"Sunteck Realty Limited Q4 FY-18 Earnings Conference Call"

May 24, 2018

MANAGEMENT: MR. KAMAL KHETAN – CHAIRMAN & MANAGING DIRECTOR, SUNTECK REALTY LIMITED
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Moderator: Ladies and gentlemen, good day and welcome to the Sunteck Realty's Earnings Conference Call for the Q4 & Full Year 2018. We have with us today Mr. Kamal Khetan – The Chairman & Managing Director of the company and Mr. Sumesh Mishra – The Chief Operating Officer-Business Development & Strategy.

Please note 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 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. As a reminder all participants' lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded.

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 related to general business statements, plans and strategy of the company, its future financial condition and growth prospects.

These forward-looking statements are based on the expectations and projection and may involve a number of risks, uncertainties and other factors that could cause actual results, opportunities and growth potential to differ materially from those suggested by such statements.

I would now like to hand the conference over to Mr. Khetan – The Chairman & Managing Director of the company. Thank you and over to you, sir.

Kamal Khetan: Good evening everybody and warm welcome to the Earnings Call for the Fourth Quarter of the Financial Year 2018. Thanks for joining us. I am happy to share that the performance of the company during the fourth quarter of 2018 has been encouraging. Our EBITDA has grown by 48% year-on-year to Rs. 107 crores while PAT has grown by 65% year-on-year to Rs. 56 crores. PAT margins have also increased to 27% during the quarter which is an increase of 250 basis points year-on-year.

In terms of the operational performance of the company – we are seeing the momentum picking up and better sales quarter on quarter-on-quarter for completed projects as well as the projects under execution. In addition, we received the Occupation Certificate at our project Signia High in Borivali except for the top floor and have initiated handing over of the apartments. At our three super luxury residential projects in BKC almost 100 families have already moved in. And at our project now at Sunteck City, Avenue1 and Avenue2 in ODC

Goregaon West, the regular sales activations have been receiving an encouraging response and have helped us to achieve good sales number.

Construction is happening at full pace at all our six projects. Sunteck City Avenue1, Avenue2 at ODC, Signia Waterfront at Airoli, Signia Pride at Andheri East and Gilbert Hill at Andheri West and Sunteck Icon at BKC Junction. Also, we plan to launch one more commercial project at BKC Junction that is Sunteck Gateway 51 in next two to three months. During this year we also forayed into the aspirational luxury home segment with the acquisition of about 100 acres in the Western Suburbs of MMR under the JDA model and are now present in the entire pricing spectrum of real estate industry.

We plan to launch the first stage of this project in next two months. This will help to scale up the company's presales number going forward substantially. I would now like to handover the call to Sumesh Mishra. We look forward to the question answer session later on and will be happy then to answer your queries. Over to you, Sumesh.

Sumesh Mishra: Thank you very much, sir. Good evening everyone and thank you once again for joining us today. I would like to quickly take you through all the financials and business performance for Q4 and full year March 31, 2018. During the 4th Quarter FY18 we reported net sales of Rs. 207 crores versus Rs. 138 crores for the corresponding quarter last year. It is an increase of 50% YOY. On the EBITDA front we recorded EBITDA of Rs. 107 crores versus Rs. 72 crores in 4th Quarter FY17 which is an increase of 48% year-on-year.

EBITDA margins are also very strong at 52%. On the PAT front we recorded PAT of Rs 56 crores versus Rs. 34 crores for the corresponding period last year which is an increase of 65% year-on-year. PAT margins are at 27% which has increased by almost 250 basis points year-on-year. With regards to our operational performance we have recorded presales of Rs. 186 crores in 4th quarter FY18 which is a 6% increase year-on-year as compared to Rs 175 crores last year.

The quarterly sales of Rs. 186 crores is split as Rs. 77 crores for our three BKC projects, Rs. 51 crores from Sunteck City Avenue 1 and Avenue 2 projects at ODC, Rs. 29 crores from the commercial project namely Sunteck Icon in BKC Junction and balance from other projects. We had also relaunched sales at our Signia High project post receipt of OC which contributed sales of about Rs. 22 crores. In terms of collections we collected Rs. 154 crores for the quarter which is an increase of 38% year-on-year versus Rs. 112 crores for the corresponding period last year.

So this was the update on our financial and business performance. We can now open the forum for questions from the participants.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin with the question-and-answer session.

We take the first question from the line of Adhidev Chattopadhyay from ICICI Securities. Please go ahead.

Adhidev Chattopadhyay: Just wanted to get a status on the approvals for our upcoming projects on the ODC commercial and also for the Naigaon project? If you could give us what is the likely launch timeline and the status of approvals for these?

Kamal Khetan: As far as Naigaon, we have said most of the approvals are in place and we are all geared up to launch this project in next two months. And we are just waiting the last few approvals in the commercial projects of ODC. We are hopeful of launching that in next 3 to 6 months.

Adhidev Chattopadhyay: Second question is the impact of the Mumbai DCR? I know it is still early days, but do we have a rough idea of any increase which would happen in the area of our projects?

