"Sobha Developers Limited Q4 Financial Year 2014 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Sobha Developers Limited 4QFY14 Earnings Conference Call hosted by Ambit Capital India Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. V. Krishnan from Ambit Capital. Thank you and over to you Sir!

V. Krishnan: On behalf of Ambit Capital, I extend a very warm welcome to all of you to this earnings conference call of Sobha Developers for the Q4 and financial year ended March 2014. Let me also take this opportunity to welcome the senior management team of Sobha Developers, led by Mr. J. C. Sharma, Vice Chairman and Managing Director. He is accompanied on this call by his three senior colleagues, Mr. V. Ganesh, the Chief Financial Officer; Mr. Kishore, Company Secretary and Compliance Officer; and Mr. Balamurugan, Head of IR. So without further ado, I request Mr. Sharma to take us through the key performance highlights for Q4 ended March 2014. Sir over to you!

J. C. Sharma: Friends, good evening to all. It gives us immense pleasure to communicate with you via this concall hosted by Ambit Capital post the declaration of our financial results for the year-ended 2013-2014 and for the Q4 as well for this financial year. This fiscal year 2014-2015 has begun on a positive note with the world's largest democracy giving us a resounding mandate. The General Election 2014 had led to an improvement in the market sentiment. A stable government at the Centre is expected to revive the growth in our GDP, remove policy deadlock and boost investor sentiment, which in turn should act as a catalyst for various industries including our sector. In the preceding year our economy suffered on account of various macroeconomic uncertainties.

Let me share the key highlights of our financial performance for the 12 months and for the Q4 ended 2013-2014. Our consolidated revenue stood at Rs21.84 billion, a growth of 17% YoY basis without monetising any land in the last financial year. The revenue from our core operations that way had grown by 23%, the income of real estate contributed 70% of the total revenue and the rest 30% was contributed by the contacts and manufacturing division. Last to last year this was 75% in favour of real estate and 25% in contacts and manufacturing division. The contractual revenue which stood at Rs6.45 billion as compared to Rs4.49 billion for the corresponding period of last year grew at the rate of 44%.

Our EBITDA during the financial year 2014 stood at Rs6.13 billion against Rs5.54 billion during financial year 2013. The EBITDA growth of 10.7% year-on-year basis was without considering the profits from the sale of land. If we consider that, it was about 14.7%. The EBITDA margins stood at 28%. The depreciation for the financial year increased to Rs690 million from Rs594 million mainly on account of additions to the capex. The interest in this particular financial year was about Rs1.73 billion vis-à-vis what we expensed at Rs1.71 billion. The profit before tax stood at Rs3.71 billion against Rs3.24 billion for the corresponding period of last year. The PBT grew by 14% YoY. The profit after tax stood at Rs2.35 billion compared to Rs2.17 billion for the corresponding period of the last year. The PAT grew by 8% YoY and if we exclude the sale of land the PAT growth should have been about 15.3%. The operating margins during the year remained stable though there was a limited opportunity for us to increase the prices.

As far as Q4 is concerned, the consolidated revenue at Rs6.7 billion saw a growth of 7%. The real estate operations stood at Rs4.11 billion and the contracting revenue stood at Rs2.15 billion. The income recognised during the quarter from projects meeting the revenue recognition methodology was Rs938 million against Rs1.99 billion last year. Real estate operations contributed 66% during this quarter whereas the contracts and manufacturing division contributed the remaining 34%. EBITDA stood at Rs1.76 billion for this quarter against Rs1.64 billion in the preceding quarter last year. The EBITDA margin stood at 28%. The profit before tax stood at Rs1.12 billion and the profit after tax stood at Rs705 million in the last quarter.

We are also pleased to inform that unbilled revenue as on March 31, 2014 is Rs24.1 billion on the sales made so far, out of which we expect a minimum Rs8.5 billion to be recognised during the financial year 2014-2015. In addition to this, we hope that the new sales will also contribute to the revenue which means we should be showing a higher growth in our real estates revenue in this current financial year.

The EBITDA margins for the year were 28.1% against 29.62%. The current-year EBITDA is after adjusting one-time interest of about Rs102 million and the change in revenue composition as well where real estate contributed 70% vs 75% in the preceding financial year. The highlight of this financial year's performance remains good cash flows being generated by the company throughout the year. We collected about 26.89 billion and we incurred 20.28 billion in our operation, resulting in a surplus cash flow of Rs6.61 billion. This has been utilised by the company towards servicing of interest and taxes to the tune of Rs2.94 billion, advance payments for land to the tune of Rs1.78 billion, dividend payout of Rs803 million and the capex of Rs687 million and the expenses incurred for our commercial real estate to the extent of Rs318 million, resulting in overall excess cash payments to the tune of Rs84.4 million which had been utilised to pay the net debt. The cash flows for the last quarter were Rs7.84 billion, out of that we spent Rs5.43 billion in our operation, resulting in a surplus cash flow of Rs2.41 billion.

