



“HDIL Q4 FY-17 Earnings Conference Call”

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Moderator: Ladies and gentlemen good day and welcome to HDIL Q4 FY17 Earnings Conference Call. 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 call, 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. Hari Prakash Pandey, Senior Vice President for Finance and Investor Relations from HDIL, thank you and over to you sir.

Hari Prakash Pandey: Would you mean thank you moderator for organizing this call for us. Good evening all the analyst and the investor community friends. HDIL would like to welcome you to the fourth quarter conference call for the financial year 2016-17, I would quickly give up the few key details about the results and then open up the lines for interaction.

The turnover for the quarter to that 132 crore as compared to the third quarter the increase was 17.5%. The other incomes stood at 21 crore mainly because of one time income from the sale of shares of a subsidiary company, but other income will also be slightly higher because now we are starting to collect the maintenance income from all our residential projects. The profit before tax is around 75 crore with a profit margin of 49%. The EBITDA stood at 56%, PAT was 60.59 crore as compared to year-on-year the debt has declined from 2982 crore in gross level to 2581 crore and on the net level the debt has declined to 2346 crore wherein we have given guidance of around 2500 crore, so in terms of the deleveraging our progress has been very satisfactory.

In terms of presales as compared to the third quarter, the fourth was better which has a presales of around 160 crore and collected around 81 crore, so significant jump in fact double the jump of what we did in Q3.

In terms of the major revenue recognition this quarter, we solved our first tranche of FSI from Planet HDIL, so the monetization has started in the project, we solved around 10 lakh square feet, approximately around 1000 Rs per square foot was the price. TDR vertical was slightly muted in the fourth quarter about 1 lakh square feet was sold. As we move ahead, we plan to target to sell at least 3 to 4 million square feet every year in Planet HDIL, so this transaction may set give you a kind of a benchmark valuation at what pricing the future FSI sales can happen. The TDR prices were approximately in the fourth quarter with 3,500 Rs but as we move ahead in this quarter, we are getting an average realization for an up 4500 Rs so thereby even if the volume is low the overall income from the vertical and more all that remains the same. We have already awarded we have kind of speed up the construction. We have already awarded a fresh contract of 350 crore to various contractors during the first quarter this year.

Also a significant addition to our vertical was there introduction of budget homes. Now this vertical which we have started this year, we have launched our first project the Nest and the response was very good out of 250 odd apartments we have been able to sell close to 80%. As

we move ahead budget homes verticals would grow, we plan to do at least 1500 to 2000 apartments this year. If you look at our presentation, we have given a tentative locations in terms of where we are going to start this project. Most of the pricing within Bombay would remain between 45 to 60 lakhs, around the outskirts around between 15 to 25 lakhs but the focus would be on a smaller apartment size, where the apartment would be between 450 to 500 square feet in terms of sellable area and most of the customers are eligible to get the benefits under BMA scheme.

Further as we are in the May, the real estate regulator has already come in, so we are in the process of registering all our projects under RERA. We have got 6 ongoing projects as of now which we plan to register. We have already started the process, mostly in the next 15 to 20 days or maybe say next one month we should be able to complete the whole registration process.

With this, I conclude my opening remarks. I would request every participant to raise one question at a time and if the time permits, we will take more question.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin with the question and answer session. We will take the first question from the line of Abhishek Bhandari from Macquarie. Please go ahead.

Abhishek Bhandari: Sir very good number on the debt reduction, so what is your plan for FY18 debt you know ending debt and what would be the drivers which will probably help you reach your goal.

Hari Prakash Pandey: Thank you, as I said that we target somewhere between close to 1500 to 1600 crore of a net debt, now this number comes out of some of the payments which are due this year and further what we can do, so I think a number of 1500 to 1600 crore on the net debt that means we are looking at a deduction of around at least 600 to 700 crore this year. Now as I said that most of the drivers are first is the whole launch of the budget homes vertical so there residential cashflows should continue because most of our projects are cashflow positive today. FSI sale would help, TDR sales would help, so it will be largely from the internal accruals. We have also taken approval from the board, promoters are putting in money through warrants so may be by September end we should get an approval, so that cash flows will also be available but largely the debt reduction will happen through the internal cashflows and the contribution will be from all the vertical including TDR sales, residential sales, FSI sales and the promoter contribution in terms of warrants.

