I do not take away the essence or the thought behind that message. And I clearly see that what I said, I am not Nostradamus or somebody like that. But I clearly see that playing out and it is just an obvious, you do not need to be Einstein to kind of predict something like that or whatever, it is bound to play out like that. We are in an industry which is cyclical. We do end up in a situation where one can have cash flow liability mismatch. And the other big thing is that the reputation is everything for us. Because like I just said that, if there is no subvention and a buyer has to pay interest, he needs to know that whether these developers are going to finish his building otherwise, he is going to be keep paying installment whether he pays it out of his pocket or he gets the bank to pay the liability gets created on him. So, he is going to use his prudence to pick a developer. And we are really hoping that he goes about doing that very well. And in that, he probably will give us business. So, for any developer who wants that business, will have to actually take great caution and measures to protect his franchise. So, I genuinely feel that the way our industry is and the way things are and government reluctance to give developer money and rightly so, I mean, we have call this upon ourselves is absolutely driving the behavior of customer and our industry. So, that is how it is.

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

**Sameer Baisiwala:** Vikky, can you talk a bit about the Worli project, there are no sales recorded. So, how to think about the sales velocity. And Saumil, are we just two apartment sales away from recognition?

**Vikas Oberoi:** So, actually Worli we had three sales and we had three cancellations and I am a little finicky about who ends up buying and who does not. And the purchase that somebody had done, we were just not able to come to terms with his expectations. So, I had to literally apologize and tell him that you know, I am not in a position to satisfy you. And hence, let us call the deal off, let us be friends. And I had returned his money. And, of course, I mean, in a market like this that fellow thought that I am really fibbing or I am not going to do, what I told him to. But really, the deal was so difficult, that I could not go ahead and do that and we were able to replace those three sales with brand new sales. In fact, if you see, there is an increase of 1,800 odd square feet in the area. And that comes out of the area previously sold versus the area sold today. The three



flats that I sold, the combined areas slash values higher than the combined area value of the previously cancelled. So, that is about it. And I must say, Worli is turning out to be beautiful. I was there on-site yesterday and saw the clubhouse, I saw the bowling alley, and the indoor swimming pool, the cricket facility, and sport court, and the football court, the theatre, it is really something I feel and really it is international quality. Before the end of next quarter, I will personally take any of you guys who is interested and is on the call to see the development and you will have that sort of confidence that I have today, in the way, we have done Worli. So, I am not worried about it. And again, I must say people who come absolutely are jaw drop, they love it and they buy. So, we are not really worried about that at all.

**Sameer Baisiwala:** Okay. And you are on track for OC see in September/December?

**Vikas Oberoi:** Yes.

**Sameer Baisiwala:** Okay. Saumil on recognition?

**Saumil Daru:** Yes, you are right. Of course, we calculate the percentage based on the area rather than the number of flats. So, we have about whatever little to go for achieving that 25% area threshold and then we will recognize.

**Vikas Oberoi:** Looks like this quarter by the way.

**Sameer Baisiwala:** In the current quarter, yes. Okay, great. Vikas, just on your equity raise plan and any big deal that you may be working on. So, any thoughts on that? We have seen the sector in stress for pretty long now. But not much that has come about by way of either you or any other developer doing big deals you know?

**Vikas Oberoi:** You are absolutely right. Look at the environment, the NCLT's of the world are not really able to push or let our sales go through. The developer who is losing his property gives it a real fight and will delay it and stuff like that. So, what really I feel the positive of this is that any new land parcel that comes in the market, which is a clean land parcel sells at a price, which is attractive, I would not call it distress but it sells at a price, it is attractive. The reason being that there is very little competition, trying to buy that land. There are a few of us, who would probably want to put in that kind of money and buy land. And there is enough for all three of us. There is no point in trying to outdo the other and I kind of map that very clearly that there is somebody who has not bought land and he is going to be very aggressive. I allow him to buy that piece. And once he has exhausted his cash, I will enter in and buy the property, we got to time that, if you see both our Tata property and the Thane property were bought in a similar fashion. And that is the way one should go about doing it. I am not I am not going to go after brownfield projects because there is a lot of mess firstly, the method in which this is going to be sold? Will it be an auction that an NCLT will do or that entire process? Through what sort of mechanism will this come out into the market. And one does not want to take liability in a brownfield project