As far as our debts are concerned, the net debt stood at Rs12.34 billion as against Rs12.21 billion as on March 31, 2013. The debt-to-equity stood at 0.54. We hope that this debt-to-equity of between 0.5 and 0.6 should remain at the end of this financial year. Our current cost of debt is 12.77% which was 13.4% in the beginning of the last financial year. The debt to EBITDA is 2.01 which is quite comfortable. The outlook for this year remains that we hope to launch about 10 million square feet of new projects where our share should be 6.57 million square feet which will cover a land area of 130 acres in the next four quarters. The commercial real estate investment will consists of developing the APMC Property, the Thrissur Commercial Mall should be completed in this quarter and we hope that all these things should require a cash outflow of about Rs500 million. We also hope to start the APMC project in the latter half of this financial year and once we start this project we should be sharing the requirement of the expenditures for this commercial assets.

As far as the contracts are concerned we have shown excellent performance and going forward we hope that we should be able to achieve or do better than what we have achieved as far as the contracting revenue is concerned, which was at 645 Crores, a jump of about 44%.

We have recommended a dividend of Rs7 per equity share for the last financial year. As far as the guidance is concerned considering the current environment and new projects being launched and to be launched in the coming financial year, we hope that we should be achieving new sales of Rs27 billion, measuring around 4 million square feet in the current financial year. This amounts to a growth of around 15% in sales value and about 11.5% in volume terms.

We thank you for your participation and request the participants to put forth their question from now onwards.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now being the question and answer session. First question is from the line of Akshay Rao from Edelweiss. Please go ahead.

Ashish Agarwal: Good evening, this is Ashish Agarwal here. Thanks for taking my question. I have a couple of questions. First, largely around the cash flows, of course this quarter and this year you had a fantastic set of cash flows but going forward what I was trying to see is that, now of course we know that sales value that we have done this year is only marginally higher than what we had done last year and cost of construction would obviously go up next year and so do you anticipate that the cash flow generation for FY 2015 to be slightly under strain as compared to what we had seen in FY 2014?

J. C. Sharma: Ashish, as far as the sales are concerned, we do agree that we could achieve only 3.6 million square feet of about 2,342 Crore but we have been continuously investing in our operations. The progress of all these projects goes without looking into what kind of sales we are achieving because we hardly carry any inventory of the finished stock. So as and when the sales happen the new customers they will be paying much higher amount in this financial year than what they would have paid. On top of this at least 30% more income we should be recognising in this financial year from the committed customers whose payments will become due. So net-net we can expect that this financial year also we should be having higher cash flows from our real estate operations than what we achieved in the last financial year.

Ashish Agarwal: Would you anticipate your cash collection to increase by about 20% for FY 2015 over FY 2014, would that be a fair assumption?

J. C. Sharma: We do not give any kind of target for that purpose, because which project, how people will be buying but since you sell more than what you have been selling in the last year and you continue to invest in all this projects, the actual cash flows will always be higher in the subsequent years than the previous years. That is the trend you would be noticing and shared also in one of our presentation sheet where two-and-a-half years trailing 12-month cash flows is given.

Ashish Agarwal: Sure. A related question on this line, as on date our net worth is about Rs2,280 Crores and assuming that if I maintain my FY 2014 PAT of roughly Rs230 Crores that should give me a net worth of about Rs2,500 Crores as of FY 2015-end. Even if I maintain my PAT which I am sure we will grow and if I take a debt equity of 0.6 that will give me a target debt of about Rs1,500 Crores. So even after paying for the Kochi land parcel my debt should be largely flat on a YOY basis in FY 2015, would you agree with that broad assessment or do you think debt would be higher or lower than that?

J. C. Sharma: I would agree with that broad assessment of yours even in the last year also with an investment of 178 Crores in the newer opportunities or paying the balance money, still the debt had gone up by about Rs44 Crores or so. But the debt has gone up at a much smaller pace than the profit has grown. This year we will have a higher cash outflow due to the transactions what just now you talked about but from the debt-to-equity point of view when we close the financial year we are confident that it should be well within that ratio 0.5 to 0.6 we are talking about and since this year we expect to spend little bit more this maybe around 0.6 than 0.5.

Ashish Agarwal: So if I am saying the 0.6, I mean that again just taking on to the earlier example where I am seeing a broad net worth of about Rs2,500 Crores that gives a debt of Rs1,500 Crores as compared to the current debt of Rs1,230 Crores and so that means an increase of debt of 270 Crores despite cash generation of almost like 100 Crores a quarter so that debt looks a little high. So I mean do you anticipate more land acquisitions coming in this financial year?