Kamal Khetan: It will be too early to mention. We are waiting obviously for the DCR notification. The final notification has to come. There is suggestion objection which is going on. So post that I think it will be right on my part to give you the exact numbers. Obviously, there are increase but it will be too early to comment on that.

Adhidev Chattopadhyay: Last question is on the cash flow reconciliation for the quarter. Could you tell us how much debt levels have changed? And what is the collections and the construction spend we have done?

Sumesh Mishra: With regards to our debt, you can see that our net secure borrowing is just about Rs. 311 crores on a net worth of about Rs. 2,630 crores. Overall if you see the total debt will be about Rs. 453 crores. So that gives us a debt equity ratio of 0.17:1 and this includes the entire group level debt. With regards to the collections, overall for the year we did a collection of about Rs. 531 crores and in terms of our cost of construction, our construction spent will be just about in the range of Rs. 175 crores.

Moderator: Thank you. We take the next question from the line of Prem Khurana from Anand Rathi. Please go ahead.

Prem Khurana: My question is with respect to Naigaon. Given the fact that you are saying we are on the verge of launching this project in the next 2 months, what is the strategy? Will be play on pricing or the idea will be kind of leverage the brand there or the product will be somewhat different so as to be able to attract the people to come to your project?

Kamal Khetan: Very frankly obviously it will be a combination of all three. Mainly the ticket size which is very important, so we are getting into the aspirational luxury, so ticket size will be we are looking at a ticket size which is much closer to less than Rs. 50 lakhs, so we see a huge volumes there. We are looking at big volumes. Obviously, we want to come up with very attractive pricing policy as well so that we can do a good sales volume.

We are keen to very big volumes that is where we are banking on. And obviously with Sunteck brand coming into this segment, even in this segment people who buys the house, we believe they look for some luxury cushion. So we want to add that to because of our brand I think we will get that advantage as well. So we use all these three things together to get the best sales out of it.

Prem Khurana: And sir, historically we have always operated in to high-end product category. We started with BKC now we are gradually moving into aspirational wherein I mean you would have to keep a tight check on your costs. So how do we intent to kind of keep a check on our cost in this projects I mean given the fact that we have always kind of been very, very conscious of the quality that we offer to our clients wherein I mean you would have to kind of somewhat make sure that you do not exceed your budget, so which is where you will have keep a check on your cost. So are we planning to have something special so as to be able to kind of keep our cost under control and have the kind of margin we have been able to get in some of the other projects?

Kamal Khetan: Obviously whether you do a luxury or an aspirational luxury segment or an Ultra luxury segment, cost estimation is a prime thing and very important thing whenever you start the project. So I think in the DNA of Sunteck we always try to first freeze the cost and estimation whether it may be a BKC project or now the Naigaon project, we will obviously take into consideration the cost and estimations into first thing which will be very important and we know this is a very price sensitive market.

If you see our margins which are not compromised even we are entering to this segment, so we have thought much more before we got into this segment and that is why we started slowly from the top of the pyramid and we know now that we are getting into the bottom of the pyramid. So cost and estimation is very important. So whether BKC project or even ODC project when we, BKC project the ticket sizes are very high, ODC project the ticket size is like Rs 1.5 crores to Rs. 3 crores but quality is always very important whether we even get into this aspirational segment.

Again we will not compromise on quality and we like to give that luxury quotient with Sunteck and even in this segment where we do not mind spending Rs. 100 or Rs. 200 square feet more but we will not compromise on the quality and the brand image. And we have factored that into, taken that into consideration before obviously launching this project and that costing we have already taken into consideration. And all the more to give you more comfort, we are setting up a totally separate team in our division to get into this segment.

Prem Khurana: You are also talking about launching Oshiwara commercial real estate development, so how would the cash outflow change in terms of construction spend that you would get to have in a yearly basis? How much are we planning to spend on a yearly basis for this project?

Sumesh Mishra: **O**verall in ODC, Oshiwara District Centre, this 16 acres which will be again a mixed use development, which we are looking to launch, so the 5th and 6th avenue which will be commercial project with some portion of retail and hospitality to compliment it, so that will about 2.6 million square feet. Now entire 2.6 million square million feet will not start in a day in terms of cash flow requirement.

We would need about Rs. 150 crores to Rs. 200 crores in terms of say getting the premiums paid and starting about say 500,000 to 800,000 square feet on day one. That is the maximum requirement that we will need for the first six months to one year. Fortunately, the project has 60% of residential component which automatically helps us in terms of taking care of the overall cash flow requirements or construction requirements for the project.

And that is the reason you can see the debt levels, especially for the Avenue 1, Avenue 2 we have negligible level of debt for construction financing. And the cash flow from the sales takes care of our execution automatically.

Kamal Khetan: And also add there is no debt on in fact Avenue 3, 4, 5, 6; there is zero debt on the land. So we do not see any problems. In fact the cash flow coming from the residential should be so strong. It will easily take care of this Rs. 150 crores approximate requirement per year to build it commercial portfolio. And as we construct, we keep leasing out, we will also do pre leases so that to take care of any market complications or any market fear.

