



Puravankara Limited
Q3 FY17 Earnings Conference Call

February 10, 2017

**MANAGEMENT: MR. ASHISH PURAVANKARA – MANAGING DIRECTOR,
PURAVANKARA LIMITED
MR. HARI RAMAKRISHNAN – DEPUTY CHIEF FINANCIAL
OFFICER, PURAVANKARA LIMITED**

Moderator: Ladies and gentlemen good day and welcome to the Puravankara Limited Q3 FY17 Earnings Conference Call. This call will be represented by Mr. Ashish Puravankara – Managing Director, Mr. Hari Ramakrishnan – Deputy Chief Financial Officer. 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. In case 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 Ramakrishnan from Puravankara Limited. Thank you and over to you sir.

Hari Ramakrishnan: Good evening everyone, we welcome you all to Puravankara’s Earnings Call for the third quarter and nine months ended 31st December 2016. Two major events shook the Real Estate industry in the last few months and both seem beneficial for organized developers in the market, like us. It was widely anticipated that the demonetization announcement on 8th November 2016 would impact Real Estate heavily, however as we have always maintained, organized developers would benefit from this move as transparency will improve as well as lower inflation in Real Estate prices. Additionally, the Union Budget also gave several sops to the industry including infrastructure status for affordable housing. We believe that this will boost investments into this category, result in lower cost for developers and therefore lower prices for the end customer. Puravankara Limited pioneers the organized industry’s first move into affordable housing with a 100% subsidiary, Provident Housing Limited. We believe that Provident will be a beneficiary of this move as it has robust platform that has the process capability and human capital to scale its business manifold. The market continues to be challenging in terms of demand but we remain committed to our focus on timely execution and delivery. We continue to sell well in our Purva Silver Sands project in Pune and we have sold 3,00,000 square feet for the quarter ended 31st December 2016 since its launch in April 2016, totaling up to Rs. 180 crores. Provident Kenworth in Hyderabad has also done extremely well and we have recorded sales of 5,80,000 square feet since its launch in February 2016, totaling to Rs. 246 crores.

Moving onto sales; despite the muted market environment, we had net sales of 0.52 million square feet for the quarter ended 31st December 2016. This is a 35% increase in value on a year on year basis. Sale value for the quarter ended 31st December 2016 stood at Rs. 274 crores and the sales realization of ongoing projects of Puravankara and Provident stood at Rs. 6382 per square feet and Rs. 4490 per square feet respectively. Projects under development as of 31st December 2016, stood at 24.92 million square feet. Out of this, 20.3 million square feet is Puravankara’s share and of which 10.69 million square feet has been launched for sale. Cumulative sales up to 31st December 2016 stands at 53% out of the area launched for sale. Moving on to sales contribution details; for the quarter ended December 2016, completed contributed to 30% whereas ongoing contributed to 70% primarily driven from two projects, Purva Silver Sands in Pune and Provident Kenworth in Hyderabad. In value terms also, of the

total of Rs. 275 crores, 30% contribution is from completed projects whereas the balance 70% came from ongoing projects. Sales contribution for nine months ended December 2016; we have recorded sales of 1.56 million square feet, of which 34% was from the completed basket whereas the balance 66% came from both ongoing and new launches. In value terms, 30% contribution came from completed inventory totaling to Rs. 253 crores and the balance 70% came from ongoing and new launches.

Moving onto the financials for the quarter ended 31st December 2016; revenue stood at Rs. 277 crores as against Rs. 385 crores for the quarter ended 31st December 2015. EBITDA expanded by 14% to Rs. 95 crores as against Rs. 84 crores for the quarter ended December 2015. EBITDA margin for the quarter ended 31st December 2016 stands at 34% as against 22% for the quarter ended December 2015. Profit before tax expanded by 21% to Rs. 29 crores as compared with the quarter ended 31st December 2015. PAT also expanded by 34% and stood at Rs. 20 crores for the quarter ended December 2016 as against Rs. 16 crores for the corresponding quarter in the previous year. On a nine months' basis, we had recorded revenues of Rs. 968 crores. EBITDA was at Rs. 298 crores as against Rs. 292 crores for the corresponding nine months in the previous year. EBITDA margin stands at 31% for the nine months up from 23% for the corresponding nine months in the previous year. Profit before Tax and Profit after Tax stood at Rs. 101 crores and Rs. 73 crores respectively for the nine months ended December 2016. Moving onto cash flows; collections for the quarter stood at Rs. 257 crores, constructions spend consolidated for the quarter stood at Rs. 307 crores. We have a balance collection from sold units standing at Rs. 1147 crores and the balance cost to go on the launched basis stands at Rs. 954 crores. Moving onto the cash flow position of the project which are up for completion in this financial year; as stated in the previous call, we will be delivering 6 million square feet in the coming quarter and the broad cash flows for these projects are as follows. The balance collections from sold units stands at Rs. 380 crores as against cost to go of Rs. 263 crores. The inventory value of 2.2 million square feet stands at Rs. 1072 crores, leaving as a surplus of Rs. 1189 crores. Moving onto our debt positions, our net debt as of 31st December 2016 stood at 22.27 billion and the net debt to equity stands at 0.94. The Promoter funding in net debt stands at Rs. 259 crores, making net external debt at 21.18 billion. As of December 2016, the weighted average cost of debt stands at 11.6% as compared to 12.28% in the quarter ended December 2015. We continue to evaluate opportunities to further reduce the debt cost from the current levels. With this I open the floor for questions.

