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"Puravankara Projects Limited Q4 FY-15 Earnings Conference Call"

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MR. JACKBASTIAN NAZARETH – GROUP CHIEF EXECUTIVE OFFICER, PURAVANKARA PROJECTS LIMITED
MR. HARI RAMAKRISHNAN – DEPUTY CHIEF FINANCIAL OFFICER, PURAVANKARA PROJECTS LIMITED

Moderator: Ladies and gentlemen good day and welcome to Puravankara Projects Limited Q4 FY15 Earnings Conference Call. Joining us on the call today from the management are Mr. Ashish Puravankara – Joint Managing Director; Mr. Jackbastian Nazareth – Group Chief Executive Officer; and Mr. Hari Ramakrishnan – Deputy Chief Financial Officer. As a reminder all participants' lines will be in the listen-only mode. 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 '*' then '0' on your Touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Jackbastian Nazareth. Thank you and over to you, sir.

Jackbastian Nazareth: Good evening everyone. We welcome you all to the Puravankara's earning call for the fourth quarter ended 31st March, 2015. Efforts by the government to revive the economy are underway and while there are some visible green shoots in several macroeconomic indicators at the ground level we are yet to see any major uptake in the business sentiment. With inflation progressively trending down the RBI responded with a small rate cut. This infusion of liquidity into the system however has not yet translated into demand's revival. We are however hopeful of a revival in demand one that we expect which may be slow but steady.

An important landmark this year for us in Q4 marked our entry into the private equity arrangement for a joint acquisition of land in Chennai. We have tied up with ASK Properties Investment Advisors and completed the Chennai acquisition of 31.69 acres at Rs. 110 crores in the micro market of Poonamallee, Chennai with our share at 25%. The FSI cost of land is Rs. 333 per square foot and the same will be launched under our Provident brand.

The foundational aspect of this partnership with ASK Investment has been the alignment of interest and meeting of synergies with a strong focus of value creation. We believe that such strategic partnerships will help meet our growth objectives and thereby strengthen our leadership position in the sector. I would also want to mention here that, we are in an advanced stage in closing a transaction with an investor for the bulk sale of our ready to move in inventory and we expect to close this in Q1 of FY16.

Our guidance for FY16 is as follows. We would be launching 13.64 million square feet this year across the Puravankara and Provident brands with PPL being 8.16 million square feet and Provident being 5.48 million square feet. We have set ourselves a target to achieve 4 million square feet of sale. I will now handover the call to Hari to share the business and financial performance for Q4 FY15.

Hari Ramakrishnan: Let me begin with the sales numbers. Area sold for the year ended March 31, 2015 stood at 2.94 million square feet compared with 3.57 million square feet during the previous year. Sale value for the year stood at Rs. 1,472 crores against Rs. 1,590 crores during the last year. Average sales realizations stood at Rs. 6,031 psft for Puravankara for Q4 FY 15 and Rs. 3,744 psft for Provident for full year FY 15. The completed inventory sales contributed 22.5% of the overall sales and the balance coming from ongoing projects including two new launches which we had during this financial year of 2014-15. On the financial performance I will begin with the debt position. Our net debt as on 31st March 2015 stood at Rs. 1,556 crores and the net debt-to-equity stands at 0.69. The promoter backed funding in net debt stands at Rs. 259 crores making the net external debt at Rs. 1,298 crores.

As of March 31, 2015 the weighted average cost of debts stands at 12.62%. Moving on to collections for FY 2015 period we have collected Rs. 1,663 crores which is 24% higher as compared to FY14 of Rs. 1,340 crores. This Rs. 1,663 crores is the highest collections of the group and the collections in Q4 2015 was encouraging and we closed it with Rs. 446 crores which is 39% higher compared to Q4 of 2014. During Q4 2015 we have commenced handover of completed projects. We have handed over keys for our 965 units and collected around Rs. 112 crores. Two projects Skywood Phase-2 and Gainz have been moved into our completed inventory list during the Quarter 4 post receipt of occupancy certificates. The overall balance receivable from read-to-move on inventory as on 31, March 2015 stands at Rs. 215 crores as compared to Rs. 297 crores existing on 31 December 2014.