Moderator: Thank you. We take the next question from the line of Raj Rishi, Individual Investor. Please go ahead.

Raj Rishi: Just wants your comments on how you are seeing the traction in the Mumbai real estate market? You can quantify it as say in the last one year vis-à-vis the previous year?

Sumesh Mishra: So if you see what has happened in post the RERA, demonetization and all the jolts that the construction industry or the real estate industry faced, now we see the stability returning into the market and the better brands or the organized brands they have already seen sales numbers the year-on-year or quarter-on-quarter bettering. It is now one year since we went through all these bolts or jolts that the industry received. I think now you can see the numbers for all the organized players increasing and improving well.

I think quarter-on-quarter or overall year-on-year basis you can see 15% to 20% growth. So even if the overall sales pie would have come down and the number of developers who are selling that has also come down drastically. So that is the small pie is now being distributed only between a very, very small set of developers or the organized developers and they will continue to see better sales.

Raj Rishi: Just to get a rough figure from you what do you think is the organized pie presently, organize share of the pie presently? Whatever you term as organized including assets?

Sumesh Mishra: Approximately today there will be about 1,300 odd.

Raj Rishi: No, as a percentage of the total real estate market what would be the division according to you, the organized and unorganized whichever way you want to classify unorganized and organized as?

Sumesh Mishra: Yeah, definition will change from Micro markets to Micro markets but overall in Maharashtra for example, if you have 13,000 projects registered or 1,300 developers registered under the RERA, you can say that 15% to 20% of the developers will really enjoy a good brand value and their name sells better than the other 70%, 80%. So that is what I will consider as developers who enjoy a good financial strength or balance sheet as well as who can match their cash flows and finish their projects on time.

Raj Rishi: And how do you see the percentage change over say 2 to 3 years with all these regulations in place?

Sumesh Mishra: I think this you will come to know only over the next 1 or 2 years how the smaller players or how the unorganized players get in line and discipline themselves but what we are seeing is, smaller players are getting into consolidation mode and the larger players are going from strength to strength. So it will only be a timeframe of may be 1 or 2 years then we will be able to get a proper view of like any other industry, when a regulator comes it takes about 2 to 3 years for things to fall in place and then identify who are all the real good players. So similarly, for real estate it is just about a year since the regulator has come. I think in another 2 years we will get to know who are the real brands which will go to next level.

Moderator: Thank you. We take the next question from the line of Kunal Lakhan from Axis Capital. Please go ahead.

Kunal Lakhan: Firstly if you can share the breakup of sales in BKC between Isles Pearl and Signature Island?

Sumesh Mishra: We have sold three units worth Rs. 77 crores in BKC; two units in Signia Isles which is average ticket size of Rs. 24 crores to Rs. 25 crores and one unit at Signia Pearl. So two units at Signia Isles and one unit at Signia Peal is what we sold in the last quarter.

Kunal Lakhan: So now with this our inventory stands at 51 units, right?

Sumesh Mishra: That is correct, 51 units.

Kunal Lakhan: How should we look at the run rate going ahead because all the way we are seeing some traction there but if you have to monetize this project over the next say 2 or 3 years we will have to run that up? Are we thinking on any lines in terms of introducing any deferred payment schemes or any kind of schemes that would boost these sales?

Kamal Khetan: As you know now, we are left with 51 apartments. We have been maintaining that we will be selling these all the sales because this is a very high-end luxury apartments we are maintaining that we will be selling this apartments over a period of 3 to 3.5 years or may be even 4 years.

But nevertheless, as you said that if we feel that there is a bigger traction which we can get by deferred payment or something we will be happy to look at it without diluting the luxury quotient of the brand and without showing any desperation.

Again, if you see there has been whatever we have been selling if you see the run rate has been 10 to 12 apartments year-on-year and we are maintaining that and we are seeing that we do not compromise on that run rate. So that is we are continue to we are maintaining and already if you see the 100 families have already moved into this complex and there are some families are moving we are seeing tractions building up. And again, if you see almost every quarter we have been able to do 3 to 4 apartments.

So I think there should not be any problem, but nevertheless again to repeat your question means to give you the comfort that if there is any scheme or even a customer comes and say he wants a deferred payment, I do not think we will be shying away from not giving him a payment schedule or something as far as our IRR is not affected too much and if the sales is happening we will be happy to do that.

Sumesh Mishra: So Kunal, we see a lot of traction coming in the next 4 to 6 months as developments like the Convention Center by Reliance, Maker Maxcity complete development being operational and other infrastructure like the Sion BKC flyover should be getting completed in the next 3 to 4 months. So at that point I think based on how the things look like so we will be coming up with more attractive we will take the necessary steps but right now we feel we are in a reasonably decent spot in terms of selling these inventories over the next 3 to 3.5 years.