J. C. Sharma: You are appreciating the development which is happening to our economy and we believe that the demand, which was challenging in the last 3-4 years, should revive at some point of time in this financial year and we should be ready. So from that angle our stated objective to reinforce the Pune Market, the NCR market, getting into the Hyderabad market depending upon the opportunity it remains. Whether we do it alone, whether we do it with some partners, all these things, at this point of time are premature but the basic direction what we have been conveying and what we have been proving as far as the debt:equity is concerned that all such things we need to do within the broad parameter 0.5 to 0.6 and when this net debt to the EBITDA is only two times and ability to payout the interest and the dividend and most of the capex requirement is done, we do not foresee that little bit of extra exposure on the debt front should impact Sobha Developers in any which way.

Ashish Agarwal: Much appreciated. Sir if you could spend a couple of minutes on the new Kochi project in terms of your thought process on the launch, the pricing and the pricing strategy? Thanks.

J. C. Sharma: As far as the Kochi project is concerned, the MOU approval is given and the plans have been submitted or loaded. Nowadays this is being done through the software. So we hope that as soon as these plans get approved the project will be launched and we have thereafter nine months time to make the payment. We anticipate that our next payment should fall due only in the next financial year and so whatever payments you have made is only planned as far as the Kochi project is concerned. We also shared that we should be developing about 3 million square feet in that Marine Drive which is just akin to the Samudra Mahal kind of or NCPA kind of project what you people are familiar with in Mumbai. This is one of the best land transactions. We hope that our average realisation should be about Rs10,000 and we hope that due to Sobha getting the contractor's margin and 5% of the project profit extra from the partners, this should be a good project for the next 4-5 years which should improve our topline and bottomline.

Ashish Agarwal: So, would it be fair to say Q1 launch would be good?

J. C. Sharma: I cannot comment till the plan is approved, but no sooner the plan is approved definitely the project will be launched.

Ashish Agarwal: Thank you so much. I will come back in the queue for more. Thank you so much.

Moderator: Thank you. We move on to the next question which is from the line of Aditya Somani from Goldman Sachs. Please go ahead.

Punit Jain: Good evening everybody. Your first question will be with respect to what is the seasonality in Q4 in terms of cash collections for the real estate business as well as for contractual business because this is second year we have the cash collections jumped up massively in Q4. Was it due to better sales which happened in Q4?

Ganesh Venkatraman: Punit, Ganesh here. It is not a seasonality factor. It is a combination of certain threshold billing coming in Q4 which we were able to bill and realise. Some part is also coming from push from the sales part of it. I would not say there will be no seasonality. As far as contractual goes I think it has been a clear focus from our side to make sure that we realise money much faster and as a policy we know that this is a negative working capital business, we drive it in such a way that we try to collect the money as early as possible and this year it has paid us a lot of dividend.

Punit Jain: Sir this year your proportion of sales was higher from the contractual business. So do you think that a similar trend will continue for next year but possibly for next year as the growth is higher from the residential business? What do you think about margins for next year?

J. C. Sharma: I believe that the margins should remain stable. That is point No.1 both in the contracts as well as in the real estate part. The growth from real estate this financial year onwards should be higher than what we have achieved. Last year has been an exceptionally good year as far as contracts are concerned. This year also there is a visibility. We do not deny but from the growth perspective it will not be growing at 44% what we grew last year. So the overall margin which stands at 28% blended should be a little bit more only if not less because of real estate contributing little bit more than what it contributed last financial year. Hope I am clear?

Punit Jain: Yes that is clear. Also finally with respect to the sentiment like you have said that your presales target should be 27 billion just couple of upside risks and downside risk to the way you think about it?

J. C. Sharma: Downside risk, except the last financial year we have not seen per se that whatever we have been giving guidance and not achieving it. Last year, we did very well in the southern market but somehow we could not make up due to the performance of the NCR region in particular. We see that the NCR market though the quality of enquiries, I am being given to understand is better, but still at the ground level, remains a bit difficult. Looking from that angle, we believe that still we should be growing minimum 10% in volume terms. That is why we are bit cautious while saying this four million square feet and Rs27 billion as far as guidance is concerned. If the economic environment improves, our ability to launch new projects will remain and we will continue to launch, because that fear of carrying the finished inventory is negligible. When will actual demand come I think as much as we will be able to know, you will be knowing faster than us.

Punit Jain: In terms of downside risk, how do you see approvals in say Bangalore and Chennai? Can approvals coming in slower-than-expected result in downside risk to your estimate which you are guiding?

J. C. Sharma: No, because we have been successfully able to launch a number of projects in the Kerala markets, in Coimbatore as well as in Bangalore market in the recent past and we carry a good inventory of these new projects and so we will not have an excuse of not being able to launch new projects and because of that, not meeting our guidance. At this time, we are confident that the new launches should also happen this year as projected.

Punit Jain: Thanks a lot and all the best.

Moderator: Thank you. Next question is from the line of Swagato Ghosh from Jefferies. Please go ahead.

