



“Puravankara Limited Q2 FY’21 Earnings Conference Call”

**November 13, 2020**

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**Moderator:** Ladies and gentlemen good day and welcome to Puravankara Limited Q2 FY21 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, ma'am. A very good evening and a very warm welcome to all of you. May I also take the opportunity to wish all of you and your families a very happy and prosperous Diwali. My name is Kuldeep Chawla. I'm the Chief Financial Officer of Puravankara Limited. We hope you and your family are safe and well during this pandemic. Thank you for taking the time and joining us on the Q2 FY21 earnings call for the quarter and the half year ended September 30<sup>th</sup>, 2020.

The presentation and financial results for the quarter and the half year ended September 30<sup>th</sup>, 2020 have been uploaded on the stock exchange. I will start with a short update on the business and how we have been navigating the current scenario and give you some idea of our view of the outlook for the coming quarters. Following that, my colleagues and I would be delighted to answer any questions that you may have.

COVID-19 has had a major impact on economies and businesses at large, with the majority of the impact during the first quarter of the fiscal year. Since the government has ended the lockdown, economic activities have started to recover and businesses were turning towards normalcy. Q2 FY21 has seen us increase our sales momentum beyond what we saw during the launches of projects in both brands during the lockdown. Strong sustenance sales across both brands as well as in our ready-to-move inventory helped convert demand into sales, which recorded a level of 0.84 million square feet or 12% higher than Q2 FY20. This growth is aided by early investments in technology and more streamlined systems and processes. Sustenance sales, on the other hand, jumped 71% in volume terms across ongoing projects in both brands despite some concerns from various participants in the market that new project developments are going to take longer to sell due to the COVID pandemic.

Furthermore, several homebuyers have been wanting larger homes, better amenities and projects that are well designed. This is helping both our brands. In addition, our gated plotted project launched earlier in Q1 also continued to see strong sales as customers appreciated the premium offering and the need for extra space. Being well positioned to capitalize on the sale of ready-to-move inventory, we have steadily reduced our inventory by over 51% in the last 1 year to move our ready-to-move inventory to below 1 million square feet or 0.82 million square feet at the end of September. We are targeting a near zero inventory over the next 9 odd months. All this is giving us the confidence to roll out new launches. 9 new projects - 5 premium ones under Puravankara and 4 affordable housing under the Provident brand, are planned to be launched over the next couple of quarters.

On a half yearly basis, we've surpassed last year's performance with sales of 1.53 million square feet during H1 FY21 as against 1.51 million square feet in H1 FY20. Our sales bookings aggregated almost 900 crores in this half year, about the same level as last year. And we're excited about this since it came on the back of a weak Q1 and no new launches in the current quarter ended September '20. In our view, therefore, the tide has turned, clearly indicating the return of buying activity.

On the execution side, the workforce has returned in good numbers. And with adequate materials and other resources, activity has also resumed across our cycles. Combined with the proactive people measures, we are well positioned to accelerate construction activity as the effect of the pandemic subsides.

Coming to the detailed financial performance for the quarter and half year; first for the quarter, consolidated revenues were up 15% quarter-on-quarter for the year at INR 220 crores. EBITDA was INR 81 crore, up by 19% quarter-on-quarter, implying a margin of about 37%. While the reported accounting loss after tax was INR 10 crores, importantly, the gross operating surplus had an impressive sequential growth of 178% at INR 101 crores for the quarter. We continue to generate operating surpluses after interest and taxes, which grew 1.5x sequentially.

Next, for the half year ended September 30th, 2020; our consolidated revenues were INR 411 crores, EBITDA was INR 147 crores and the margin, 36%. Again, operating surpluses stood at INR 138 crores for the half year. On an overall basis, we saw several homebuyers looking for larger homes, better amenities and projects that are well designed, driving consumers to consider Puravankara and Provident, both well known to offer these features. The company continues to comfortably meet all its obligations to its various stakeholders. We have continued to be cash-positive on a gross operating surplus basis for the last 10 quarters running and on a net operating basis for the last 6 quarters running.

In summary, we remain focused on our efforts on business continuity. Our digital transformation efforts continue as well. It is important to continue to adapt. Our entire organization has adapted well to the new normal. We see digital catalysts such as supporting work from home or taking cost reduction driving these new initiatives. One of the biggest dynamic changes is how customers are also getting more conversant using the digital technologies. Channel partners as well as our teams have adapted very well to these new approaches. As a result, customer engagement is at a different level now. This is also leading to a lot more efficiency in both our costs as well as our return on investment.