Moving on to deliveries we have delivered 3.31 million square feet for the financial year ended 31, March 2015 and we would be delivering 6.29 million square feet for the Fiscal 2016. We have spent Rs. 901 crores in 2015 this is the highest ever burn rate till date.

Cost Reduction exercise: The company has embarked on a cost reduction exercise across various segments and activities. For FY15 we were able to reduce the selling and marketing cost by 12.38% as compared to FY14. This reduction was primarily due to the shift into digital marketing spends as compared to the traditional sense of print and other related activities.

We will be continuing to monitor these cost spends in the coming quarters across other items of expenses as well. With these comments we would like to open the floor for Q&A.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. Our first question is from Anubhav Gupta of Maybank. Please go ahead.

Anubhav Gupta: So, first coming to the pre sale number for fourth quarter which stands at Rs. 125 crores. So what is the main reason for such a big fall given that you had the inventory for sale but still such a sharp fall of 75% on a YoY basis?

Hari Ramakrishnan: So there are two reasons which were primarily attributable to this. One, there has been a general slowdown in the market in Q4 which has been witnessed by everybody including us. On the second point, we had only two new launches in this entire financial year. One in Puravankara in Q1 and the next one in Provident in Q2. We did not have any launches in Q4 and with all these factors coupling in the same quarter we had witnessed a very muted quarter for Q4 of FY 2015. Now if you ask whether this trend will continue, we expect it to be little slow in the coming quarters. But we are confident that the new launches of 13.64 Mn Sq ft which we are looking at are in different micro markets which are buoyant - like in the Northern part of Bangalore and certain parts of Chennai.We are also hopeful that we will be able to meet the sales guidance about of 4 million square feet for the financial year 2015-16.

Anubhav Gupta: Okay, so was any delay in the new launch in fourth quarter because you saw the demand slowdown? Or is it that you have pushed back some launches to next fiscal year or declines were on expected lines?

Ashish Puravankara: No, so if you see for the last two years all our new launches have sold exceptionally well. The new launches we believe will continue to do well. Post 9 months from launch where 45% to 60% of the project has been sold, there will be a reduction in the sales run rate. So, all the launches that we had planned during the previous year got delayed on account of delay in sanction/approvals. Most of them are in the final stages of sanction. So we are confident of the launch pipelines for this year. The contribution that comes from new launches will definitely push the sales number up.

Anubhav Gupta: And what are the key projects which you would launch in next 6 months?

Hari Ramakrishnan: So if you refer to our slide number 16 in the Investor Presentation we will be launching one in Bangalore under Puravankara brand and one in Hyderabad under the Provident brand. So that totals up to roughly 4.19 million square feet of developable area.

Anubhav Gupta: And you talked about sale of inventory in one shot. So can you put some light on that?

Ashish Puravankara: So we had ready to move in inventory of 2 million square feet which on a quarter-on-quarter basis selling at a consistent rate but may be not as much as we wanted. So right now we have taken a call where we are doing a bulk sale of this ready to move in inventory to an investorwhich is in advance stages of closing the same.

Anubhav Gupta: What would be the market value of this 2 million square feet?

Hari Ramakrishnan: So based on the last transactions in those projects the value is about Rs. 850 crores.

Anubhav Gupta: And I believe that the guidance of 4 million square feet does not include this 2 million square feet or it includes?

Hari Ramakrishnan: No, it does not.

Anubhav Gupta: And coming to the profit numbers in fourth quarter, you did a profit of some Rs. 20 crores so I believe there would be some cost escalations regarding these legacy projects or there was any other reason for low profit number?