Abhishek Bhandari: On this promoter warrant is it the next tranche of money what we had earlier promised or like is it a new warrant issue.

Hari Prakash Pandey: No it is a new warrant issue. The earlier last year whatever was the warrant issue has been fully came in, this is a new warrant which the board has approved yesterday. We will take it to

the shareholders meeting in the month of September, September end, once we get the shareholders approvals the warrants will be issued.

Abhishek Bhandari: Okay, you know my second question is that you mentioned TDR volumes have dropped off, any particular reasons why the demand for TDR would be dropping in Mumbai, is just that the construction is slowing down in anticipation.

Hari Prakash Pandey: No as I said that the TDR volume in fourth quarter was low because we all know what happened in third quarter and that impact which had on the fourth quarter, so generally the overall volume of real estate was low. TDR we have guided to market that we will sell between 2000 to 300, 1000 square feet and I think we will remain on that guidance. Yes there will be because of the RERA the whole gamut has changed in the real estate so obviously people will focus more on existing and ongoing projects so there can be a slight decline in the TDR volume but TDR was not more than 20% of our cashflows and the TDR pricing has improved as I said in my opening remarks from 3500 we have now gone to Rs. 4500 to Rs. 5000 so whatever is an offset in the volume will be helped by the rise in the price but not a major disruptions but as I said after RERA lot more focus will come on ongoing projects and the whole criteria for selling the projects have come, now so because of that there will be some impact on the land prices and the TDR prices per volume per say as such.

Abhishek Bhandari: Okay and my last question is on this Planet HDIL, you know what you see the confident that you will be able to sell 3 to 4 million of FSI per year, who are these set of developers who are looking to invest in such area.

Hari Prakash Pandey: I think the confident which gauge to us is that we have already sold 1 million square feet, so that is the confident and we see a very good demand especially in affordable housing sector, lot of developers have shown interest mainly because the project has got all the approvals, infrastructure is in the place, so it is like a plug and play kind of thing, so lot of developers have shown interest in banging an FSI there. As of now we have concluded first tranche with one of the developers, and with the same developer we will do 2 or 3 tranches more, so that gives me a confidence that 3 to 4 million square feet should be achievable in this financial year.

Abhishek Bhandari: Sure, thank you so much and all the best for FY18.

Hari Prakash Pandey: Thank you.

Moderator: Thank you. We will take the next question from the line of Saurabh Kumar from JP Morgan. Please go ahead.

Saurabh Kumar: Sir on your ongoing projects of this 2200 inventory what is the cost to finish.

Hari Prakash Pandey: On the 2200 crore is the value of an unsold inventory plus receivable of around 1500 crore from the projects. So the total collection comes to around 3800 crore. To complete the project, I need around 1600 crore, so basically my receivable should be able to help me to complete the whole project.

Saurabh Kumar: Sir basically from the ongoing projects, you will generate closer to 2200 crore basically.

Hari Prakash Pandey: Yes, 2200 crore is the value of unsold inventory.

Saurabh Kumar: Yes plus receivable minus 1600 finishing cost.

Hari Prakash Pandey: So basically my receivables are good enough for me to complete all the projects as an where basis, so whatever is the value of incremental sales should be a positive cashflow coming to us.

Saurabh Kumar: Okay and apart from this the TDR you have is about 5 million square feet like.

Hari Prakash Pandey: TDR we have around 5 million square feet, slightly lesser than 5 million square feet, now around 4.8 million square feet and the balance construction cost is around close to 7 billion Rupees to complete those TDR.

Saurabh Kumar: 4 million square feet you said.

Hari Prakash Pandey: 4.8 million square feet.

Saurabh Kumar: So that at 3500 minus 4 billion construction cost is another 1300 crore.

Hari Prakash Pandey: 7 billion Rupees is the construction cost.

Saurabh Kumar: Okay, 7, so roughly 1100 crore basically then.

Hari Prakash Pandey: Yes.

Saurabh Kumar: Sir totally between your ongoing projects in TDR, we have visibility of about 2900 crore you know cashflows.

Hari Prakash Pandey: Yes, plus the new verticals of Budget Homes, as I said that as I was replying to Abhishek that my ongoing both projects the three verticals the TDR, residential, FSIs are good enough for me to look at this target of debt reduction and even move ahead.