Moderator: Thank you very much. Ladies and gentlemen we will now begin with the question and answer session. We have the first question from the line of Samar Sarda from Kotak Securities. Please go ahead.

Samar Sarda: I am a little surprised by the sales number. If you could just talk us through the 0.5 million square feet sold during the quarter because most of your peers, you know how the market has

been in November and December. I missed a part of Hari's speech earlier but if you could just walk us what happened through the quarter and how the sales number are 0.5 million square feet.

Ashish Puravankara: One is the Hyderabad market and the Pune market contributed very well in the past quarter. Second is I think our focus on selling that ready to move in inventory also, which has done exceptionally well, even cities like Cochin, which were hardly contributing in the past. Today projects like Oceana and Grande, which are very high ticket, are consistently now giving us 1-2 sales. We hardly have any inventory left but they are high value. We have now some 28 odd apartments in each of these projects, and we are still getting 1-2 apartments a month there. We are getting almost 12 odd units from Eternity in Cochin, same thing in Swanlake. So, the ready to move in inventory has started picking up in terms of sales. Hyderabad and Pune contribution together has helped us achieve this number.

Samar Sarda: Okay so have you faced some slowdowns in your ongoing projects because that again if I see the trend over the last few quarters, so it is not changed much. Like say for example in Purvankara, you have sold 0.17 million square feet, again first quarter was a little high because of the launch but otherwise it has been stable.

Ashish Puravankara: No, so I think the ongoing projects, for both PPL and Provident, continue to be stable. I am not seeing a jump there but that continues to be stable. The ready to move in inventory has picked up very significantly and along with that you have the Pune and Hyderabad project which is contributing well.

Samar Sarda: Okay what is your business plan on the Pune project, Ashish, because like two large projects next to each other, like of course it is the first project so lot of marketing effort would have gone during the launch time, how do you plan to take this project over the next 2-3 years?

Ashish Puravankara: When you say two large projects, you are referring to our phase 1 and phase 2 or you are talking about competition opposite us?

Samar Sarda: Competition opposite to you.

Ashish Puravankara: So, I think if the last year is taken as an example, despite that competition, we have continued to sell very well there. So I think that reinforces, while it is our first project in Pune, it is our entry into Pune, yet that brand has done well, we have been able to sell. It is important to note we have also been able to get a premium over our competition across the road. So I think it is our product, I think it is our brand, I think it is the packaging of it and the marketing push which has resulted in success. So, consistently now, we are getting, if I am not mistaken, I do not know the exact number, about 25 sales every month, on an average. That number has not gone down. So, this will stay consistent.