Hari Ramakrishnan: we have delivered 3.31 million square feet in FY14-15 and 6.29 million square feet is ready for delivery in FY15-16. For projects which are scheduled for delivery in FY 15-16, the estimate assessment as on March 2015 for interest allocation has been taken based on our earlier plan of the completion of these projects. However, when we reviewed we found out that there were certain projects like Windermere , Phase-1

Bluemont and Midtown which are slated for delivery during FY 16 had some shortfalls arising out of interest allocation. Because we follow a percentage of completion method of accounting we had to absorb these costs purely on account of interest allocation which has resulted in reduction of EBITDA margins. Now this is more of a quarter aberration. As of 31 March 2015 we have factored balance interest for this 6.29 million square feet except for Windermere where we are awaiting for a catch up plan which our technical team will comeback post which we will reassess whether there is additional cost absorption required purely on account of interest allocation. There has been absolutely no genuine cost increases. All those costs which we had earlier taken in Q1 to Q3 have been completed and we do not have any further cost arising on accountof construction.

There is an interest allocation of Rs. 200 crores on ourprojects. Earlier we used to have 20 projects taking this hit, now it is coming down slowly with the number of projects slated for completion being higher.We are confident that with the new launches which we are going to do in 2015-16, this interest allocation will get spread over a larger base around 30 to 35 million square feet and not on 20 million square feet as it stands today.

Also with the ready to move in inventory deal which we are working on, a onetime correction is likelyto happen by the end of Q1. This will correct the cash flows of the company as well as the EBITDA margins of the company going forward, i.e. by Q2 /Q3.

Anubhav Gupta: Could there be any operating loss?

Hari Ramakrishnan: No, absolutely no because our interest burn rate at Rs. 200 crores in a year has been consistent for the last two years. I have a product mix problem. earlier we had different sets of projects to absorb Rs. 200 crores interest where the construction cost per square foot was low, but today the product mix has changed and there is an additional cost which needs to be allocated to each of these products which has resulted in the problem. There is absolutely no project profitability issue.

Anubhav Gupta: Just last question. So this Rs. 20 crores of profit one has to exclude this one off interest cost. What do you think would have been the profit number on like-to-like basis?

Hari Ramakrishnan: The impact is roughly about Rs. 56 crores at the EBITDA level and the EBITDA will be at 32% as against 26% which is reported today.

Moderator: Thank you. Our next question is from Kunal Lakhan of Axis Capital. Please go ahead.

Kunal Lakhan: You mentioned that you have absorbed all the cost except for Windermere. Can you just help me understand what could be the quantum of this cost and which quarter it is expected to be booked?

Hari Ramakrishnan: We are waiting for our technical team to come back. As per our earlier plan the completion was scheduled by September 2015 but they have taken time up till end of June 2015 to confirm whether it is December 2015 or it will get pushed to March 2016. Based on that we will be taking a call on whether additional two quarters' interest cost provision needs to be factored or not. So this estimate reassessment will happen by June 2015.

Kunal Lakhan: But as of yet no other projects?

Hari Ramakrishnan: No, based on current visibility of our deliveries we have factored all costs.

Kunal Lakhan: If I look at your sales break up I could see some cancellation in your completed inventory. What would this be and why would this be?

Hari Ramakrishnan: The reason for cancellation is our regular year-end process., People who have booked and have not come forward and completed the next round of payments we go ahead and effect the cancellations so that the benefit of today's rate are being extracted. But this we donot allow too much waiting time for the customer/s who have booked it at the launch. So this is a yearend process which we follow. Also the guidance note also is very clear and it gives a clear cut indication that whenever certain behavioral pattern is noticed in our customer file they need to be treated as cancellation even for accounting purposes which has been factored This inventory increase due to cancellations is actually increasing our profitability because we will be selling this inventory in today's rate.

Kunal Lakhan: Also I wanted to understand,that despite slower sales during this quarter plus the cancellation, the collections were very strong. What was the reason behind such factor?