To boost the demand for residential real estate for sale of residential units up to INR 2 crores, last evening, a new provision was announced whereby the price variation is allowed up to 20% below the circle rate, double the erstwhile provision of 10%. As such, while none of our projects are in this range, this measure will not only reduce some difficulties faced by both homebuyers and developers, it would also help in clearing unsold inventory in the market. More importantly, we believe that under the current regulatory and market scenario, there exists an opportunity for

well established, well entrenched, disciplined, regulated real estate players to expand and gain market share.

The Puravankara group, with its strong execution capabilities, its customer centricity and its trusted brand, is geared to capture this opportunity. We remain confident that our geographically diversified and customer-centric business with its growing digital footprint, combined with our focus on quality and timely delivery, would help us establish ourselves as a much stronger and more resilient organization. With this, we open the floor to questions.

- Moderator:** Thank you very much. We will now begin the question and answer session.
- Kuldeep Chawla:** Here is a suggestion. Since there are few people on the call and its Diwali time, we're happy to kind of take this one-on-one offline. And our e-mail IDs and contact coordinates are available. We are happy to set up one-on-one calls to answer one or more questions as the participants might prefer.
- Moderator:** The first question is from the line of Vinay Makhija, an individual investor.
- Vinay Makhija:** Can you explain a little more in detail of how the differential of 20% as versus 10% would be helpful and the projects where it would be beneficial as a developer?
- Ashish Puravankara:** So, basically, if you had an apartment and your selling price was INR 1 crore, earlier if you sold that apartment below 10%, which means if you sold that apartment at INR 89 lakhs, the INR 10 lakhs would have been taxed as an income for the developer and the buyer. If you sold it at INR 91 lakhs, which is within the 10%, you were okay. So, for example, if your guideline value in that location in your project is INR 1 crore & for whatever reason you sold the apartment at INR 91 lakhs, that is fine. For whatever reason you sell the apartment beyond 10% discount, which is INR 89 lakhs, then the entire INR 11 lakhs would have been taxed as an income to the buyers and separately to the developer. Now what they did yesterday was that they have increased that threshold to 20%. So, in the same example, if you sell it at INR 80 lakhs, you're okay. But if you sell it at INR 79 lakhs, then the INR 20 lakhs differential, which is the guideline value of INR 1 crore, you're selling it at INR 21 lakhs discount, so INR 21 lakhs would have been taxed as an income in the hands of the builder and the customer would have been taxed separately.
- Now what they said yesterday was apartment up to 2 crores value can sell at a discount of 20% and within that 20%, there would be no sort of tax incidence on that 20% amount.
- Vinay Makhija:** I got that point of yours. So, this is the differential between the circle rates and the final price, right?
- Ashish Puravankara:** Correct.
- Vinay Makhija:** Which of our projects would fall into this purview?

**Ashish Puravankara:** None of our projects because most projects in Delhi and other cities have been quite aggressive and they've been matching circle rates to the actual selling price and we also have not been giving much discounts. So, we don't have any project where the circle rate is INR 1 crore and we are selling it at INR 79 lakhs or even INR 89 lakhs for that matter.

**Moderator:** The next question is from the line of Abhijit Kumar from Share Giants.

**Abhijit Kumar:** There is a sequential jump in your sales over Q1 figures. So, if you can give us some commentary on how the things normalized and do we see a fast track recovery from here onwards? What is the outlook for the same?

**Ashish Puravankara:** We are also positively surprised. I think the demand has come back much faster than we thought it would. So, a city like Bangalore got shut on 24<sup>th</sup> of March and reopened on May 4<sup>th</sup>, right. So, April was pretty much a washout. But in spite of that I think from the time we've opened we've seen strong demand come back and I understand and believe that this is experienced only by a few of the strong brands. So, there is polarization of demand that's happening. There is consolidation that's happening. And the happy point is that we are seeing this sales across ready to move in, across under construction and also new launches. So, I believe that in light of the number of launches coming down, in light of the interest rates being at the lowest, in light of COVID where I believe that basis our interactions with prospective buyers, there is a certain sense of comfort in owning their own homes & the sense of security even as an asset class today. So, I think all these things have come together and we have seen that the top 4-5 brands have done exceptionally well. I strongly believe that this will continue for at least some time.