Kunal Lakhan: My second question is on the ODC front. You mentioned in our opening remarks that you have started activations in this quarter. How has the response been if you can elaborate a little bit on that front and then obviously like the next question is like how soon can we expect the residential launch in the 2nd land parcel?

Sumesh Mishra: So Kunal, this quarter we did about 28 units in the fourth quarter. If you see for the full year even last year in FY17 we did about 144 apartments, which is close to 2 lakhs square feet without any new launch. Even in FY18 we did about 140 odd apartments, so again close to 2 lakhs square feet. So without any new launch what we have been doing is last in Avenue 1 and Avenue 2 after every 3 to 4 months we come up with new inventory, we have been opening strategically new inventory in the market and we have been doing activations on the marketing side and that has given a thrust or push to these sales.

What we intend to do now obviously is almost in Avenue 3 and Avenue 4 which are residential phases of the next 16 acres, that we intend to launch in the next two quarters. So once you see a new inventory coming in, you will see the traction jumping into another level. So it is a combination of activations for your existing phases and launch. And combination of both will obviously give you the major thrust required for taking the project to another level in terms of sales.

Kamal Khetan: Also, like the current activation which is going on, Kunal like the Big Home benefits what we have started we are giving some benefits and with that we have seen very good sales. In the last one month we have done extremely good sales and the result of that you will see in the current quarter results when we give it to you next time.

Kunal Lakhan: One last question is on, for an earlier participant you mentioned that you are still evaluating the impact of the new DP on your ongoing projects. Just wanted one clarity. In terms of ODC is basically an MMRDA project so we already have a higher FSI over there. So please correct me if I am wrong the new DP should not impact the FSI over there. And in Naigaon because I think it comes outside the Municipal limits it should not affect the FSI over there as well. Is that understanding, right?

Kamal Khetan: Actually, it is not a correct time to make a statement till everything is not freezed. But I will just give you one example that obviously even if with these new DCR, we come under MMRDA but lot of the things in MMRDA follows as per the common DCR. So like a fungible FSI for a commercial space has increased from 20% to 35%. So if that fungible FSI has increased from 20% to 35% even in ODC we will benefit from 20% fungible FSI we will get additional 15% fungible FSI on our ODC project as well. So on and So forth, there are certain more benefits which all we will be able to give you the exact numbers and details once all the clarity is there in place.

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

Abhishek Anand: First query will be around we had some unutilized FSI in BKC. What is the status of that? And is the height restriction which was imposed by the government still there or there is some clarity on that?

Kamal Khetan: We have got the Occupation Certificate of all the 3 buildings and part Occupation certificate of this last tower where we have to utilize our balance FSI. So we are not able to utilize due to the height approval. We are waiting that height approval anyhow once we get that that clarity is still not there. We are expecting that to come in the next 3 to 6 months.

Only after getting that clarity, I will be able to comment on that. Otherwise, till now anyhow for all our numbers we are sharing with you and everybody we are considering that we have utilized entire FSI as if means we are not taking into consideration the additional floors which will be coming on the building. So we are considering that whatever is completed only those numbers of apartments. So when we are giving you the numbers of apartments it is up to the level where we have already received almost all the Occupation Certificates.

Abhishek Anand: My second query will be around Sunteck City Avenue 2. So I can see on MAHARERA website that the completion date is April 21. But in terms of progress, I am seeing that there are no slabs constructed on that yet. And it is some 44 storied tower if I can understand that correctly. So how confident we are in terms of execution? Because if I calculate a 15-day slab, so I get a 2 year kind of structure completion schedule there and then at least one, one-and-a-half years for other development. So is it not a bit tight schedule for Avenue 2?

Kamal Khetan: So Abhishek, just to tell you one thing first of all across all our projects, including what right now we got our Occupation Certificate for Signia High as well as Signia Pearl in BKC and all the other projects, we have delivered much ahead of the RERA schedule. And just to make it clear on this call that we will deliver even Avenue 2 much, much ahead of the schedule. I do not know where you got this 15 days slab cycle thing, because to my knowledge we are completing each slab in almost every 7 to 10 days. So I do not know where you get this of the period. But so you do not add I can guarantee that we will complete the project much ahead of the schedule with our Frontech brand and reputation we have always tried to we can assure that we will be able to complete much ahead of the RERA date.

Sumesh Mishra: And just to add Abhishek, we are already on the 19th slab. So I think we are very well on the way as sir said that we should be able to do it.

Kamal Khetan: So I think someone telling you that there is only 6 or 7 slab again that is wrong.

Abhishek Anand: No actually Khetan sir, I am looking at RERA filings which you have done. So this is basically in Wing B. It says that still floor is 0% complete. So there is where I was coming from.

Kamal Khetan: I think this would be about 6 months to 9 months back. But if you see it today, it is on 9th slab on one tower and 19th slab on 2nd tower.

Abhishek Anand: Okay, I guess the RERA's numbers are not updated then.

Moderator: Thank you. We take the next question from the line of Tanuj Makhija from Bank of America. Please go ahead.

