



“Puravankara Limited Q3 FY19 Earnings Conference Call”

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RISKS AND CONTROL**

Moderator: Ladies and gentlemen good day and welcome to Puravankara Limited Q3 FY19 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 '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kuldeep Chawla – Chief Financial Officer from Puravankara Limited Thank you and over to you sir.

Kuldeep Chawla: Thank you, a very good evening to all of you. I am Kuldeep Chawla, the Chief Financial Officer of Puravankara Limited. Thank you for joining us this evening on Puravankara's Q3 FY19 earnings call.

Allow me to begin by sharing with you the highlights of the quarter followed by the performance for the first nine-month of FY19.

Just to set the context in the interim budget and yesterday's rate reduction are both positive for the economy in general and our sector in particular. The union budget proposals augur well. The focus on quality of life, the vision for a \$10 trillion economy and the likely boost from both infrastructure spending and higher disposable incomes, hopefully aided by lower home loans rates following the repo rate cuts. On the micro side both first home and second home markets should receive a stimulus with various proposals which have been outlined under the union budget. A strong focus on execution, sales and collections continues across all our markets, product types both for ongoing as well as ready products. We saw continued acceleration in sales of ready to move in inventory across all our projects.

Coming to the quarter's performance:

Backed by sales of almost 6 units daily, sales booking were steady 528 units for 0.63 million square feet in the quarter valued at 369 crores. Ongoing projects in both Puravankara and Provident witnessed significant increase in price realization. Consolidated revenues stood at 566 crores for Q3 FY19, a growth of 24% year-on-year. EBITDA was 142 crores, up 35% year-on-year, representing an EBITDA margin of 25%. Comprehensive income post taxes was 27 crores, up 6% year-on-year. In flows from operations for the quarter continued to grow and stood at 408 crores, an encouraging growth of 31% year-on-year. This growth in inflows has helped accelerate the necessary spent to move ongoing projects towards completion including that required under RERA as well as the initial capital expenditure for new launches. Consequently, after accounting for the operating expenditure of 365 crores the operating surplus before interest and taxes was 43 crores. As the projects are handed over and the collections come in progressively, the moneys would start flowing in again driving the operating surplus to higher levels.

Coming to the nine-month performance for FY19:

Continuing our stated strategy to diversify across markets geographically, markets other than Bengaluru contributed 50% of our ongoing projects and 69% of our proposed launches. At the same time the company is taking strategic steps to start building an annuity portfolio. For the nine-month period ended December 31st, 2018 consolidated revenues were 1460 crores, a growth of 24% year-on-year. EBITDA was 361 crores, up 20% year-on-year continuing the healthy EBITDA margin of 25%. PBT was 111 crores while PAT for the nine-month period stood at 76 crores, up 13% year-on year. The balance collection from all of our sold units of all our launched projects stands at 1847 crores and compares favorably against the balanced cost to go excluding overheads and interest of 1631 crores. This combined with the value of unsold inventory open for sale is projected to generate an operating surplus of 3713 crores on the launched portfolio excluding overheads and interest. Apart from this our company expects a further surplus of 3104 crores from units in approved projects but not yet opened for sale. These two give a combined surplus of 6817 crores which compares favorably against the net debt of 2749 crores. The debt equity ratio as of December 31st, 2018 was 1.5 times as per Accounting Standard 115 and 1.2 times as per Ind-AS. The weighted average cost of debt was about 11.35%, largely due to the increases in the reference rate by lenders which increase during the quarter.

The launch pipeline across both our brands is being driven initially by immediate launches in South and West India targeting about 4 to 4.5 million square feet of which 2.2 million square feet will happen in the next 30 to 40 days and the balance in about a quarter. This would not only release blocked capital but also enable progressively a reduction in debt.

To summarize; this has been a steady quarter and a good nine-month period where we have continued to focus on sales and execution but also preparing for a new launch program across our key markets in both our brands. The quarterly and nine-month trend in all our buckets is encouraging with the success of recently launched projects where we sold over 1600 units and 1.4 million square feet, the new planned launches and an improved outlook we see a good growth trajectory for the last quarter of the current fiscal and going forward in FY19-20 as well. The union budget as well as the rate cut announced yesterday has the potential to provide the much-needed stimulus for both primary and secondary home sales across new launches, ongoing projects and ready homes.

With this we would like to open the floor for questions.

Moderator:

Thank you very much sir. Ladies and gentleman, we will now begin the question and answer session. The first question is from the line of Vinit Manek from Karma Capital Advisors. Please go ahead.