Anand: Sir good evening this is Anand here. Sir are you kind of happy with the guidance that you have given of only 11% volume growth in FY 2015 because we are coming off a very low base in FY 2014 where we saw multiple problems of NCR volumes being weak and Bangalore approvals holding up launches and we are forecasting 10 million square feet of launches in FY 2015, but saying our volumes will only grow by 11%?

J. C. Sharma: Our share in the 10 million square feet is about 6.5 million square feet only. The current environment still remains difficult, that’s the message. While we are all hopeful the stock market, the Rupee Dollar kind of rates and other things look quite favourble but it needs to be translated into demand at the ground level. So looking at that and looking at last year somehow we did not succeed in honouring our guidance, the board felt that we should be prudent enough to give a guidance of 4 million square feet and Rs27 billion sort of a thing, but if things improve it will be visible to all of us and it should also get reflected in the volume improvement and consequently value increase.

Ganesh Venkatraman: Anand, just to add to what Sharma just said, while 6.5 billion is our share we would not be launching everything, we will be releasing it in parts, and so to that extent there will be a difference.

Anand: Sir any amount by which you want to restrict the land acquisition to next year or in particular numbers that you want to keep in mind? Second, I mean when do we really start focusing on RoEs? We are still about 10-10.5% RoE we pay more as cost of debt than what our RoEs are when do we see this doing well to 15% or higher levels?

J. C. Sharma: You are right. It is a valid question. We have already given the answer to you that as far as the quantum jump in the RoE what we are talking about from 10-15% higher than this thing coming certain projects which we have lined up which we have been talking about since one year or so should be ready and hopefully should be sharing with you in a couple of quarters, lined for launch after this 10 million square feet of the launch kind of thing. These are being offered at the price point because of the low land cost and still having enough margins and the product differentiation which should help us to have much higher volumes sales than what we are talking about, but it’s a bit premature.

Anand: Any amount you want to keep the land acquisition too in FY 2015?

J. C. Sharma: I now reiterated that everything should be within that 0.6 kind of a band, so in answering the previous guy’s question whatever will be our net worth of that we will be restricting it to 0.6 at the end of this financial year.

Anand: Thank you.

Moderator: Thank you. Next question is from the line of Adhidev Chattopadyay from HDFC Securities. Please go ahead.

Adhidev Chattopadyay: Just have a couple of questions, firstly on this 4 million square feet of guidance you are giving, so how much do you expect to sell from the already launched projects and how much do we see coming for the new launches? Secondly if you could give us your view on the Gurgaon market for next year, how do you see the sentiment improving or how do you expect it to remain weak?

J. C. Sharma: Guidance is for all the projects, which are currently available and are likely to be launched in this financial year. We do not differentiate that part. As far as the Gurgaon market is concerned, so far the sentiments have been weak. After the results, my feedback is that things are improving as far as the quality of the enquiries are concerned and hopefully we should be doing much better than what we achieved in the last financial year.

Adhidev Chattopadyay: Just one follow up question, why was the tax higher for this quarter?

Ganesh Venkatraman: What happens is you know you will understand that the tax in India is paid at the entity level. When I consolidate the unrealised profit or the entire profit is knocked off whereas you are not allowed to take the tax credit on that. For example, a subsidiary where the parent does the contractual work so I will have to pay tax on the profit whereas when I consolidate only the amount - units sold is what I consolidate as the profit. So to that extent, since we do not knock off for tax, we do not pay a tax on consolidated profit this impact would be there.

Adhidev Chattopadyay: Lastly, on the contracting order book, will be around 700 Crores right now and so any outlook on any incremental order wins you are expecting on that end for next year?

J. C. Sharma: As far as the Infosys contracts are concerned as and when they start any new building we hope to get that order. From the non-Infosys also we have shared that last year we had Rs0.92 billion of new contracts received and this year also we hope that we will be getting some new orders from the non-Infosys contracts as well.

Adhidev Chattopadyay: Thank you very much.

Moderator: Thank you. Next question is from the line of Gaurav Pathak from Standard Chartered. Please go ahead.

Gaurav Pathak: Congratulations for a good set of numbers. My question is this 10 million square feet launches, could you give some colour on what kind of realisation expectations, geographical spread what are the key projects you are looking at in Bangalore, Gurgaon or any of the other geographies?

J. C. Sharma: Basically the 10 million square feet of launches are being distributed between Bangalore, Cochin and other places. Bangalore will have six projects being launched. If you people have received my - the new launches on the presentation you will see about 1 million square feet in Kanakapura Road, a big launch and then supported by another five projects which will also be about 1.2 million square feet or so. In Chennai, we will have a good launch of about 3.5 million square feet. In Thrissur also, we are launching a super-luxury project. In Gurgaon also, on 10 acres of land we are launching some row houses. In Mysore and Cochin also, we are launching about 3.3 million square feet. Overall, we believe that the realisation should be little bit more than what we have achieved, our average realisation what we are showing of this unsold inventory.