Tanuj Makhija: During the previous quarter you had offered a deferred payment scheme for your project in ODC. Can you please comment on the pricing in ODC? Are you seeing any price pressure in that locality?

Sumesh Mishra: We have never done a deferred payment schedule. We have always tried to pass on the benefit in terms of may be just to bring some feel-good factor with regards to some goodies to the buyers for example like AC homes or something to just to give some value add, because we believe that the products are very attractively priced. Our ticker size starts at as we speak today, even the higher floors on about 20th floor our 2 BHK starts at about Rs. 1.5 crores. This is one of the most attractive ticket size in the entire micro market of Goregaon.

And that is how you can see that we are clocking almost 140 to 150 apartments every year. So I think it is a very good traction even in this market. And since the first phase of Avenue 1, we are looking forward to complete that in about 12 to 15 months' time. That is the idea and I think that will only help us improving the realization as well as improving the numbers from here on. And whatever we have launched we have been able to sell to 65% to 70% of that anyhow.

So that is the summary of this particular project. And we are not facing any challenges, you can check in the micro market. I think we will be one of the most fast selling products in that micro market amongst all the brands present there.

Tanuj Makhija: Are you looking to take a price hikes in this project?

Kamal Khetan: We will be more focused Tanuj, on the sales velocity than increasing the price hike.

Tanuj Makhija: And my second question was on the upcoming commercial or office project in ODC. Can you please elaborate what would be the phase wise construction at this location and when do you plan to complete the full construction?

Kamal Khetan: So, it is a 2.6 million square feet and obviously it will be in terms of it there will be 3 to 4 buildings. So it will be you can consider it as 3 to 4 phase although everything will almost start means we will try to start one tower or two towers together and we will simultaneously would like to pre-lease and lease so that we can start other towers as well. And we are looking to start in the next 3 to 6 months.

Tanuj Makhija: So effectively in 3 years, 2.6 million square feet should be up and ready in this locality?

Kamal Khetan: Yeah, that is what our target is.

Tanuj Makhija: And what would be construction cost for this?

Sumesh Mishra: Tanuj, 2.6 million square feet. So I will just give you a summary. I will just summarize the overall 23 acres development. So total 23 acres is divided into 6 phases. Avenue 1, Avenue 2, Avenue 3, Avenue 4, Avenue 5 and Avenue 6. So right now Avenue 1 and Avenue 2 are under construction which is 1.4 million square feet. The balance 4.6 million square feet will be developed between Avenue 3, 4, 5 and 6. Five and six namely are the commercial projects which is 2.6 million square feet.

So that 2.6 million square feet will have a total outlay of about Rs. 1,500 crores which includes all in cost including premiums and for FSI and construction cost. So that Rs. 1,500 crores will be shelled out over a period of 3 years. And phase wise development we will need say about as I said to start the project we will need about Rs. 150 crores to Rs. 200 crores. That is about it. And once completed, what we envisage is, as today's rental if you see Nirlon and Nesco which are IT parks and almost 90% plus occupied, occupancy levels if you see the rentals of that location right now at about say Rs. 150 conservatively for the next 3 years or so.

So these 2.6 million square feet will give us an annual rental income of between Rs. 450 crores to Rs. 475 crores. So the investment of Rs. 1,500 crores will be like we can get that back within 3 to 3.5 years on the back of these rentals that we see and the kind of potential that market has because it is the back-office hub or the middle office hub of the entire city. And the demand there for the commercial space in the organized market is tremendous. So that is why we are very bullish on this commercial development. And that is why, if you go and see the site now, we are preparing the ground well and in the next 3 to 6 months we will be able to launch these projects.

Moderator: Thank you. We take the next question from the line of Vinayak Pai, Individual Investor. Please go ahead.

Vinayak Pai: I just wanted to understand what will be the EBITDA level for this Naigaon project? Will it be same as our existing projects or will it be lesser?

Sumesh Mishra: EBITDA levels here see the affordable segment play will be slightly different. Here under the JDA model if you see, with the area sharing and all ultimately, we will end up getting the 75% of the economic value coming to us. So by way of developing and giving the 25% space to the landlord or the JV partner or the JDA partner here because of the tax incentives that you enjoy under the affordable housing scheme, your PAT will be more or less equal to your EBITDA.

So, in this project rather than EBITDA we will be focusing on PAT levels. We enjoy a PAT levels of about 25% to 27% across the projects, across various segments. So in this project we will try to target 20% to 22% in terms of our PAT margins. And PAT is equivalent to EBITDA levels. More or less the focus in this project will be on the PAT rather than EBITDA. And overall at group level we will continue to target similar levels that we are achieving today.

Vinayak Pai: And would you be able to give any guidance for the revenue growth for 2019?

Sumesh Mishra: No Vinayak, that will be slightly forward-looking statement. So you can say as Kamal sir said that with the launch of Naigaon and the subsequent phases of ODC Avenue 3 and Avenue 4 which again 1 million square feet each is. So all these new attractive ticket size coming in various micro market we can only say that operationally we will get good set of numbers by virtue of just launching these projects. And attractively placing them in these micro markets. So I think you will continue to see good growth on the back of these attractively priced projects and ticket sized projects in these micro markets.