where developers already created third-party and he is committed to give possession. So, their consent is important and so on and so forth. So, there is a lot, I would say, that needs to be done on that account. But like I said, the positive of that is that you do end up getting land parcels from clean, good companies, which we will focus on and buy. And, again, there they have been in non-competitive suburbs and so on and so forth. So, we ideally do not want to have got enough and more to sell in Borivali. I would not want to buy another property next to my plot. It would not do any justice.

**Sameer Baisiwala:** And just one final question, for the Goregaon-II offices, Commerz-I, Commerz-II, do have same three years 15% escalation clause? And second, what was the marginal rentals that you have got for Commerz-II towards the end?

**Vikas Oberoi:** So, you are absolutely right. We do have this 15% every three years increase. And the last deal that we did in Commerz-II was a 140 plus tax plus cam plus parking. And this is on the leasable area, it is 225 on the carpet, plus, plus, plus.

**Moderator:** Thank you. The next question is from the line of Chandrashekhhar Shridhar from Fidelity. Please go ahead.

**Chandrashekhhar Shridhar:** Vikas, I think you told us last time around the pending construction costs on Worli was Rs. 150 crores. I think you have incurred Rs. 150 crores in this current quarter alone but I think there is something more to go. So, could you just help us out with how much is left in terms of costs and how much is spent to date?

**Saumil Daru:** Shekhar, hi, Saumil here. Yes, we can take this separately offline. But the numbers that you see reported are a consolidated figure for both the hotel as well as the residential. So, we can discuss that separately as to what is the break-up. And then correspondingly, how much is pending.

**Chandrashekhhar Shridhar:** Right. And for second quarter last year, you said that the Ritz is on for a soft launch in September and a full launch in December, is that timeline there or has that been pushed forward?

**Vikas Oberoi:** No, it has been pushed forward. I mean, I must tell everybody that hotels are a real moving target. And we are now focused on first finishing residential buildings, push all our energy there and then get down to doing the hotel bit. So, if everything goes well, it probably will be the same days but the 2020 of September and December.

**Chandrashekhhar Shridhar:** Okay. So, it has been pushed forward by a year.

**Vikas Oberoi:** Correct.

**Chandrashekhhar Shridhar:** Right. And just for my understanding, have you the realization on Esquire I mean which you are effectively selling the higher flows have come off and have you cut prices in Eternia as well? Or

is this something relating to the GST adjustment, I am just trying to understand that. Because the realization seems to have dropped in these two for the quarter.

**Saamil Daru:** Again, Shekhar, the thing will be always that it is a question of a mix which are the higher floors and which are the lower floors. So, if there are, there is a tendency for the overall mix to tend towards the lower floor then the average will kind of go downwards and otherwise, it will go up. So, for example, if you look at Q4 FY 2019, then it was higher than the Q1 FY 2019 numbers. And you know almost similar to the overall FY 2019 numbers. So, if you typically end up looking at full-year numbers you will get a better average and a better picture than just for what is happening in one quarter.

**Chandrashekhar Shridhar:** If I am not wrong, I think Esquire only the higher floors were remaining, if I am not wrong?

**Samil Daru:** Yes, but within the higher floors also, what happens is if in a particular quarter what you sell is above the 50th floor then that will give you a different average. And then what happens if, in another quarter you sell you know things more around the 40th floor. So, it is not lower floors in terms of the absolute lower floor for the whole building, it will just be with compared to the earlier quarter which where did these apartments stack up, that is all. Because if you look at the numbers, we report the numbers inclusive of floor rise. So, that is where the mix comes into question.

**Chandrashekhar Shridhar:** Okay. Is there any reason for the delay of why I mean, lastly, my understanding was that we were supposed to be Worli OC in June 2019 and this has now been pushed December 2019?