Gaurav Pathak: Sir in Gurgaon what is the sales runrate on the existing project? Are we seeing some traction building over there also?

J. C. Sharma: We are seeing some sales but we share only once in a quarter these operational performances. The gut feeling is this year should be better than the last year.

Gaurav Pathak: Thank you.

Moderator: Thank you. Next question is from the line of Prakash Agarwal from CIMB. Please go ahead.

Prakash Agarwal: Thanks for taking my question. This is again on the realisation piece. If we look at slide #11 where particularly Bangalore, because of your launches in the March month in the Rs1-1.5 Crores bucket you have really done well in the sales. My question, fiscal 2015, how does it look in terms of Bangalore? Are your realisations going to be higher here and you talked about the future launches, are you also looking to capitalise on the increasing demand, improving sentiments in terms of launching it at an affordable luxury, currently you are into largely the luxury and high segments. So, is your drawing plan changing in few of the other cities like it changed in Bangalore to capitalising the demand?

J. C. Sharma: It is a good question. As far as the average realisations of the new launches are concerned, as I said, they will be in line with the our current realizations. Somewhere as far as the configuration is concerned; we are accommodating the smaller size apartments more in the new launches than what we had done in the immediate past. Going forward you have given us a good name, 'affordable luxury', we are indeed working on that part and should be sharing more details may be in one to two quarters' time.

Prakash Agarwal: So just trying to understand if you move towards those kinds of products we saw some margin dip because of the revenue mix so how should we look at the margins panning out? Does that - with increasing cost, does that mean some pressure on margins from hereon? Or we could, with better realizations, can still have similar margins or better margins going forward?

J. C. Sharma: We believe that we should have standard stable consistent margins in real estate which we aim at 35% plus even going forward from the new projects as well. So the margin consistency will remain whether it is high per square feet apartment or a lower per square feet apartment.

Prakash Agarwal: Follow-up on the launches that you are doing. So basically, these are all focused towards JV projects right? So we do have a decent land bank and so, for this year and for the years to come? What kind of proportion you are looking at? I understand you have a good land bank. So what is the proportion of land bank that you plan to use going forward? What are your JV projects?

J. C. Sharma: Currently about 130 acres of land is being planned to be used in the coming financial year to launch the 10 million square feet, where we have 65% of our share. Going forward, when we launch that so called 'affordable luxury' sort of the thing it will be on our own land and that will skew the things in our favour and once the products get established, hopefully the unlocking of the large land bank what we have, we will start seeing.

Prakash Agarwal: So just a clarification: we have this 10 million square feet where we have 65% how much would be our own project and how much is the JV projects, not as a percentage? How many projects and how much of million square feet is our project?

J. C. Sharma: I think this Mr. Balamurugan will share it with you from the presentation.

Prakash Agarwal: Thanks. All the best.

Moderator: Thank you. Next question is from the line of Gunjan Priyathani from JP Morgan. Please go ahead.

Gunjan Priyathani: Thanks for taking my questions. Just a couple of questions, firstly in your guidance of Rs27 billion what kind of expectation you are building in from the Gurgaon project? I mean because that was the biggest disappointment in FY 2014 so what is your outlook in FY 2015 in terms of contribution from that market? And also, in terms of total mix, how much - do you think that Bangalore would continue to stay at these levels or you will see that coming off when the Cochin and other projects get launched?

J. C. Sharma: As far as Bangalore is concerned, we hope to repeat whatever we have been achieving as things stand today. The Delhi market also should do well. This extra 400,000 square feet what we are aiming at, it is primarily because we hope to have the new territories in Cochin and Calicut, having joined, where we did not have the full year's advantage and improvement in the NCR market. What we are trying to convey is that as things stand today, when we are talking to you, the current environment per se has not changed significantly but we hope to do better despite that in which case almost all regions should be doing better than what we achieved in the last year.

Gunjan Priyathani: So to get this right, you are essentially saying that Bangalore would stay largely stable in terms of volume terms around 2.4-2.5 million square feet and the incremental area that you are saying for in terms of sales should come either from new launches in new geographies and some improvement in Gurgaon?

J. C. Sharma: Absolutely right.

Gunjan Priyathani: Secondly Sir in terms of your cash flows. I mean, clearly we have seen cash flows improving significantly in FY 2014, even the cash collections have improved significantly. But I mean whatever free cash flow that we are generating Rs370 Crores, it is essentially being used in land acquisition and commercial capex. Given that the cash flows have been improving, is there an intent to pay out higher dividends to the minority shareholders? I mean, I understand, your target in terms of debt equity and your land acquisition, but is there any, I mean what is your guidance with regard to dividend payout to the shareholders?