Moderator: Thank you. We take the next question from the line of Adhidev Chattopadhyay from ICICI Securities. Please go ahead.

Adhidev Chattopadhyay: Sir, this is again on the accounting standard as you said that Ind-AS 115 I think is applicable from 1 April 2018. So do you again go back to project completion again from the percentage completion we are following now?

Sumesh Mishra: Adhidev, I think we are now well in line with everyone who are following percentage computation method and we are in line with that. I will just request sir to just answer that.

Kamal Khetan: So Adhidev, obviously we know all this is coming up but obviously we are all in process of studying exact impact of this standard. We are discussing it with our auditors obviously and also with PWC and all whoever consultants and other industry players. Obviously, the exact details work out it will be better to answer this question that time. It will be too early for us to mention anything on this.

Adhidev Chattopadhyay: Okay but if my understanding is correct everyone has to follow this compulsorily from the first quarter, right means whatever numbers will be reporting has to be according with this standard. Is that understanding correct?

Kamal Khetan: So I continue to maintain that let everybody study the process in fact we have asked in fact PWC is our internal auditor as well as they are the consultants to us on this. So they have not given us the concrete thing how it will be done and what is the way it will be done. So that is why we will wait for that to come to answer your question properly.

Adhidev Chattopadhyay: Sir, just a follow up question. This Naigaon project now obviously so we had said earlier we will look to do it on a different branding and also like do you intent to do some means already break ground before launching the project or will it be typically like we take the approvals and launch like how would you?

Kamal Khetan: We would only like to launch only when all the approvals are there in place. Everything is registered RERA is there and only after that we would like to launch the project. And we see that launching in fact in the next two months, so we do not have to rush for just before that. And we see everything coming before that.

Adhidev Chattopadhyay: Sorry sir, see what I meant was like would you like to like do some work on the ground to give more confidence to buyers will that be a strategy or I am saying like will it just be like only the approvals we have? I am just trying to understand like how we want to market our product from that point of view?

Kamal Khetan: We have already started the ground clearance and all. So we will be starting the project. We will not wait for the launch that does not stop us to start the construction and all. We will start the construction activities very soon and the launch take can be as near as also in fact in lesser almost close to next two months.

Adhidev Chattopadhyay: Sir, last question just skews in. The Gilbert Hill project like when do we see that getting launched?

Kamal Khetan: So the constructions are already at the advanced stage and we have already come to the plinth level. The plinth is already completed now we see in the next month it is a very small project for us so we are looking to launch in next 15 days to 30 days.

Moderator: Thank you. We take the next question from the line of Chandrasekhar Sridhar from Fidelity Investments. Please go ahead.

Chandrasekhar Sridhar: I just had a few questions. One is just your thoughts on margins as you move ahead obviously costs are beginning to rise a little bit in pricing is still not moving higher. So how should we think of margins over the next 12 to 18 months and especially since costs are very important in the low-cost housing projects how should we just think in terms of margins?

Kamal Khetan: Chandrasekhar, very frankly if you see the margins where we fall in to even this segment because we are fortunately in MMR region where even if you see what we are selling today even in this segment affordable aspirational segment the pricing is closer to Rs. 5,000 a square feet which is like what most of the developer in Bangalore, Chennai or Kolkata or Hyderabad would have 80% of the inventory selling in there.

So that is again even if the pricing today if you see is even if a slight if you will see the increase in cement or steel price apart from that I do not see any increasing pricing to any other building material so much and that will may change by Rs. 25 to Rs. 30 a square feet which we have already factored in Rs. 50 to Rs. 100 a square feet of any escalation happening. I do not think we need to compromise very much on the PAT margin there because for us the EBITDA margin is not that important.

More importantly the PAT margin that is. EBITDA margin and PAT margin will be almost similar so I do not see that there will be any challenge out there. So we are looking at close to 22% to 25% and we are right now also doing an ODC and all close to 25% PAT margins. And we will be able to maintain the similar PAT margins.

Chandrasekhar Sridhar: Second is just in terms of revenue recognition I am just trying to understand so Airoli is still not recovered revenue recognition, is that right?

Sumesh Mishra: This is Sumesh here. So just because it is a JV project it is a joint venture with partner which is Ajay Piramal Group so under the JV the PAT numbers or the straightaway the margins or the bottom line directly enters into the P&L. So here we will not be able to differentiate right now to give you the exact number. But offline we will give.

Kamal Khetan: But it has already started hitting in the bottom line.

Chandrasekhar Sridhar: And just I had a clarification when you said Rs. 1,500 crores that you have cost for ODC this has to be only for 5 and 6 Avenue, right?

Sumesh Mishra: Yes, that is only for 2.6 million square feet of commercial development.

Chandrasekhar Sridhar: And what would be the estimate for Avenue 3 and 4 approximately?