**Abhijit Kumar:** My other question is on the land purchase cost. So, if we compare to last year's figure we see that there is a large variation. Even in Q1 it was INR 64 crores. In the last year, it was only INR 6.65 crores and in the current year it's around INR 78 crores. So, what is the reason for such wide variations? From the modeling point of view, how should we look at the land purchase cost versus the revenue so as to project some kind of profitability for the company? And what is the company outlook going forward on land purchases? Whether you would like to do outright land purchases or try to avoid that?

**Ashish Puravankara:** We have a strong pipeline of launches already lined up which is close to 10 million square feet which is there in our corporate presentation. So, having said that I think land being our raw material we need to constantly be in the market and evaluate opportunities that come by. Most of the transactions that we have secured in the recent past, most of them have been on joint developments and that will be the strategy going forward. Having said that there are certain old transactions where we have given certain advances. And as and when they mature in terms of certain cities where the landlords have they have to clear up the title or they have to do the conversions etc. and we've already given advances. So, as and when they mature those transactions having already committed to them we have to close. But going forward yes I think there'll be a higher percentage of joint developments over outright.

**Moderator:** The next question is from the line of Karan Singh from AB Capital.

- Karan Singh:** If you could please explain how has the progression been on the construction activity front and are there any labor issues on the ground? And also if you could explain if there are any wage hikes or cost increases, etc.
- Ashish Puravankara:** So, I think there are two parts to construction; one is the raw material and the second one is labor. As far as raw materials are concerned there is no issue whatsoever in terms of availability & in terms of supply chain. I think that has normalized which is good. In terms of labor, 75% of labor has come back. And I guess in the next 1 or 2 months we should be back to 100% of the labor strength of pre-COVID. In terms of wages and increases in labor costs - there has been no increase.
- Karan Singh:** Just to follow up on that - any expectation of increases in the upcoming quarters once we get to 100% level of activity?
- Ashish Puravankara:** No, so basically having reached 75%, basically the laborers are all coming back. Moving from 75% of the labor strength required to 100%, it's the same labor contractors. They are in the process of mobilizing more laborers. They are coming in transport logistics etc. So even when we reach 100%, we don't foresee it. If there was any increase in cost, we would have seen that 2-3 months ago itself when we were inching up from 30% to 40% to 50% to 60%. If there was any demand for increase in wages it would have been brought up at that point of time. Now having reached to almost 75% of the required strength, there hasn't been any demand for any increase in wages. So, I don't believe that there should be any request for that from 75% to 100%.
- Karan Singh:** My next question is around the collection front. So, how has the collection been in the last 3 months and any challenges that we have seen? Any customers who have faced issues or any cancellations that we have seen?
- Ashish Puravankara:** We've not seen any cancellations. In terms of customer installment payments - yes customers had requested in the month of May- June-July-August similar to what RBI had announced 6-month moratorium. Customers were taking advantage of that and had requested. From last quarter we have almost come close to double in terms of collections and they're just improving by the month. In another month or so they will be back to normal.
- Kuldeep Chawla:** Month-on-month we are seeing 10% to 15% growth in collections in the last 3-4 months running. So, there is a significant jump and mind you all this is without any new launches. Importantly just to mention you may have noticed that ready-to-move inventory sales are also good. So, that visibility of near-term collections is also there.
- Karan Singh:** My next question is on the operational front. Our operational surplus has been consistently good. By when can we expect to see that flow into cash PAT and earnings per share?
- Kuldeep Chawla:** I think we need to look at our surplus from two points of view. One is that the level of activity in terms of labor has not yet reached that billing cycle. So, that will take a couple of quarters. But the cash flow is coming in and when it comes in from ready inventory, straightaway it is going into reduction.