Saurabh Kumar: And sir anything on this Ghatkopar you had that 1 million, so there are 2 assets here which you are targeting one Ghatkopar and then some balance land parcels in Cochin and all. Cochin, we are in active discussion, so there is slight revival in the market. Ghatkopar as of now see we have completed the rehabilitation component. We have got an OC for it, now either we will

start the project or we are looking at a potential sale of FSI but we have not been able to close anything this year and this will happen in FY18.

Hari Prakash Pandey: Oh, it is very difficult to say, it can happen also but it is very difficult. As I said that my target in the debt.

Saurabh Kumar: Your target for 1500 does not include Ghatkopar happening.

Hari Prakash Pandey: As I said that I am not including any asset sale as such. Now whatever is an FSI sale, I will give you the number, so that is the I have got enough surplus from my residential project from my TDR sales from whatever we are doing new to help us to reach to that target, so we are not factoring any sale from Cochin or any sale from, any sale any asset other than that, yes if the sale happens obviously the money will go towards reduction of debt but idea this year Saurabh also is to start some new SRA project because we feel that right now with the way the projects are some of our key projects will get over by 2019 or start of 2020, so this is a time now we need to focus again SRA rehabilitation vertical and create a pipeline for new sales. So we will start investing into some of our new slum projects post monsoon and we target that we will put in at least 2 to 3 billion Rupees to start with on those projects, so that we can start creating a pipeline of new sale area for after say 2 year.

Saurabh Kumar: And which like if you can tell us like one or two projects which will be thinking about.

Hari Prakash Pandey: We will start focusing on Malad slum rehabilitation project, we have a project in BKC which has a potential of around 1 million square feet of development so we will work on that also.

Saurabh Kumar: Malad is that Lashkar and BKC is this Bharat Nagar.

Hari Prakash Pandey: Bharat Nagar.

Saurabh Kumar: Okay and one last thing sir, this slide 19, sir this 10.8 million square feet sellable area, what is like that the total sales against it which is unrecognized as of today.

Hari Prakash Pandey: Everything is unrecognized, nothing is recognized.

Saurabh Kumar: Now yes as such I want to clear, sir 2200 crore is your balance value of whatever 1.7 million square feet.

Hari Prakash Pandey: Yes it is the value of the unsold inventory, it is 1.7 million square feet. As of now we have not recognized any revenue from any of these projects and most of these projects barring the Palghar township, most of these projects will go for revenue recognition from FY18 or 19 because they are under construction and now after the RERA, we can only start handling over the possessions once we get an occupation certificate, so what we will recognize in revenue probably this year would be more from our Paradise City Project which is a Palghar Township

project, rest of the project we have always guided that we will start recognizing from FY19 onwards.

Saurabh Kumar: Okay sir basically the unrecognized order book in the company today will be what 400-odd crore or what?

Hari Prakash Pandey: The total one in terms of the sold-unsold will be much larger, it should be around 5500 crore, because between the receivable and this unsold and sold I think should be around 5000 crore to 5500 crore.

Saurabh Kumar: Sir 5000 crore yet to be recognized as earnings which will be recognized over FY19-20.

Hari Prakash Pandey: Yes, once the project gets completed.

Saurabh Kumar: And the margins should be about 25% to 30% on these.

Hari Prakash Pandey: See, we will get more time to ask all these questions. There are lot of quarters before we recognize the project.

Moderator: We will take the follow-up question from the line of Abhishek Bhandari from Macquarie. Please go ahead.

Abhishek Bhandari: Sir, we have just broader question under RERA, how does the slum project behave like the risk around slum projects is tremendously higher compared to normal residential project and the RERA seems to be more customer-friendly than developer-friendly as of now, so like how do you feel the slum business would change under RERA?

Hari Prakash Pandey: I think I would not say it is a customer-friendly, developer-friendly as of now it is a pro-customer and that is how it should be because of the grievances and everything but I would say broadly in Bombay, see 60% to 80% of our business will come from redevelopment and rehabilitation, any developer who is absolutely to do those businesses. There are very few clean land parcels available in city barring the industrial plots. Now RERA provision says that you need to get your IOD and CC in place before you start selling the apartments. So in case of slum also I don't see a difficulty because we have been getting the CC for sale area simultaneously while we keep on doing the rehabilitation. Yes, what will happen is that the working capital would slightly increase because you can't sell unless and until you get a CC for the floors which you want to sell. So there will be a slight increase in the working capital requirement and there will be lot of consolidation happening, so lot of small developers who are doing one or two projects will get affected if they don't have a sufficient working capital to look into it. So I would say a lot of consolidation will happen in the market, a lot of small developers will come into a kind of an arrangement with the large houses to do some of the ongoing and the existing projects, so a lot of consolidation will happen and we are seeing it happening actually but I am not worried much about the slum rehabilitation vertical, yes there

will be a stretch on working capital and there will be a lot more consolidation which will happen.