- Vinit Manek:** I just wanted to check with you that what is the value of the current completed unsold inventory which we have about 2.16 million square feet?
- Kuldeep Chawla:** That's about 1050 to 1100 crores.
- Vinit Manek:** And that is already included in the 3498 crores which we have specified in the presentation?
- Kuldeep Chawla:** Correct.
- Vinit Manek:** Apart from that just qualitatively I just wanted to understand that, what are the comfortable levels that the management is targeting at the completed inventory and any internal timelines that we are looking to monetize until...?
- Kuldeep Chawla:** Let me put it this way; for the quarter ended December ready to move in inventory sold 150 crores during the quarter. What is very encouraging in this is that market such as Chennai over the last two quarters have been selling well.
- Vinit Manek:** So we can expect somewhere around 0.6 or 0.5 million square feet of the completed inventory that we will be getting it down in next four quarters?
- Kuldeep Chawla:** That is an easily achievable target. You could see the trends of the last nine months, in nine months we sold about 400 crores worth of inventory.
- Moderator:** The next question is from the line of Preet Nagarsheth from Wealth Finvisor. Please go ahead.
- Preet Nagarsheth:** Couple of question here sir. One of them is the debt, I think the peak debt that we have right now is what roughly 2700 crores?
- Kuldeep Chawla:** 2749, correct.
- Preet Nagarsheth:** I remember across all the past quarterly calls and conversations I think the idea was to have debt peak at 2400 crores and then bring it down to 1800-1900, 1:1 kind of ratio and keep at it. What's really happening is possibly there is more debt coming the way of the company, so can you shed the light what's going on?
- Kuldeep Chawla:** This is a very strategic call that the board has made because new opportunities and strategic land parcels have come our way. In this specific instance in Chembur, in Mumbai which is now in the public domain. The second is that what we are doing is in terms of making sure allocation of capital is right between the time we are doing these things and monetizing them that time frame is very focused.

- Ashish Puravankara:** To just throw some light on the specific Chembur transaction for example we have already designed a project, we are submitting the plans for sanction. We have already received the I2R, so way before the money was paid out; the planning for the project was already started. I2R, industrial to residential conversion was already initiated. So, within a month and a half of paying the money for the land we have already received the conversion and we are already now submitting for NOCs and plan sanctions. So, committing to these sort of opportunistic buys where the turnaround time is not long. So not that debt goes up on account of these purchases and then you sit a year and a half, two years to turn this and monetize it, so being careful and strategic in that sense.
- Kuldeep Chawla:** Another small example is the 35 crores that we took in Pune where we actually acquired a project with approvals, so within three months of approvals we will be in launch. It's already filed for RERA. RERA is expected any day. So, whilst it's not listed in our launch pipeline before March it will probably happen by then.
- Preet Nagarsheth:** Just to give some idea here both Ashish and Kuldeep here, can you give a sense do we plan to bring this down to 1:1 or that's going to take now more time just because of the strategic opportunity that you may have already used up for you are going to plan to do?
- Kuldeep Chawla:** No, very-very clear directionally that's exactly the way we are moving. Ready to move inventory sales all of those are now going towards reduction of debt directly. That is not in any way being diluted. That's why we are very encouraged with what we are seeing on the ready to move inventory for the fifth straight quarter running. We have had a net reduction in that. On a year-on-year basis ready to move in inventory is down 21.5% and that trend is accelerating; markets like Chennai, going forward Coimbatore and all that is going to debt reduction.
- Preet Nagarsheth:** The other related question was on the finance cost. While the debt has gone up by 20%-25% or 30, I think the finance cost has gone up 50%, what explains that?
- Kuldeep Chawla:** Two things, one part of it is due to the increase in rates by the banks. But a significant part of the increase is because we have done transactions where we have brought down the cost of capital but had to pay an upfront fee for it.
- Preet Nagarsheth:** It's like a one-time fee?
- Kuldeep Chawla:** One-time fee. So, example we have replaced capital which was at 12% with capital which is at 10.4% and paid a 1% fee, so that recovery happens in less than a year. I am just giving an example of that sort of stuff. That is a one-time cost which we will not carry forward. The rate increase will obviously have a carry forward effect. But as we monetize more and more land and do more new launches, money that was used to buy land will come down. That cost of capital comes down.