- Ashish Puravankara:** And one important point is that if you look at our cash flow, that has got nothing to do with your P&L because that follows Ind-AS 115. So, that is what will define your revenue and your PAT and then your dividend and EPS.
- Kuldeep Chawla:** The point that we're trying to make is that consistently we are not only able to cover our expenses but we're also able to comfortably cover and leave a surplus after interest loan repayment and taxes. And we've had now on a gross basis 10 quarters. So, we don't see that changing & in fact we see that only improving.
- Karan Singh:** So, just on the interest part, the interest cost for H1 is close to half of the revenues. This is despite our ratings being solid. So can you just help clarify what kind of debt this is and why we see the costs going up for this quarter or the half year?
- Kuldeep Chawla:** Just so that we are clear, the interest costs cannot be compared to revenue. Our request would be if you look at the cash flow slide & that will give you a more accurate picture. At INR 285 crore collections for the quarter, that's what you need to compare against our interest cost rather than the revenue.
- Ashish Puravankara:** As per the accounting standard today, revenue is a function of how many completed apartments were handed over and registered. In terms of cash flow, that will define in terms of the ability to repay debt or do construction or pay interest and which is a reflection of your launches, your collections from customers, etc. which is not reflective in your revenue number because of the accounting.
- Kuldeep Chawla:** In other words what we're trying to say is that interest for the quarter, for example, was INR 50-52 crores as against that you had collection inflows on a consolidated basis of INR 285 crores. After payment of interest and taxes etc. you still have a meaningful surplus. Does that answer your question?
- Karan Singh:** Yes. That answers the question.
- Moderator:** The next question is from the line of Ashok S. from Arlon Investments.
- Ashok S:** On Provident front; looking at the realizations this quarter, it seems that Provident ready-to-move inventory is kind of going 20% cheaper while your new launches are getting some bit of premium. So, how do we read that trend? Are people ready to pay more for a flat coming much later? So what's really happening there because there's some divergence in the ready-to-move kind of being much cheaper?
- Ashish Puravankara:** So, regarding the ready to move in part, you have to bear in mind that these were much older projects. And it depends on the project mix and the location and in this quarter which products were sold. So, for example if there is a contribution that comes from Coimbatore where the price has not moved. So, it's not 20%. We haven't given large discounts per se. So, for example in a quarter if the Bangalore project sells a higher percentage and the Coimbatore project sells a

lesser percentage you will see that it is reflected in the average which does not necessarily mean that you've reduced the prices by 20%. It's more on the product mix.

**Ashok S:** I know these are COVID times and just short term but it seems like lending at the lower end of the market especially for the NBFCs to consumers is getting kind of choked up. So, how does that put Provident going forward?

**Ashish Puravankara:** You need to put the real estate into three buckets - I think low-cost housing premium, affordable housing and then you have luxury housing. Provident fortunately for us now falls in the premium affordable housing. So, if you see the nature of our buyers, they are still IT professionals who still rely more on HFCs for their home loans. There is a small percentage. The only advantage for people is that they're all salaried class. The only advantage that in the past you would have with an NBFC if an HFC gave them a loan eligibility of maybe INR 50 lakhs and then NBFC would have been a little more aggressive and made the eligibility of maybe INR 59 lakhs. So, instead of buying a two-bed they were tempted to buy a three-bed. But if you see the profile of our prospective buyers and our existing customers, these are all employed with IT companies & yet at the entry level have access to HFCs for their home loans. So, we haven't seen any change or any difficulty in that.

**Kuldeep Chawla:** And the same old HFC now is able to give them a higher loan because the interest cost has come down meaningfully from let's say an 8.2% level to 6.8% 6.9% level.

**Ashish Puravankara:** And today with the kind of liquidity that the banks are sitting on fortunately for us even PSUs banks like SBI, etc. have also gotten aggressive right now with home loans.

**Ashok S:** So, if I had a crore in a way to buy a home and if the interest rates fell for that same crore, I'd probably get a slightly better advantage.

**Ashish Puravankara:** Correct, that advantage is there as well.

**Ashok S:** And that's what you're playing for in Provident for slightly larger kind of flats?

**Ashish Puravankara:** Correct. To answer your main point in terms of the NBFCs, fortunately for us the profile of our buyers, I think a very high percentage of them anyway go to a bank who could take their loans from HFCs. So the current NBFC situation has not really affected us as much.

**Ashok S:** And just one last question. I think on the international expansion, I mean I've just been seeing Colombo hasn't really moved much. Any thoughts of just selling and using that cash back in India?

**Ashish Puravankara:** Yes. So we are evaluating options on Colombo and we should have something probably by next quarter. Fortunately for us there's not huge capital that is blocked in there. We had bought this land way back in 2005-2006, so huge capital is not blocked.



We are currently evaluating all options - developing a project or doing a villa or doing plotted or to monetize it.. There are a few interested parties who have reached out to us. The plans are almost sanctioned. So, we will have something by next quarter.