- Samar Sarda:** The second thing was on your cash flows, slide number 22, our construction cost incurred for this quarter is really high, so why would that be the case?
- Ashish Puravankara:** So, couple of reasons for that. There have been two focus areas. One is primarily completion and the second has been the product itself. So, glad to inform you that we have actually turned around, added a lot of value back into the Purvankara product. Second, in terms of timeline, ensuring that there is 0 to very little delay in handing over these projects. With RERA around the corner, which I think most places will implement RERA by May, we are ensuring that at least our project which are at the 90-95% stage, we are ensuring that our construction is complete in these projects and coming out before RERA gets implemented, so therefore the push and focus on construction.
- Hari Ramakrishnan:** So, that is the reason why we have spent considerable amount of monies on Q3, if you compare it with Q2 when we have spent about Rs. 139 crores and as against Q1 at Rs. 230 odd crores.
- Samar Sarda:** Can I also say that it is like part of the payments in Q2 actually went in Q3? Because see Q2 the payment actually, the spent came down, otherwise you usually follow a 250 odd plus minus run rate on expenditure.
- Hari Ramakrishnan:** So, that is resulting from the work which has happened over the two quarters, so that got slipped into Q3 also and hence you see...
- Ashish Puravankara:** These are all finishing items, which will come towards the end, so you may see a dip towards the end but then when you start getting your lift and all the other equipment, you will see a jump in the spending.
- Samar Sarda:** And one last question with regards to this budget; see infrastructure status announcement, that is nowhere written yet other than the speech, unless and until you guys have come to know a little more about it, a) that. And secondly, with respect to our forthcoming launches, so say for example you brought down the Provident forthcoming launch to only one, you have changed your schedule a bit here. So, since we already have a brand in place, we already have a ticket size product in place, of course that has also gone up to ...
- Ashish Puravankara:** Let me explain to you the two clear benefits that we see coming out of this Budget. One is the affordable housing from a taxation point of view. Now, there they have reduced the 60 square meter which earlier used to be the built up area to carpet area. But carpet area definition, they have referred it to the RERA Act. So, RERA clearly states that carpet area is excluding our balconies, verandas and terraces. So, which means minus terraces, I can actually design a carpet area, I can design an apartment at 645 square foot which anyways is what Provident was

doing but it is very important that in these projects I do not have any larger apartments because the entire project has to conform to this.

Samar Sarda: Is that the case that entire project or only units which conform to this you can get benefits on that?

Ashish Puravankara: Entire project. That is very clear. So, that is why what we are doing right now is, some of the launches or some of the sanctions of Provident which were towards the end or even for some of these where we have got sanctions done, we are now just quickly evaluating if I can go in for a modified plan. So, just to explain, the largest size I can get is a 2.5 bedroom, two toilets in the 645 square foot comfortably. And the benefit of course is huge in terms of a tax holiday, so we are redesigning some of these projects to see if we can take the benefit of this tax. Now coming to infrastructure status, that is an independent issue, there you are right, we are also still waiting to get the clarification on it, so that would give you two benefits as and when it gets clarified and gets implemented. One is your borrowing cost can come down and secondly, I think, home loans also being a priority sector, the home loans that our customers avail, they may get it at a cheaper rate. But as of now, we are not focusing on that, we are just essentially focusing on the tax angle of ensuring that the new projects that we launch conform to the 60 square meter. I am sure you are aware that the other advantage of this is that the earlier Budget said you had to complete these projects within three years, which now they have extended it to five years, which is more doable. The MAT benefits carry forward, which was ten years, they have made it fifteen years. So there is huge benefit that Provident can enjoy from this.

Hari Ramakrishnan: So, we are re-looking at our current designs and seeing whether we need to do some tweaking on that, so this might push our new launches by a few months outwards, which is the final notification what we are going to take from this.

Samar Sarda: And one last question is our operating cash flows. So Hari, as we have discussed this time and again, when does this actually change and what do we do to change this?

Hari Ramakrishnan: So, I had said that my balance collections from sold units stands at Rs. 1147 crores and my balance construction cost on this is Rs. 954 crores. So what happens, what this means or does to our business, is that while I am taking construction debt and going ahead on one side and completing the projects, it also means that once the projects are over, this Rs. 1147 crores will start flowing back into my escrow accounts over a period of time, starting from the delivery which is slated from June-July onwards. Once that happens, automatically we are going ahead and reducing debt which is going to be self-liquidating on its own but the reason why this has happened is because we had various schemes in the past, where it is a pay-on possession scheme or certain schemes where it is linked to the last mile closure. So, all this has resulted in a gap requirement where the construction outflows exceed the collections and hence we are resorting to this incremental borrowing, which will automatically reduce once we complete

these projects and collect these monies. We are delivering about 6 msft. Out of this, about Rs. 380 crores of balance collection is there, against that Rs. 260 crores of balance cost to go is there. So what it means is, as and when I start completing, the monies which are possession related and once the registrations are completed, will start flowing back into the system. And you will start seeing from mid Q3 onwards, subject to, of course, the customers coming and taking it on time, we will start seeing debt reduction happening on its own.

Moderator: Thank you. Ladies and Gentlemen, as there are no further questions from the participants, I would now hand the conference over to the management for their closing remarks. Thank you and over to you.

Hari Ramakrishnan: Thank you all for coming, if you have any further questions regarding the quarter or nine months ended, please feel free to reach out to me on the numbers and the email marked out in the concall invite. Thank you all.

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

(This document has been edited to improve readability)