Hari Ramakrishnan: Primary reason is account of the receivable from sold units pertaining tocompleted projects. As at 31st December 2014 we had receivables from sold units (from completed projects) of Rs. 297 crores. Q4 has been one our best quarters where we collected Rs. 446 crores from both Puravankara and Provident against our earlier run rate which used to be Rs. 300 crores to Rs. 350 crores. We had Rs. 100 crores of additional collections from completed projects people started paying the balance amount and taking possession. This resulted in Q4 collection being very high. We will witness a similar trend in Q1 FY16 because projects where we had some challenges on our Khatta not being issued by the local authorities has been resolved. .

Kunal Lakhan: So can we actually assume that not just Q1, but if you look at your deliveries you are targeting about 6.3 million square feet this year versus 3.3 million square feet last year. So can we assume that collections run rate in fact not for just Q1, but it could sustain at these levels for the next few quarters?

Hari Ramakrishnan: Definitely.There are two reasons for that. One, 6.29 million square feet of delivery scheduled during FY 16 will yield close to Rs. 3 billion of collections,. Plus, we will be having collections from ready to move in inventory, of about Rs. 2 billion and Rs 10 Bn of collections from other ongoing projects . So there is clear visibility of 16 to 17 billion coming only from balance receivable from sold units. Over and above that, with the new launches coming in we are extremely hopeful that this year number will be anywhere between Rs. 1,800 to Rs. 2,000 crores of collection.

Kunal Lakhan: Regarding your sales you have given a number in terms of 4 million square feet kind of a guidance but in terms of value what would that be considering that launches are little skewed towards Puravankara this year?

Hari Ramakrishnan: So it will be the Rs. 1,800 crores to Rs. 2,000 crores of booking value.

Kunal Lakhan: And similar kind of collections you are saying?

Hari Ramakrishnan: Yes, we will be having that same kind of collections primarily because of the catch up. And to note that the deal what we are trying to do with the investor if that also happens then the collection number goes up but Rs. 1,800 crores to Rs. 2,000 crores is without that.

Kunal Lakhan: And the proceeds from this deal would be used towards debt reduction or?

Hari Ramakrishnan: Yes, because these projects are already escrowed so it will be used towards debt reduction.

Moderator: Thank you. Our next question is from Ashish Agarwal of Edelweiss. Please go ahead.

Ashish Agarwal: Sir, just wanted to understand on the overall market. Of course you have mentioned that the overall demand scenario remained weak but if you could just throw some greater light into which price segments or ticket sizes are finding greater stress and where you are seeing better quality of demand coming in?

Jackbastian Nazareth: I think primarily the new launches continue to do well across micro markets and that has been established. What is actually not moving well is very high ticket sizes, in the range of Rs. 3 crores and above. Bangalore still seems to sustain enquiries which have not dropped to alarming levels and they continue to be very robust. Site visits continue to happen. I think where we kind of missed out for the financial year was on the launches that we had planned, they are getting to a closure of approvals and if we had probably a two or three launches, the numbers would have looked very different. Micro markets still remain the same. While there seems to be a lull in terms of people actually coming down to book but new launches are definitely doing well.

Ashish Agarwal: So does it worry you that new launches are doing well but projects which are like reasonably completed are not doing so well?

Jackbastian Nazareth: All our launches have done well. For each of our projects we have sold more than 60%. Some projects are sold close to 80%. So all projects cash flow positive for us to run and complete the project. So for us, that is not the cause of worry. Our anxiety and stress levels have come from us wanting to launch as quickly as possible and that is our endeavor. Because at the same time, if you see from a cash flow perspective we have been executing extremely well. As Hari also said on the call that our collections will continue from execution. Our collections will continue from the handovers that we will do for the ensuing years.

Ashish Agarwal: No, I see that and appreciate that. My question was slightly different. My question was that typically one would associate volumes at the launch to be driven by investors and volumes at completion would be driven by end users. So (a) do you also feel similar to how I am seeing it and if yes, do you think that is a quality of buyer in the market is more driven by investors rather than end users?