- Preet Nagarsheth:** Do you see the realizations that you get because of the new launches over the next 30-40 days being utilized to repay debt?
- Kuldeep Chawla:** No, we intend to. We will not be borrowing any construction finance at all for those projects. We will actually use that capital to accelerate the pace of construction. It will go through a RERA process because 70% of that money is directly going into a RERA account. So there is no addition to the debt, is the point that we are trying to drive at. And that's what is happened in for example Park Square; Provident Park Square which is sold more than like 840 units. We have zero debt. Now that project when it starts generating a surplus a year down the road because that 30% I right now need to pump into project construction. Does that answer your question?
- Preet Nagarsheth:** Yes, so what you are saying is that whatever is ready to move in inventory whatever you sell that goes towards debt repayment and that's encouraging that's growing, so that should help reduce the debt?
- Kuldeep Chawla:** That plus there is a bunch of ongoing projects in Pune, in Hyderabad, a couple of them in Bangalore those which are nearing completion there also the money that comes in from the calls that have been made. That money would also go as a standing instruction to reduce the debt.
- Preet Nagarsheth:** The deferred tax liabilities have increased from 53 crores to 343 crores, so does it indicate that tax is yet to be paid for that kind of amount?
- Kuldeep Chawla:** This is an Ind-AS adjustment. This amount of money is not due. If anything actually we would have prepaid taxes right now.
- Preet Nagarsheth:** Different accounting standard adjustment?
- Kuldeep Chawla:** Yes.
- Preet Nagarsheth:** I think we are seeing a new thing being added which is the Annuity business.
- Kuldeep Chawla:** Yes.
- Preet Nagarsheth:** So can you share some insight as to where is the company headed with its focus because there are two brands and now the third one the Annuity is being added, so is the focus changing or is it going to be spread over all the areas, Provident, Puravankara and the Annuity?
- Ashish Puravankara:** The commercial business will be under the Puravankara brand so Puravankara we will have the luxury housing and the commercial business, Provident will be it's a subsidiary which does the affordable housing. Under Puravankara in the past we have built some amount of, close to about 2.5 million square feet odd of commercial space. As a strategy we believe that residential

business being a cyclic in nature we believe that Annuity income will provide the necessary support and backbone to this residential play. So in that what we have decided is that we should build a book of anywhere between 5 to 6-7 million square feet of office space portfolio. Lands for this is already available with the company, so this is from our existing land bank so these are lands that would qualify as good locations for office space. So instead of doing Resi on those specific lands we will be in office space and build that portfolio.

- Moderator:** The next question is from the line of Nimit Gala from Edelweiss. Please go ahead.
- Nimit Gala:** My first question is on we launched around 0.8 million square feet of project for this quarter, approximately?
- Kuldeep Chawla:** In the quarter ended December we have not done any new launches.
- Nimit Gala:** I was just looking at the slide where we mentioned the launches division during the period as of nine months and...
- Kuldeep Chawla:** Yes, nine months was largely Goa and a small project called Neora.
- Nimit Gala:** Goa was last quarter, so as of first half it was around 2 million square feet and as of nine months its 2.8, so I assume that it would be around 0.8 million square feet or something either new phase or new project being launched or none of the projects have been launched.
- Ashish Puravankara:** I don't understand your question. In the past nine months we have launched two projects, both the projects were new projects; one being Goa and the other one being Neora, so they are both new projects. Now we have about five launches now over the next 30 days.
- Kuldeep Chawla:** Those five are two phases of Goa called Balinese Residences and West Point Residences. Both have already been opened as we speak for booking. There is a phase of Provident Park Square in Bangalore called Provident Central Park. That has also opened for booking. As we speak today the broker event for the launch of a new project in Chennai under the Purva brand Somerset House that is happening today and last but not the least there is a project called Zenium in North Bangalore under the Purva brand. That's a Monday broker event.
- Nimit Gala:** I was just trying to understand.
- Kuldeep Chawla:** Collectively these would be over 2 million square feet in terms of overall size.
- Nimit Gala:** So I was just trying to understand what was really the concern if at all.