Abhishek Bhandari: And the reason I am asking is how will the risk be factored in the sense that who are the buyers in the slum rehab project? How will that be identified because you are giving someone a new flat for free virtually so does he enjoy the same right as a person who is paying money to buy a house?

Hari Prakash Pandey: No as of now the slum rehabilitation flat owners are not covered under RERA. Its only receive because you don't market, see to understand the concept of RERA is that this is an advertisement then you are doing a sale that needs to be seen, somebody is getting for free is not covered under RERA.

Abhishek Bhandari: So as long as you don't market a project, you don't need to register under RERA?

Hari Prakash Pandey: No if you are not selling whether you don't market and you keep on selling, I will sell an apartment, you have full right to go to RERA but here I am not collecting any money, so rehabilitation is just an obligation. I am giving the apartment for free, if they have a concern they can go but whether they will go to RERA or there is a Slum Rehabilitation Authority itself where they can go and raise the concern in case there if there is a delay in payment of rent, in case if there is a delay in construction of rehabilitation building, there is already a forum where people are going and registering their complaint.

Moderator: Thank you. We will take the next question from the line of Shreeram Nair, an individual investor. Please go ahead.

Shreeram Nair: I have a question regarding \$150 million security issue, can you explain me a little bit better to understand?

Hari Prakash Pandey: See basically we have taken this as an enabling resolution and we do it every year because normally this is a Board Meeting wherein an agenda get sets in for an AGM, the Annual General Meeting which is normally held in the September and the board has decided that now because the debt has been comfortably reduced and we can also see a growth option available, so this is just an enabling resolution which we have taken. There is no thought process of raising any fund, so 150 million is basically enabling resolution, if required then we can raise the money through QIPs or through preferential allotment or whatever, but as of now it is just an enabling resolution which will get approved by the shareholder in September.

Shreeram Nair: So you don't have any really planning to do that?

Hari Prakash Pandey: No, as of now, as I said there is no need for any equity issuance as of now but we have been continuously taking this kind of an enabling resolution from the inception once we got the company listed, so this year we have taken if you see we have taken a very small amount as

compared to last year where our resolutions were much higher, we have only taken our resolution for USD150 million and that also we feel that there is no need for equity infusion as of now, so once the shareholder approves then we will see but as of now I don't see any need for any equity infusion and that is the reason the shareholder approval is normally we will take it in the month of September and we have kept the same date upon the end of the September.

Moderator: We will take the follow-up question from the line of Saurabh Kumar from JP Morgan. Please go ahead.

Saurabh Kumar: Sir, on the debt cost sir your cost of debt is not falling debt going down why should that be.

Hari Prakash Pandey: Because see we are not doing any refinancing as such and for us we will see the balance sheet on a year-on-year basis on a consolidated balance sheet from 514 crore we are down to 428 crore so there is already a reduction in the absolute interest cost but interest cost per se has not come down very drastically barring us on 50 basis points or 70 basis points, so we are currently at 12.5% to 13% but we have not seen a huge passed on by any of the banks on the interest cost and we are not doing any refinancing, so we are not taking any money at lower cost and try to refinance anything.

Saurabh Kumar: Okay and sir just on your balance sheet sir basically if you look at your balance sheet now this IndAS thing, I am just trying to estimate the value of land on the balance sheet, so your inventory and your other assets, so there is a 13500 crore number for inventory and 300 crore odd in other assets so that is broadly the 16000 crore is basically the land in the business right, minus the ongoing project value?

Hari Prakash Pandey: Obviously, so when we see inventory it is all my ongoing projects, so all my residential projects, slum rehabilitation projects which are going on, plus the land parcels across three locations outside Bombay everything is in plus there will be a capitalized interest. Sir we follow our project conclusion. So whatever is my debt if you see large portion of the interest gets capitalized every year to it, so there will be also a component of the interest cost which must be there from last like 6 to 7 years which is also getting capitalized in to my inventory.