**Vikas Oberoi:** No, in fact, our RERA dates are December of 2020. But we are actually going to get this OC within September and December. So, it is in fact, one year ahead of schedule.

**Chandrashekhar Shridhar:** Right. Okay. And my final question is just, this time last year when we were done to with QIP, 1200 crores you did get speak about it being used at there are opportunities that you are seeing in land, I know you have spoken about it just in the previous question, but I mean, is there a timeline to which you are giving yourself because it has been a year and I mean, or is it something you will still on the lookout may take another six months to it take another year? Because it has been a year since I thought you have been in the market looking for land?

**Vikas Oberoi:** You know, again, like, I really cannot put a timeline because it is a search literally. And it is for the right location, it is for the right price, it is for the right seller. There are many variables here unless and until all of them are aligned, I am not ready to strike. So, we are very prudent about that and we continue to look, it is like literally a part of my everyday job. And we put in a lot of effort and we continue to do that. It could happen in a month it could happen in two months.

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

- Abhinav Sinha:** First question on the balance sheet and cash flow front, so we have seen about a reduction of Rs. 160 crores on cash balance Q-o-Q and also borrowings are up about Rs. 20 crores to Rs. 30 crores. So, where would have this been used?
- Saumil Daru:** Hi, Abhinav, Saumil. So, where you are seeing that consumption of cash, it is more going into the Borivali Mall that we are doing.
- Abhinav Sinha:** Okay. And the remaining? The increase in debt?
- Saumil Daru:** I do not know from where that is coming from because actually, if I look at it, it has only reduced as far as this quarter is concerned. It is off by about by the net amount of about Rs. 50 odd crores. So, I do not know where that one is coming from.
- Abhinav Sinha:** No, sir. I was looking at the borrowings and the current liabilities that has gone from 248 to 468.
- Saumil Daru:** Correct. There is some reclassification also which is happening from long-term to current. So, that is where you are seeing the change coming in. And if I look at the overall borrowings, if you look at the non-current financial borrowing then those come up from about 678 to 580.
- Abhinav Sinha:** Okay, so that that will explain it, thanks. Sir secondly, on the Sky City project, so sales were quite good. And I just wanted to check I mean, how much of that will you attribute to say higher footfalls because of the subvention or is this is the pace that we should expect now irrespective of any subvention plan?
- Vikas Oberoi:** Firstly, it probably was a difficult quarter, we ourselves were surprised with the results. And I would say that one building of ours, we top up construction within the end of next month at max. Tower B we actually finish within the next month. So, people are seeing like an excellent pace of work. And that is driving people they have this belief that it is now ready. You know, even though we are committed to people at a particular date for RERA, we are running probably a year, year and a half ahead of schedule. So, that itself is like you know really boosting the sales. And I am, myself surprised that despite subvention because again, you know our subvention is different from other people because we clearly charge a higher price. So, a lot of people prefer not to go through subvention and come in directly because they feel that they will benefit out of this because of whatever extra I load. they end up paying stamp duty on that value versus if they were to pay themselves that this additional component would not require stamp duty and other things. So, they are far happier and when they pay subvention a part of that also gets tax-deductible and stuff like that. So, people are not really coming in, in a very big way. I would say probably 30% - 40% of our sales would have been through subvention and the rest 60% to 70% is construction link plan. So, it is just not one thing or the other. In fact, even before we had launched this scheme within this quarter, we had done a reasonable number of sales already.
- Abhinav Sinha:** Right. And will you look to launch more towers here now?