Kamal Khetan: So Avenue 3 and 4 are 2 million square feet. So 2 million square feet approximately of Rs. 1,000 crores based on taking into consideration the entire FSI as well as the construction cost.

Chandrasekhar Sridhar: And just fundamentally if I look so you were adding about 2.5 million square feet by then there is a possibility that Nesco will add another million square feet; Oberoi is adding about 1.6 million square feet. So by 2021-22 you are having close to about 5 million square feet of supply coming in the market which absorbs 0.5 million square feet per annum or may be 0.7 square feet per annum. You know while rentals are at 140 with this much supply coming in a micro market do not you think rentals should actually go lower rather than going higher?

Kamal Khetan: So Chandrasekhar, we are not taking any rental escalation into consideration. If you see we are maintaining the rental which is currently there. Again, if you look at Nirlon, Nesco they are IT parks. So the clientele which are there for Nirlon, Nesco is totally different than the clientele what will be there for us. Also, if you see these are all in phased manner. It is not that all these will come over a period of one. So, if today like we may start this construction in next three to six months we will also phase it over a period of three, three-and-a-half years.

So that will get spread over a period of 3.5 to 4 years. Nirlon Nesco today I think if you see today in this micro market there is negligible availability which is there. And they have a convention, Nesco has a Convention Center model. So it is totally it will be I think all these what you are talking is definitely there will be there over a period of six to seven years all these inventory coming and I do not see an absorption of this over a period of six to seven years such kind of absorption happening.

So if you see the past history in this micro market in fact this has been one of the most robust markets with the infrastructure and it is of ideal location for the back office and mid office segment. And this micro market I think has an ability to absolve this kind of supply which is coming in.

Chandrasekhar Sridhar: It seems that almost lot of it is hitting towards 21, 22 around the same time. So either somebody does not think to supply on or enters more lowly?

Kamal Khetan: So if you see Nirlon to be frank with you Nesco might so some supply of Nesco out of which you are saying my rate in fact as earliest this year or may be the early next year. And thereafter I think we are quite bullish on our supply which will come. So it will be paced I feel. We are planning in such a manner we are seeing our competition very well.

Sumesh Mishra: Every year I think 1 million square feet to 1.2 million square feet will be hitting the market amongst the organized players. And if you see your demand already the kind of BOQs or the kind of bids which are floating in the market there is between the three or four large corporates which are already there in that micro market there is at least 2x to 2.5x demand from the existing players themselves.

And then lot of players wants to shift from the central region where the infrastructure is quite cramped up. They would want to move on this western suburbs where the infrastructure is better and with the station coming in Ram Mandir Station coming in three metro stations coming in and the connectivity to the eastern suburbs and western suburbs there most of your working population come from the demand in organized player in Goregaon is much, much higher than slightly cramped up space in say a Lower Parel or that kind of market. This is what we have been witnessing from the last two years. And absorption of 1 million square feet to 1.5 million square feet every year is not very substantial to answer your question, Chandrasekhar.

Moderator: Thank you. We take the next question from the line of Bijay Kumar from Deutsche Bank. Please go ahead.

Bijay Kumar: It is a generic question. In terms of your preference it will be to develop a commercial asset to rent out or to sell out?

Kamal Khetan: So Bijay, right now obviously we are developing it to rent out not for sell out.

Bijay Kumar: Okay and link thing which factors do you think will influence your preference whether to hold it for rentals to sell out?

Kamal Khetan: So you mean to say post leasing?

Bijay Kumar: Yes.

Kamal Khetan: Post leasing obviously we will try to maximize and if we feel we would not like to may be sit on the property which is giving 6%, 7% yield. We would ideally like to do a rate obviously but too early to say that. But right now, we want to create and unlock the value of the property which is negligible today.

The land price for us is negligible and now after doing this development first we would like to unlock the value of the property and it is quite early to say that first obviously we like to hold it right now. But at a later stage either we do a rate, or we get some investor to invest and unlock the value of the company because we would not like to hold for a long period to just get a return on the equity at that point of time like 6% to 7%.

Moderator: Thank you. We take the next question from the line of Pranav Joshi from Dolat Capital. Please go ahead.

Pranav Joshi: Sir, just one question. So in the balance sheet your trade receivable has been at the elevated from YoY so is there any particular reason behind this?

Sumesh Mishra: Sorry, can you just say that again for us we could not hear you?

Pranav Joshi: Just in the balance sheet your trade receivables have been increased YoY substantially. So is there any particular reason behind this?

Sumesh Mishra: Receivables majorly will be from the completed projects where the booking could have been completed or it has clocked the booking in the end of May. So may be those receivables will be lying idle where the payment schedule will be say first half of FY19. So that will be the only reason that is may be because if you see the presales numbers the presales number has been substantially increased over year-on-year. So most of that booking would have come in the month of March and those receivables will be coming in the corresponding quarters, the next one or two quarters. So that is the reason.

Moderator: Thank you. We take the next question from the line of Vaibhav Shah from ICICI Direct. Please go ahead.