Ashish Puravankara: Typically, Bangalore as a market and Puravankara as a company we have not indulged in selling to speculative investors. These are long term investors who are buying it for their kids or for family as a rental income. We consider him as a normal buyer. How do we track this? At the end of the project when it is ready, we actually check in terms of the registration if the people who have booked have registered in the same name.. So as of now the track record has been 97% to 98%. I think about two years ago we changed the way we have been marketing our products. So we have strongly relied on channel partner sales, digital marketing, direct sales, and international marketing because of which our reach I think has been much larger. Therefore for all our projects that we have launched over the last 2 to 2.5 years we have sold almost 45% to 60% within the first 8 to 9 months of launch and 1.5 to 2 years down the line certain projects have reached 65% to 70%. A project typically takes about 3.5 to 4 years to complete. So we have only 30-35% to be sold. So, very different, so back in the day we would sell only 10% to 15% on launch. The entire balance would be equally spread over the construction period. So this changes our strategy so that we do not end up with inventory at the end of the project.

Ashish Agarwal: Just one other question. So basically I was looking at the cancellation as a follow up to another previous analyst. So a lot of the cancellations that I see have happened in the projects which have been completed or are near completion. So again is there a pattern to it or is it just sheer coincidence?

Hari Ramakrishnan: No, it is just a coincidence. The better part of the cancellation is actually spread across and it is more so from the projects which we launched about a year-and-a-half back like Palm Beach, Westend or partially on Sunflower and Skydale. So it is not arising only out of ready-to-move in inventory.

Ashish Agarwal: Okay, For example your Grandbay has cancellation then your Platina has cancellations; Swanlake has some cancellations. I mean the numbers are small or much?

Ashish Puravankara: Yes, it is a small number. I think the numbers are very small and these were sales that were done at the beginning of the year where people had paid us significant amounts but were not coming forward. Rates have gone up a little bit and just as the hygiene check decided to take-up cancellations and put it back in our inventory and push for sales.

Moderator: Thank you. Our next question is a follow up from Anubhav Gupta of Maybank. Please go ahead.

Anubhav Gupta: Again just one follow up question. Sir, which were the projects in the second half of FY15 which you could not launch because of delays; if you could name on those projects and the size as well?

Ashish Puravankara: So Anubhav, if you see our December 31st 2014 ICP we had given a list of projects which had a launch pipeline. So those projects we did a full review in Q4 and we have come up with a new set of launch pipeline based on the pre-development activity undertaken by us.

Ashish Puravankara: Like just to put some projects there for example, Hyderabad we were hoping for an earlier launch which got delayed. In Bangalore, Mallasandra which is almost 2 million square feet got delayed and Kanakpura and Bellandur got delayed. These launches were scheduled for launch during FY 15. Now we are close to final stage of sanction. so we are confident that it should happen in this year.

Anubhav Gupta: And since you said like, you reduced the marketing and selling expenses in FY15 so, would you believe today that, that could be one of the reasons of these low pre-sales and you will have to spend aggressively in FY16 to achieve 4 million square feet of sales guidance?

Ashish Puravankara: No, so I think two parts. We track on advertising spend with the number of enquiries we get in terms of calls. These enquiries are then further filtered and dragged to see how many people are visiting the site and from that we further filter into to see how many transactions are happening. So while we have saved on our advertising spends by 12.5% approx, our enquiry level has not dropped. So I would not link advertising spend to the sales numbers. Lower Sales number I think is primarily due to delay in new launches. The older projects have continued to sell at the same rate that they were selling at. It is the contribution from the new sales which got delayed is why sales look low.

Moderator: Thank you. As there are no further questions from the participants, I now hand the floor back to the management for closing comments.

Jackbastian Nazareth: Thank you everybody for being on this call. Hari and me will be available if you will have any individual questions, please feel free to reach out to us. Thank you so much.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Puravankara Projects Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

(This document has been edited for readability purpose)