- Vikas Oberoi:** So, we have three more buildings to build. And the work for all three are on. And we just thought that let us sell a little more here. We have been from what I recollect, out of the inventory that we have in the market, we have sold over 70%. And we are still technically with RERA date of completion probably two years, two and a half years into possession. So, we clearly look like again, going back into an era where before our buildings are complete 100% of sales are done. So, we want to push the sale here a little more because our recovery when we sell is far higher. So, any customer who comes to buy from me I want to motivate him to take an apartment here because that allows me more cash and allows me better profit recognition and everything. So, for us strategically it is better to sell this and keep funding those buildings with our own cash flow and bring them to a level where there is enough confidence people know that these buildings are also going to get done very quickly and so on and so forth. And that is how it is.
- Abhinav Sinha:** Right. So, just a last question, on the Worli project, so I mean, the product looks quite fantastic and it is completing now. Is there any possibility that we can raise our stake in this project now?
- Vikas Oberoi:** Not really. We are not looking at that.
- Moderator:** Thank you. The next question is from the line of Saurabh from JP Morgan. Please go ahead.
- Saurabh:** Sir, firstly, on this residential margin it is around 32%, I am just wondering you have sold higher units in Esquire and Sky City. So, I mean, why should this margin be low?
- Saumil Daru:** Hi, Saurabh. Saumil here. Two things, so, if you look at two of the projects so, one is Enigma and the second Sky City E. So, as far as Sky City is concerned, the revenue and the corresponding margin recognition is only happening in Sky City A to D, it is not happening in Sky City Earning because as far as RERA is concerned, these are two separate registrations for the purposes of the books also these are two separate projects. If you will recollect, last year when we had this adoption of this new AS 115, which was in connection with the revenue recognition policy, we had said that, till we hit all the thresholds we will only recognize the revenue to the extent of cost incurred. So, for Enigma and for Sky City E, out of the sales we are not recognizing the margins. However, there is an impact coming in on account of the turnover and hence, the top-line is being shown. But correspondingly, the margins are not being shown. So, in both of these projects, when we hit revenue recognition then in those quarters, you are likely to see the margins go up substantially. So, that is what it is. So, if I take out the effect of that thing then your residential margins are close to the vicinity of what we have always reported on an average every quarter.
- Saurabh:** Okay. So, the fall which is happening let us say from 34% odd which you were in 3Q to 4Q to 1Q because you would still have been recognizing those top-line, right?
- Saumil Daru:** Correct.

- Saurabh:** Quarter-on-quarter it has still come down, so why should that...
- Saumil Daru:** No, but the point will be that what is the ratio? So, for example, if you look at the sales which have happened in Borivali in this quarter. So, out of that 74 units again, there is quite a lot of contribution coming in from Tower E. But the sales percentage is not enough, it is not exceeding 25% as far as Tower E is concerned. But there is a fair amount of sales coming in from Tower E and that is why you are seeing recognition in Tower E. In the earlier quarters, Tower E would not have contributed as much. In fact, Tower E was only launched last year in December. So, if the projects for which you are not having a margin recognition, are contributing a little bit to the top-line then in that case, you will see this margin reduction coming in. It is just an accounting anomaly. And hopefully, as we hit revenue recognition for both of these projects in the coming quarter, you will more than see things getting righted.
- Saurabh:** Okay. Sir and second question is on Worli, I mean you can answer whatever your comfort. But it seems that your joint venture partner has mortgaged his share with a stressed NBFC, and that loan is whatever is being in the process of being sold down. So, I just wanted to confirm there is no impact to the project per se, right? as to whatever may happen with the loan or the NBFC?
- Vikas Oberoi:** Absolutely, no. So, as far as we are concerned, he is not even entitled to mortgage. All he is entitled to his mortgage, the receivables of his amount and he is free to do that, one cannot stop that. But per se, our AOP has not done anything and it does not affect the project. It does not take our right at all.
- Saurabh:** No, so your right is protected. But in terms of the units, he may have mortgaged.
- Vikas Oberoi:** No, there are no units mortgaged.
- Saurabh:** Okay, but you decide the pricing and the monetization.
- Vikas Oberoi:** Of course, absolutely.
- Saurabh:** Okay. And sir, lastly, again on this, JDA strategy and your capital allocation. So, if you look at Sky City, we are in the fifth year of our acquisition in this year and I mean, if you just kind of do some financial, you have just barely recovered the investment in Sky City at this point. Even in Worli, we are in more like 10th year of our investment. So, I mean, how would you kind of allocate incremental capital when the gestation of our projects is so long?
- Vikas Oberoi:** Well, you know, if you really look at the amount of money one is going to be making in Borivali, it will justify all the investment that one has made. Merely the value of the mall that we will be creating will be more than let us say at an average get about Rs. 300 crores or Rs. 250 crores as rent every year, the asset value will be a little lower Rs. 4,500 crores at an 8 cap-rate or whatever. So, it more than justifies paying a thousand crores for a land parcel, which can give you asset