Saurabh Kumar: Yes, so even if I remove this from this 14,800 crore inventory number whatever I remove the capitalized interest and some estimated value for all this, the land bank in the company still works to excess of 10,000 crore, the value of land.

Hari Prakash Pandey: I will say the value of project, we can't say the value of land because there will be like all this 6 or 7 residential projects which we are doing plus we are doing various slum projects also. So it will be the value of projects then there will be also the value of land so let assume in like there will be a Planet HDIL, plus we have got other lands also available. In Virar we have approximately around close to 3000 acres of land, now everything is not converted into land bank today. Once we get an approval then only we will put it into a land bank. So if you see the land bank of the company is 240 million square feet odd but this inventory represent much

higher because once we get the land converted into the project not only we add it to the land bank but the investment is already reflected in the form of inventories in the books.

Saurabh Kumar: Yes, sir basically sir the 15,000 crore of inventory plus 2400 crore in other current assets so that is like 17500 crore so you are saying ongoing project is if your revenue to be recognized is 5500 crore the project cost will be more than 3000 crore odd, so even if I remove this interest capitalized, I get to a value of something like above 10 easily so I was just feeling was not that be.

Hari Prakash Pandey: Certainly apart from this there are many other project which are in the land bank actually. So as I said that we have got land in Panvel. There will be a land cost definitely would be there plus there are slum rehabilitation projects also like the project which we are doing in BKC, we have not added it to the sale area as of now. We have got investment in other projects also. In Worli, we have got investment in there, we have got investment in Malad. Now inventories are combination of everything. I can send you a detail which will give you a broadly what is the component in terms of ongoing projects, what is the land, but I will say that if you look at the component of interest should also be higher because if we pay around let say 500 crore of interest for perhaps 7 or 8 years so that would also be a value of an interest cost which has gone into it. Plus as I said that when you look at the value of the project there is also a component of rehabilitation like all these locations we have been doing rehabilitation also. Every project has a component of rehabilitation, every project has a component of sale area also including into it.

Moderator: We take the follow up question from the line of Abhishek Bhandari from Macquarie. Please go ahead.

Abhishek Bhandari: Sir extending on Saurabh's question sir what is the book value of land in our book?

Hari Prakash Pandey: We don't give market-to-market anything.

Abhishek Bhandari: You know when you do the inventory value that would be based on the last selling price of project right.

Hari Prakash Pandey: No we got to do it. In India nobody does market-to-market, it is all at the historical cost.

Abhishek Bhandari: When you said the ongoing inventory is 5500 crore out of this 13000 number that is the last sales value right?

Hari Prakash Pandey: No, I think what Saurabh meant was that the sale value was 5500 crore. The inventory will always be at cost. The 5500 crore will not be there, I think your understanding is wrong. Basically the inventories are all at cost. So what will the inventory compromise, the inventory compromise of the ongoing projects whatever is the investment happened in terms of the construction cost, land cost for those projects plus the interest which gets accumulated over a

period of years because we follow project completion and borrowing cost gets capitalized to the project plus there will be other land projects which are available. We will not have 5500 crore, that's the value of those 5 or 6 projects in terms of the sale value, those will not be getting reflected in the inventory.

Abhishek Bhandari: Okay, so if you could just split up between the land component, interest component and the.

Hari Prakash Pandey: I think interest component is already there I think, I think there we can share it but if you see the as I said for last 7 or 8 years if you look at the interest component on an accounting basis it all gets capitalized into the project, then the next two components is basically the ongoing project, for us what is the cost, construction cost, tenancy rights cost, whenever like we do slum rehabilitation project and then the third component is the normal land cost, so we can give the bifurcation and I think we have shared in past also with lot of analysts what is the value of our land which is outside Bombay, what is the value of our land within Bombay and on the outskirts of Bombay and we will be happy to share with you.

Moderator: Sure sir, we do not have any questions in the Q.

Hari Prakash Pandey: Okay, yes, so basically thank you everyone for the questions and if you have any follow up questions, please drop us an e-mail and whatever best we can share with you on the data we will share with you, thank you, thank you once again, good evening.

Moderator: Thank you very much. Ladies and gentleman, on behalf of HDIL that concludes this conference call, thank you and you may disconnect your lines.