J. C. Sharma: We have been aiming at giving about 25% to 35% of the retained profits as dividend. This year also, we believe on a net profit of Rs235 Crores, this works out to be 30% of the total profit, we will be distributing. And since we find that there are opportunities in the changed environment, a little bit savings in the dividend and investing in the newer opportunities should improve our RoE and which will be beneficial to the investors.

Gunjan Priyathani: Lastly on the contracting, what is the guidance there? I mean do we stay at these Rs600 to Rs650 Crores level or we continue to see 15-20% growth in this segment?

J. C. Sharma: This year also, based on the current visibility, we hope to have at least double-digit growth from this high base.

Gunjan Priyathani: Thank you so much.

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

Sameer Baisiwala: Good evening everyone. On the construction cost, what is the ballpark that we are doing Rupees per square feet and are you seeing any lower or less pressure on the input cost?

J. C. Sharma: We are seeing as such less pressure on the input cost, materials in particular since last six months or so, which means that the prices of typical items, steel, cement, ready mix concrete, blocks and others have remained under control. We are seeing higher than the inflationary cost increase in the labor cost. Just about a month back, the Karnataka Government had issued a circular where the minimum wages of an unskilled laborer has gone up by about 16% to 17% and it still remains a labor-intensive industry. On balance, currently, of course it depends upon the product mix and the specifications and the height of the building, kind of a thing, but roughly our current cost of luxury project, multi-storey apartment is coming to around Rs3,000, which includes preliminary approval cost or material cost and labour cost.

Sameer Baisiwala: If I am not wrong, this is not too different from what you had said six months or 12 months back, ballpark Rs3,000 per square feet. This number is not too different?

J. C. Sharma: It remained consistent that is what I am telling - it has remained stable.

Sameer Baisiwala: The second question is on the pricing outlook. You did talk about it a bit and your guidance implies roughly 4% high price. It could be because of the revenue mix or it could be because of maybe that is the extent of price increase that you want to take this year, so just your thoughts on the pricing for fiscal 2015?

J. C. Sharma: Even in the last year also, we have not taken an increase in the prices in most of the products. This year also we may do it selectively depending upon the opportunity we find, but generally it will be based on - the pricing what will be doing for the new projects, or the existing prices at which we are currently selling the current inventory.

Sameer Baisiwala: So that means the price for the current ongoing projects will largely be unchanged except selectively, it is more of a revenue mix?

J. C. Sharma: You are right.

Sameer Baisiwala: One final question from my side and that is related to volumes. I can see my notes - I think about a year back, you mentioned, in five years you want to hit 7.5 million square feet volumes and if I take and we are one year down so, from Rs.3.6 million to go to Rs.7.5, you roughly require 20% CAGR in volume growth. So, do you think that you are on course for that and just related to that is, what is really constraining volume growth? Are your projects not well located or are you pricing yourself too much?

J. C. Sharma: I think while everyone agree that we are pricing our products or positioning our product as a premium product in almost all the markets, to that extent - yes, they are being priced a bit higher. As far as this, your compound annual growth in the next four years of 20% or so, we are quite confident - and whatever projects we launch and the pipeline that we are creating, we are creating in that direction. Since we have reasonably understood and appreciate the cyclicality of this industry, within that with the new product mix and things which will come in the pipeline, we are reasonably confident that the target what we have set out for ourselves in four years time, should be achieved without much of a problem. The location of most of these projects in our premium markets like Bangalore and Delhi kind of thing now, they are well established. A good number of other projects are coming up in and around that area - that is not an issue. Bangalore is growing in those directions only where our projects are currently situated.

Sameer Baisiwala: Thank you so much.

Moderator: Thank you. We have next question from the line of Tejas Sheth from Emkay Global Financial Services. Please go ahead.

Tejas Sheth: Good evening. Thank you for taking my question. Sir, I just wanted to understand the capex budget for FY 2015?

J. C. Sharma: It is Rs50 Crores.

Ganesh Venkatraman: It is 50 Crores for Thrissur and St Marks Road.

Tejas Sheth: I just wanted to have your thoughts that since we are moving a lot towards JV projects, would your net collections from the real estate be lower than the growth we have seen in the sales booking side? Because you will be spending more towards the construction cost of your JV partner?

J. C. Sharma: Not necessarily, because the number what we are talking about of the sales and the realisation is our numbers and we hope that the cash flows will not get impacted though this project may be under joint development.

Tejas Sheth: So you believe the net cash generation from your real estate would grow at a similar pace as your sales booking?

J. C. Sharma: Yes.

Tejas Sheth: Thank you.

Moderator: Thank you. The next question is from the line of Prakash Agarwal from CIMB. Please go ahead. Mr. Agarwal your line has been un-muted you may please go ahead.

Prakash Agarwal: Just a follow-up on what I asked earlier on the Bangalore projects. In the March quarter, we had launched couple of decently valued?