here. Plus, you are talking about the profit that you will get out of the projects. And like you rightly said that our capital is back, which is a big thing. And we are still left with close to maybe 2.8 million square feet of ready to sell and a little over a million square feet of mall and a hotel there. So, I mean, if this is a bad deal, I am willing to do multiple of these as many times as possible.

**Saurabh:** No, my question Vikas was simply on the IRR. I mean, obviously, there is multiple in IRR I mean if you.....

**Vikas Oberoi:** No, it will because right now my investment is zero. So, now I have my IRRs are infinite.

**Saurabh:** Okay. Fine, I will take this offline. And just one last question, sir. On the CAPEX for the rental assets, the number if I recall was Rs. 3,500 crores. So, how much would you have spent of that?

**Vikas Oberoi:** The new development?

**Saurabh:** Yes, the rental assets.

**Vikas Oberoi:** You can take that offline with Saumil. Like I said, we have not done any borrowings on that as yet, we are only using our internal accruals to build all three. And of course, we will look at leveraging that at some point in time. And because we want to keep our cash free for future land acquisition and these assets are well like literally, two and a half years of rental will probably take it all the debt one will create in this asset.

**Saurabh:** No, my question is not on debt, Vikas, I just wanted to know how much has been incurred?

**Vikas Oberoi:** Okay, why don't you take with Saumil.

**Moderator:** Thank you. The next question is from the line of Adhidev Chattopadhyay from ICICI Securities. Please go ahead.

**Adhidev Chattopadhyay:** So, firstly just wanted to understand technically can we still offer subvention schemes in partnership with banks across our projects?

**Vikas Oberoi:** Well, banks haven't been stopped doing this subvention and I mean, we are absolutely okay.

**Saumil Daru:** It is only, I mean, right now, the circular is from the NHB, so it is the housing finance companies which are covered.

**Adhidev Chattopadhyay:** So, we continue to offer the schemes whatever is in place, in Mulund, Goregaon, Borivali, we continue to give that option to the customer.

**Vikas Oberoi:** Obviously, yes.

**Adhidev Chattopadhyay:** Okay. And sir, secondly, now a couple of days back the municipal commissioner there has been later during the rounds that they proposed to reduce the FSI charges and premiums by 50% in the city and suburbs of Mumbai. So, could you just now elaborate in whatever balance what we have built, okay in Borivali, Mulund and other projects, any cost savings which would be happening from there?

**Vikas Oberoi:** Substantial for that matter I would say. In fact, they have already come out with a letter circular. And again, unfortunately, it is not 50%, it is down from 50% to 40%, which is a reduction of 20% one can say. Again, I mean, good but not good enough. I mean, we all were hoping for a lot more. And but again, it is still at least, it is good that the government is sensitive to the developers need. And I guess one will need to plead their case better. We have a good government will try to do that and try and pull that out a little more. But for now, they have already done from 50% to 40 and they have gone ahead. So, that is it. And it is only a small window. It is a window for two years where you know they just want to support the industry and they have come up with this.

**Adhidev Chattopadhyay:** Sure. And just a last question on the industry. Since I have been reading, there have been a few land deals now recently, which have happened in Mumbai, over the last three months - four months, whatever we gather the land prices not seem to be falling. In fact, they seem to be even higher than in previous years. So, any thoughts on that on where this is headed in your view?