Vaibhav Shah: Sir, my question is with regards to the enabling resolution we have passed to raise Rs. 2,000 crores. So it is for what purpose?

Kamal Khetan: Just enabling resolution and if you see this is the enabling resolution which is passed every year officially because this has to be approved by AGM so it is done year-on-year and this is there we have been taking it from last may be six, seven years.

Vaibhav Shah: So we do not have any concrete plans as of now to use those to raise funds?

Kamal Khetan: We do not have any plan to raise looking at our cash flow, such a strong cash flows and debt-equity ratio. We do not have any plans to raise at least any equity for the current year.

Moderator: Thank you. We take the next question from the line of Raj Rishi, individual investor. Please go ahead.

Raj Rishi: Sir, as far as my understanding goes the commercial space is looking up I believe in Mumbai vis-à-vis what it was. Your comments on that and plus how do you see the real estate cycle in the financial space, the cycle pan out?

Sumesh Mishra: Raj, as you rightly said commercial have seen a lot of uptick and if you see markets like Bandra-Kurla complex or Andheri where you have slightly organized markets and Goregaon. Nothing is as we said even BKC looks like 90% plus occupancy levels even this Goregaon East market which is an organized back office market again there is 90% plus occupancy levels between Nirlon and Nesco and other organized buildings and very less space remaining. We continue to see that kind of a demand in these markets where the supply is very limited and no new launches have happened in the last three to four years.

So these are very robust markets. In terms of residential as we said in the beginning of the call that we see a lot of uptick now in the residential segment especially completed projects have seen a lot of traction in the last two quarters where the comfort for the buyer is tremendous that the project is complete and at zero risk.

And post RERA I think now when you know that who are the good developers and good brands and organized brands who are able to complete their projects well in time and deliver quality projects those developers have seen good traction and if your product is rightly priced and the good ticket size I think everybody have seen good numbers even in this quarter and I think that will only and only improve in the next three to four products.

Raj Rishi: Do you think the real estate cycle from here in your market is poised to look up there is a very high probability from here, right?

Sumesh Mishra: In terms of sales, yes, in terms of pricing we would like to still say that we will have to wait and see if the prices of the realizations improve considerably apart from the very good brands and very selective projects. But yes, in terms of traction and in terms of run rate I think we believe that the run rate for good developers have already improved and they will keep on improving. But in terms of price rightly hurting we will have to wait and watch.

Raj Rishi: No pricing do you see any fall from here generally speaking or just to keep stability what is your view?

Sumesh Mishra: One or two micro markets which are very stressed in terms of supply but in projects in and around like BKC or Goregaon or Western Suburbs there is very limited there is no oversupply. So wherever in few micro markets there will be some over supply only those will have some issues in terms of price points. But by and large we do not see price correcting from here.

Raj Rishi: I was talking to some experts in the field, they said that the affordability index over the last 15 years have been better, right?

Sumesh Mishra: Yes, with the home loans rates and I think lot of people have been waiting and watching from last so many years so that is the reason you will see that the fence sitters coming back in the market and as and when you do some active wishers and you show the actual benefit and pass on the actual benefit to the buyers and as we have seen year-on-year for example in our Goregaon project we saw good numbers and we have seen most of the players doing well if their ticket sizes are good.

Raj Rishi: Can we hear more on the JV front from you guys like apart from the ones who have launched in the near future, is there anything concrete on?

Sumesh Mishra: With the balance sheet strength and all I think we continue to look at opportunities, we have done some good acquisitions in the last year as well and we continue to look for opportunities and maximize and our balance sheet strength.

Raj Rishi: And what will be your debt-to-equity range? What is the plan you have like right now it is pretty comfortable how long like what is the range you are looking at over the next few years or it depends on the opportunity?

Sumesh Mishra: Not about debt-to-equity ratio, in real estate what we believe is your cash flow visibility. So we have a good cash flow visibility our nine completed projects and six projects which are under execution have a sale value of approximately Rs. 3,700 crores. So that is the visibility that we have in front of our eyes. So rather than a net worth of Rs. 2,600 crores or the current debt-to-equity ratio you will rather see the cash flow visibility and then no size is big if we are able to manage our cash flow.

Kamal Khetan: Looking as a distressed opportunity definitely we are exploring lot of projects in the current space. But it is difficult to be very aggressive at the same time we are I would say actively looking for the opportunities like Naigaon, etc., and in both the segments whether may be luxury or the mid-income segment like ODC or something like Naigaon. So we are across the spectrum and we like to use this situation with a strong balance sheet and cash flows we will definitely look for acquisitions.

Moderator: Thank you. Well, as there are no further questions, I would now like to hand the conference over to the Chairman & Managing Director, Mr. Khetan for his closing comments.

Kamal Khetan: Thank you all of you for taking out the time from your busy schedule today. In case of any further queries, you have left unanswered you can get in touch with me or my team. We look forward for your continued support. Thank you once again for joining us today. And have a pleasant evening. Thank you once again.

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