J. C. Sharma: Silicon Oasis and Valley View.

Prakash Agarwal: Do you have more such projects, especially in Bangalore and Chennai, where you are looking for bigger launches this year?

J. C. Sharma: Yes, as I said, there is one more. My Forest View is almost exhausted in the Kanakapura Road. Another one million square feet of project is coming up there. Similarly, in Sholinganallur, about 20 acres of development should happen. Another 700,000 square feet equivalent to the Meritta projects also should be coming in Chennai. In Cochin, already we have shared this, with Puravankara we will be doing three million square feet project. In Thrissur and Coimbatore also, new projects have been launched and in Pune also, we are getting into a new opportunity where a new project should be launched in the next quarter.

Prakash Agarwal: So basically what we are looking at slide #27 with proposed new launches, of these you are saying Bangalore, which ones are the lower-priced ones?

J. C. Sharma: They will be still around Rs5,000-6,000 about Rs500 to Rs750 higher than the prevailing prices in that region, because our average realization still will be Rs6,750 for this financial year. But then these have been sold in good numbers. These kinds of products are the mainstay as far as the new sales are concerned.

Prakash Agarwal: Your comments on - we have seen April and May, so what we saw in the end of the March quarter, is the momentum continuing or is it picking up?

J. C. Sharma: When we are saying 4 million square feet, this should be doing better on a quarter-on-quarter basis this year also.

Prakash Agarwal: Thanks.

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

Abhishek Anand: Very good evening Sir. Just couple of questions from my side, firstly could you help us out with some guidance on the land utilization over the next two, three years, how much million square feet of land do we plan to develop of the land bank that we have?

J. C. Sharma: As I said, that about 130 acre is planned as far as this financial year is concerned. And then, as far as the next financial year is also concerned, equivalent or more quantum of land will be brought in for development.

Abhishek Anand: This will be, I think, cumulative of new land purchases as well as our existing land bank.

J. C. Sharma: What I am talking about is based on planning we are doing on our land bank.

Abhishek Anand: Existing land bank. Also, if I look at slide #33, on Cochin developable up area, I am seeing reduction of six million square feet quarter-on-quarter. Any particular reason, because I think we have launched one million square feet of land there?

Company Speaker: There is some kind of FSI update which we have taken and there is a new proposal which we have done for that. There is a big island property which is located in Cochin. So, based on that update, we have given this.

Ganesh Venkatraman: This land bank does not include the transactions with Puravankara, because this is as of March 31.

J. C. Sharma: There has been some small reduction. This is based on, of the total land what we have in Cochin, as certain quantum of land has been identified for development. And for that, this May 28 there is going to be a meeting with government authorities and some kind of a priority status we are requesting the government of Kerala to grant to get that project started.

Abhishek Anand: Thank you so much Sir.

Moderator: Thank you. The next question is from the line of Samar Sarda from Kotak Securities. Please go ahead.

Samar Sarda: Good evening. Sir two questions, one you have been doing a lot of investment in capex like other than real estate construction projects with regards to improving the efficiency, also investing into equipments, will this necessarily result in reducing the construction cost also ahead?

J. C. Sharma: Yes**,** not from whatever so far we have purchased. It does bring some efficiency, so what we are doing it when we buy more number of tower cranes or we have a new shuttering system, then either you are improving on the cycle time or you are reducing some labour cost and paying for this cost of acquiring these machines. Going forward, may be little bit of extra mechanisation should help us in even reducing the cost also.

Samar Sarda: With regards to your forthcoming projects, the overall property in the Bangalore and the Velachery Property in Chennai, are these like new acquisitions in the fourth quarter?

J. C. Sharma: Which are the properties you talked about?

Samar Sarda: The Padmanabhanagar property and the Velachery property?

J. C. Sharma: Padmanabhanagar property is a new acquisition. It is near Devegowda petrol pump bunk and similarly the Velachery also.

Samar Sarda: Other than this, you have not acquired anything new in the fourth quarter, right?

J. C. Sharma: You are right.

Samar Sarda: Most of the other questions have been answered, but on the Hyderabad market, could you throw some view like what is your view now as a developer on the market?

J. C. Sharma: From the infrastructure point of view, this is the best possible city where you can buy land and you can start projects overnight. The only challenge is that the construction cost even in Hyderabad and Gujarat as far as we are concerned, it remains very high and the product prices remains very low. So, in order to ensure that we protect this 35% margin, we have been weighing so many options, but probably the worst is behind the Hyderabad market. The commercial space absorption should grow significantly higher in the coming three to five years time and the real estate demand also should pick up.

Samar Sarda: One last thing on your commercial property vertical now, APMC has taken some time to start and you have these two other properties like one is nearing completion. Is there any other plan to start some capex projects to earn rental income in FY 2016 or so other than these three projects?

J. C. Sharma: The current focus remains on these three projects only.

Samar Sarda: Thanks a lot and all the best for FY 2015.