- Kuldeep Chawla:** In addition over the next 60 or so days there are three more launches, two under the Purva brand and one under the Provident brand which are being targeted. That's another 2.1-2.2 million square feet of space.
- Nimit Gala:** So that would be almost 4 million square feet in the next 30 days?
- Kuldeep Chawla:** Correct.
- Nimit Gala:** So despite the sales for this quarter being down on a YOY or QOQ basis we can see good sales traction in the...
- Kuldeep Chawla:** I would just like to—Nimit if you give me a minute, I would just like to—explain this what we were just talking about in terms of (+) 4 million odd square feet of launches are new launches. What you have seen in the October-December is sales from without a single new launch. Now just to put things in perspective we did 1.3 to 1.4 million square feet of sales in the 9-10 months period ending December. If I'm not mistaken the 0.8 million that you talked about is resulting in a project which is part of the Annuity business called Zentech Business Park which is in Kanakpura Road main road in Bangalore. This project whilst it has....
- Ashish Puravankara:** It's about to get RERA approval, right.
- Kuldeep Chawla:** It's about to get RERA approval. We are not launching as such but we've started work on the project.
- Nimit Gala:** So that still adds to your portfolio?
- Kuldeep Chawla:** That's why I think the mathematical confusion.
- Nimit Gala:** One more thing I see that you've witnessed a very good average price increase in the Provident projects ongoing.
- Kuldeep Chawla:** Right.
- Nimit Gala:** It's very heartening to see but what really because rest of the local peers are also cribbing about over inventory and pressure on prices, how did you manage that?
- Kuldeep Chawla:** I will let Ashish answer this.
- Ashish Puravankara:** I think it's a combination. One is in terms of the product, over the last 2-3 years the Provident product by itself has evolved. So today if you compare the specifications or the finishes of the Provident apartment it can compete with any luxury housing player including Puravankara. What

we have done very well is I think we have got the sizing right thereby it is affordable only from the point of a ticket size. It's still a great product, it's still a product that you can charge a very competitive per square feet selling price. I think that's what helped take the averages up. Secondly also in terms of the locations, we have been very choosy where we have taken of these projects where we have been able to get good pricing. I think the change in marketing strategy as well. With digital marketing the change that we did in our marketing program last 2-3 years I think the marketing that has increased which is also helping us get better averages.

Nimit Gala: So if I can put it this compact luxury units is what is doing a trick for you?

Ashish Puravankara: Yes.

Nimit Gala: I understand that you are getting into Annuity business also and last years have been very good for commercial space in Bangalore and next two years also forecast if we see, the supply vis-à-vis the demand is quite healthy. But after that it might in all likelihood that the rentals might have peaked out, so was just wondering is it a good time to enter right now?

Ashish Puravankara: Couple of things there is that if you see almost 60%-70% of that portfolio is not land that we are buying afresh. So these are lands that are already with the organization so we have the benefit of the cost in terms of land cost. Secondly we are again very choosy, we are not going on outskirts and building very large Tech Parks, for example we have 0.8 million square feet development which is 3 km from MG Road from the City Center. So this is the land that was bought by the company way back in 2005, so demand for CBD I don't think will ever go. And we have the price advantage because these are not lands bought today at crazy peak prices.

Moderator: The next question is from the line of Rahul L, an individual investor. Please go ahead.

Rahul L: Would like to just no on the macro front with the recent announcement in the budgets and RBI, how do you see that playing across your company?

Kuldeep Chawla: So, two aspects, one I think the directional macro is good, focus on infrastructure, quality of life so on and so forth. Specifically, I think there are 3 or 4 proposals that help both the primary market as well as the secondary market. The primary market 80IBA projects we already have a couple, we are going to add a couple more, now those will get the benefit of 80IBA. The second aspect is related to the capital gains tax benefit which is now extended to two homes instead of one under Section 54 of the Income Tax Act. This we believe will boost the demand for not only second homes but also mid-income and affordable homes. Lastly the income tax exemption on notional rent on unsold inventory will benefit players like us who have unsold inventory and then there is no tax which is on the notional rent if you own two homes, you are required to pay tax on one on account of notional rent. That has gone and will boost second home acquisitions by customers.

- Rahul L:** So you see demand picking up in the next couple of quarters?
- Kuldeep Chawla:** There is one other thing which is the fact that apart from the infra spend because there is no income tax up to 5 lakhs disposable income in the hands of people go up and affordable homes i.e. Provident will be a big beneficiary of this. Now if you add the fact that yesterday's repo-rate cut is likely to bring down home loan rates that's an added bonanza.
- Moderator:** Thank you. As there are no further questions from the participants I would now like to hand the conference over to Mr. Chawla for closing comments.
- Kuldeep Chawla:** Thank you very much ladies and gentlemen. We appreciate your taking time on a Friday evening just before a weekend to join us on Puravankara's Q3 FY19 earnings call. Thank you once again. We will be all available to you off-line should you have any further questions. Have a wonderful evening and an even better weekend.
- Moderator:** Thank you very much sir. Ladies and gentleman, 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 for readability purposes)