**Vikas Oberoi:** I mean, again, I really feel great that companies like Sumitomo are interested in Mumbai. So, you know this is how it is like at one end you will have companies like Sumitomo, wanting to pick up marquee land, clean land, and at other end, you will see developers in distress. So, that is going to be the story going forward. It is very encouraging, I was very excited, very happy when I saw that happen. So, like, people still believe in the real estate story of India and Mumbai, for that matter and hence, they are interested in coming here. So, if you do your job well, I think it is a great story. I really like that.

**Adhidev Chattopadhyay:** Sure. And just a final question. Sir, where are we on the launches for the Goregaon Phase-III and Thane now? When do we expect those to come in?

**Vikas Oberoi:** Goregaon Phase-III, the work continues to be at brisk pace, a lot of my monies are, all my internal accruals are actually going there as well. But so we are looking at either like a Diwali or a little around that kind of launch there. So, we are now doing our show apartment. We are doing our sales gallery, the new one. And then, we will start the sales there.

**Adhidev Chattopadhyay:** Okay. And Thane any clarity, like when all approvals come in and when we are here?

**Vikas Oberoi:** So, again, we are hoping for a Diwali launch in Thane as well. It is a non-competing market, it is a non-competing sector. So, that will probably give us volume in terms of sales and all that.



- Moderator:** Thank you. The next question is from the line of Kunal Lakhan from Axis Capital. Please go ahead.
- Kunal Lakhan:** Just a follow-up on the previous question. Is the land transaction completed at Thane? And do we have some clarity on what is the final cost of acquisition of the land?
- Vikas Oberoi:** So, you know, we are literally on the last leg and so once that is done, we will be able to share everything with you. You have patiently waited, just give us one more quarter and we will give you all the news and good news as well.
- Kunal Lakhan:** Sure. So, but the land, the transaction closure should not have any impact on, on the timeline of the launch, right?
- Vikas Oberoi:** No, not at all. Not at all. Like I said, literally, we were hoping we would be able to give you good news in this quarter itself. It has been postponed to maybe next quarter. But it will be happening within weeks.
- Kunal Lakhan:** Sure. Also, just again, to dwell on the subvention schemes, some developers were used to also offer like the developer subvention schemes so to speak, not the bank subvention schemes, with say our kind of balance sheet and our kind of borrowing cost, while maintaining the hygiene in terms of you know like qualification requirement for buyers to avail of schemes, will we look at offering developer subvention schemes?
- Vikas Oberoi:** You know, honestly, no. No. We would not do developer subvention schemes at all. We want the credibility of the buyer to be ascertained by the banks. And we have the wherewithal to check the credentials of the buyer and his capability and ability or rather convince him to pay us.
- Kunal Lakhan:** Sure, fair enough. And lastly, just you mentioned that at Worli, the residential will get completed first. Any idea on why change in that strategy, I mean, we always thought that sales at Worli would pick-up, once the hotel becomes operational, just to avoid any inconvenience to the hotel.
- Vikas Oberoi:** So, it is just our focus. We want to focus in and do the building first and that is why, like I said that we have preponed and the entire finishing bit of the building first and get that going. It is also a better strategy. We generate cash out of resi building and then use that to do the interiors and so on and so forth. There is no major strategy as such.
- Moderator:** Thank you. Ladies and Gentlemen, I now hand the conference over to Mr. Oberoi, for his closing comments.
- Vikas Oberoi:** Thank you all for taking the time to attend this conference call. Like I have always said, we genuinely like all the questions that you come up with. It helps us think better. It helps us plan



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better and it helps us run our company better. So, please continue to do that. And thank you once again for attending this call. I really appreciate all your effort. Thank you again.

**Moderator:** Thank you. Ladies and Gentlemen, on behalf of Oberoi Realty, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

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*This transcription of the Earnings Conference Call for Q1FY20 may contain certain discrepancies. Further, certain edits have been made to the transcription for the sake of brevity. We have made all the efforts to ensure that the intent and purpose of the wording remains intact. However, we would not be responsible, if any discrepancies or deviations are observed in the transcription.*