Moderator: Thank you. The next question is from the line of Chetan Ganatra from BNP Paribas. Please go ahead.

Chetan Ganatra: Thanks for taking my question. Question was more on the capex split. So you have given FY 2015 guidance is Rs650 Crores, so can you just split for me that how much would be residential and how much would be for commercial? Because I understand the APMC project will come in the later half of the year, so capex on the commercial side should be like minimal this year?

Ganesh Venkatraman: What we have given is Rs50 Crores for the capex for the commercial side. On the regular capex, for the residential, it hovers between Rs80 and Rs100 Crores normally which we incur. As far as APMC goes, Sharmaji said that once the approval comes in and may be after a couple of quarters then, we will come back and tell you what kind of expenditure would come out.

Chetan Ganatra: The other question was on NRI enquiries, so we saw currency depreciating sharply which led to like lot of interest by NRIs into buying properties in India. So, what are the kind of enquiries you are witnessing right now? Has the pace slowed down or the momentum is still strong?

Ganesh Venkatraman: What happened was with the currency depreciating, people were able to get better value for the money they were looking at. I do not think people jumped and bought it. They would decide, so what happened was people looked at better value for money and as far as demand goes I think for us it is sustaining, I think we are seeing higher demand, higher enquiries happening during this period but it continues - we have good amount of demand for NRI that continues.

J. C. Sharma: Rather, we are setting up an office in Singapore as well. Our experience in Dubai has been quite good in the last financial year and this financial year, we will have a full-fledged office in Singapore to market our projects.

Chetan Ganatra: Thank you very much.

Moderator: Thank you. The next question is from the line of Sandipan Pal from Motilal Oswal. Please go ahead.

Sandipan Pal: Good evening Sir. My question is regarding your Kerala market now are present in three cities, so that shows your conviction about the market. Just wanted to understand - going forward, like you have guided that may be seven million square feet is something annual runrate you are looking four years down the line? So, what kind of contribution from the Kerala market alone, because I think now more cities in hand so I think contribution should definitely go up. So can you, just to some extent, quantify what kind of proportion you are expecting from that market?

J. C. Sharma: Though we have targets for all the regions, and we believe that the Kerala market should be outperforming because still it has a low base and now three cities which will be contributing to us the revenue. This experience with our Thrissur market has been exceptionally good which is the smallest among all the nine cities from where we are operating. The experience with the Calicut market has also been good. The Cochin market - we have just started and have taken a big bet with Puravankara and going forward, we believe that Cochin will become a mainstay and this will help us in achieving that 7 million plus - what we are talking about of annual sales at least in four years time from now.

Sandipan Pal: In terms of nature of buyers, profile of buyers, are they more kind of NRI proportion or the investor proportion is much higher, relative to your other existing market or there are lots of end-user demand as well?

J. C. Sharma: You have a point. As far as the Kerala market is concerned, the proportion of NRI market is highest. So, in our 27% of the total sales, what we achieved last year, NRI market in Kerala constitutes the highest proportion.

Sandipan Pal: That particular contribution - you believe that will be there, even whatever macro front whatever happens in respect of that those kinds of drive will be there?

J. C. Sharma: Because those economies have improved tremendously in the immediate past. Dubai is doing exceedingly well as far as real estate market is concerned and overall growth in the Middle East market means jobs are still getting created, people are still getting handsomely paid. And these people would like to come back and buy, because in the Middle East they do not get free hold land and you do not want to settle down, so for them it is compulsion or requirement to invest back in India.

Sandipan Pal: My second question is related to Bangalore market, as you mentioned that there are certain pockets of Bangalore which are seeing growth and we are also strategically positioned with our land bank in those parcels. I just wanted to check which are the underpenetrated locations in Bangalore as for you and where we can see the momentum picking up over next 3-4 years?

J. C. Sharma: We are almost in all the areas which are south, south-east and northern part of Bangalore is the place from where 90% of the demand is getting generated, 10% comes from the western side. So we are almost reasonably represented in these markets, and in times to come, again 90% of the project should be coming from that area only.

Sandipan Pal: Thank you very much.

Moderator: As there are no further questions from the participants, I would now like to hand over the floor back to Mr. V. Krishnan for his closing remarks. Over to you Sir.

V. Krishnan: It has been a pleasure hosting all of you on this call. My special thanks to the senior management team of Sobha Developers. Hopefully we will also have the pleasure of their company sometime in the middle of next week when we are able to throw more color on the positive surprise from the election outcome and how that impacts the real estate sector. Our investor base will hear from us very soon as to when this is scheduled. Thanks a lot to the entire senior management team at Sobha Developers for allowing us to host this call. Thanks a lot Sir.

J. C. Sharma: Thanks you for the participants as well as to you also.

Moderator: Thank you. On behalf of Ambit Capital Private Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.