- Moderator:** The next question is from the line of Abhijit Kumar from Share Giants.
- Abhijit Kumar:** My question is on the debt. The group has been seen paying off the debt in last years while this quarter we have seen an increase of debt by INR 154 crores. So, is there any change in strategy? How do you see the debt going forward?
- Kuldeep Chawla:** This debt increase is entirely on account of very simple capitalization of interest taken during the first moratorium primarily. So, to answer to your specific question, no there is no change in strategy of debt reduction. We continue to follow the strategy of debt reduction. And the fact that sales including of ready inventory have been good would automatically under the suite mechanism reduce our debt going forward.
- Abhijit Kumar:** My question was on operational surplus which has been quite good even during the COVID times. How do we see this flowing into the cash flows and earnings and when will it impact the profitability because operating surplus is quite good but it is not getting translated into the profit after tax.
- Kuldeep Chawla:** So two aspects. Aspect number one is that the operating surplus is being used in two ways going forward as has been in the past. Number one is for reduction of debt example on ready-to-move inventory where there is no associated costs to be incurred. Number two, is that it will accelerate the construction activity on ongoing projects which will further enhance the completion and sale of these projects which will further lead to reduction of debt or provide capital from internal accruals for growth as and when we think it's time to deploy that and to allocate that capital towards those initiatives. You would have seen that we have hardly borrowed any construction finance for many of our projects although we have been doing more and more launches and that is because this surplus is then available to us for the construction of those projects.
- Abhijit Kumar:** My question was on the construction activity. So, can you please explain to us on progression of the construction activity? How have the things moved after the COVID scenario and have the things normalized now or are we still facing a lot of challenges? And my second part to this question was on all the salary and other cost cuts that were taken. Now is the company planning to reverse all the cost cuts just like how other companies are revising the salaries back to the original levels or will the cost-cutting for the company continue?
- Abhishek Kapoor:** To answer the first question in terms of construction progress, as we mentioned earlier we are seeing labor coming back and we are trying to get back to normalcy. But because the whole activity had stopped & across contractors, multiple activities take place on the site so there's a sequence in which these activities have to be done on the site. Now sequencing of activity may take some time because one contractor may have been able to mobilize, one may not have been able to mobilize some of it. So, there are teething problems when you kick-start something again because everything had come to a complete halt and with a reverse migration the whole process

had come to a complete halt. So, that process is going on where we are streamlining that whole sequencing and getting all our sites back on track. So, in that context I think we are still not back to normal. But yes, progressively, it is improving as we mentioned earlier. To answer your second question, cost control is an ongoing activity for us. We are very focused on operational efficiency and productivity & that will continue as our endeavor. I mean cost is not just a factor of salary reduction but it's a factor of how you make sure that with the same resource you produce more and you create more and more productivity across the organization. And hence whether you look at it from operational efficiency point of view or capital efficiency point of view, you improve your profitability and of course the top line. So, we will continue our effort in that direction and various initiatives are being taken to continue to engineer the whole value chain in our business to ensure that we get better and better efficiency.

- Moderator:** The next question is from the line of Karan Singh from AB Capital.
- Karan Singh:** This one is on the commercial real estate strategy; any updates on that front because Puravankara is one of the best residential players with good CBD locations. But given the pace of the corporates returning or canceling the office spaces, will we see a change in mix going ahead?
- Ashish Puravankara:** I believe that in terms of the corporate behavior that we are seeing right now, I think it's still very early days. I think people are experimenting with various different formats. Will that work? Will that not work? Will it work in a hybrid way in the sense that it may not be entire thing work from home? It may not be half or it may be hot desking, so therefore going over the next 3-4-5 years it may only affect about 15%-20%. So I think it's too early to sort of conclude on that point. In terms of our personal commercial strategy, so we're not going on the outskirts and building large tech parks. So, currently with the land asset that the company already owns, these are all key CBD locations and today in CBD there isn't much land available, development available. So, in whatever the way the scenario pans out over the next 3 to 4 years, I think good-quality CBD properties will continue to have a strong demand and will hold value.
- Karan Singh:** And also just a follow-up on that. Last time we spoke about the platform play and the new partner coming in to grow the commercial portfolio, any progress on that and when can we see some announcements on this?
- Ashish Puravankara:** Discussions are still on, so we are still evaluating various options and I think it may take about a quarter more.
- Moderator:** Thank you. As there are no further questions I would now like to hand the conference over to Mr. Kuldeep Chawla, Chief Financial Officer for closing comments.
- Kuldeep Chawla:** Thank you once again ladies and gentlemen for your time and attention. Like I mentioned we're happy to take more questions either one-on-one or set up if you would like a call for Tuesday evening. We wish you and your families a wonderful and prosperous Diwali. Thank you once again and bye for now.

**Moderator:** Thank you. On behalf of Puravankara Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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