PURAVANKARA®

"Puravankara Projects Limited Q1 FY17 Earnings Conference Call"

September 8, 2016

PURAVANKARA®

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

Moderator: Ladies and gentlemen, good day and welcome to the Puravankara Projects Limited Q1 FY17 Earnings Conference Call. As a reminder, all participants' 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 for an operator by pressing '*' followed by '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Hari Ramakrishnan. Thank you and over to you, sir.

Hari Ramakrishnan: Good evening everyone. We welcome you all to Puravankara's earnings conference call for the first quarter ended 30 June 2016. The macroeconomic situation is still oscillating with the key indicators like CAPEX, inflation, IIP and consumption yet to show consistent improvement over previous quarters. While the Central Government initiatives on various schemes have commenced with increased public spending we are yet see the full impact translate at the ground level. The micro markets continue to be challenging in terms of demand and pricing power. Notwithstanding the challenging market environments, we are committed to execution and delivery, expansion into newer geographies, maintain debt levels, focus on cost reduction initiatives and accelerate the liquation of ready to move in inventory.

We believe all these initiatives will help us coincide with the improvement in market sentiments. The recent trolling of the NGT has affected the industry heavily. While one can follow the norms prescribed in this order for the future projects, applying the new norms to the ongoing projects has impacted the industry. It is heartening to know that this order will not have any impact on any of our ongoing projects. Added to this, the demolition drive by the State Government in Bangalore that has affected the sentiment of the purchasers who are likely to have a wait and watch strategy for some more time. Statements by the local Government that they would follow the map dated 19/05/2016 regarding the drains and ignore subsequent CDPs according to which plans have been approved by the predecessors is a negative approach. It may be noted that none of our projects have any material impact due to this demolition drive initiated by the State Government.

We have now adopted IND-AS from April 2016 as required by the mandates and our current reporting quarter as well as prior periods have been restated in

Puravankara Project Limited,
130/1, Ulsoor Road, Bengaluru – 560042
Tel: 080-25599000/43439999
CIN: L45200KA1986PLC051571

compliance with this standard. The profit and loss account will disclose the impact of the IND-AS but it does not have any change to the underlying business operations including the cash flows generated by the company.

Due to adoption of IND-AS, we have now replaced the quarterly audited financial statements with limited review by the auditors. Moving on to sales; despite the negative sentiments prevailing in the market the year has begun with a group clocking net sales of 0.57 million square feet for the quarter ended June 30, 2016. This is a 45% increase in area and a 60% increase in value on a year-on-year basis. Sale value for the quarter ended 30 June, 2016 was Rs. 314 crores. For the quarter ended June 30, 2016 the sales realization of the ongoing projects of Puravankara and Provident stood at Rs. 6,070 and Rs. 4,128 per square foot respectively.

As stated in the previous call, we have received occupancy certificates for three of our projects in Chennai, Coimbatore and Bangalore totaling to 3.09 million square feet and have transported to our completed basket category. Projects under development as of 30 June, 2016 stood at 22.08 million square feet. Out of this 18.02 million square feet is Puravankara's share and of which 9.6 million square feet have been launched for sale. Cumulative sales on 9.6 million square feet up to 30 June, 2016 stands at 47%. During the quarter ended 30 June, 2016 we launched Purva Silver Sands in Pune. This marks the entry of the brand into a new city in the western region at comparable price points and also coincides with our strategy of de-risking from focusing on Bangalore as a major market for us.

On the sales contribution, out of the 0.57 million square feet which we have sold for the first quarter, completed category contributed 29%, ongoing projects contributed 42% and new launches at 29%. Similar percentages have been recorded for on value terms as well.

Moving on to quarterly financials, our revenues for the quarter stood at Rs. 312 crores, EBITDA stood at Rs. 80 crores, EBITDA margin is up by 26% from earlier 23%. PBT and PAT for the quarter stood at Rs. 13 crores and Rs. 10 crores respectively. We wish to bring to your notice that the reason for the drop in PAT margins are on account of three issues – Firstly projects Sound of Water, Kenworth and SilverSands, which have been launched, have yet to hit the

Puravankara Project Limited,
130/1, Ulsoor Road, Bengaluru – 560042
Tel: 080-25599000/43439999
CIN: L45200KA1986PLC051571

revenue recognition thresholds. Consequently, profits arising from these projects have also not been factored in the financial statements for the quarter.

Additionally, all expenses in the form of selling, marketing and other period costs pertaining to these projects will be charged off as expenses in the profit and loss account, whereas the revenues against these projects will be year ended. This is the second reason why the profit margins are a little lower. Additionally, the current ongoing projects are generating profits only from the construction activity due to the accounting policy which we have been following. This level of profits will be recorded in the books at the current level basis the current market environment.

Once the market sentiment improves and our sales are moving up the profit margins starts moving back into the profit and loss account. Moving on to cash flows, selections for the quarter ended June 30, 2016 stood at Rs. 320 crores., construction spend consolidated stood at Rs. 256 crores. The balance collection from sold units stands at Rs. 1,279 crores and the balance cost to go on launched projects excluding the proposed phases of Silver Sands and Kenworth stand at Rs. 1,418 crores.

This leaves us with a marginal deficit of Rs. 129 crores which will be met through sales. Also please do note that the balance unsold inventory value on completed and ongoing, including the deliveries proposed for this year stands at Rs. 4,154 crores. With our focus on selling anywhere between 50% to 70% within 12 to 15 months of every new launch we feel that going forward the requirement of project level debt for construction does not arise as we used to have in the earlier periods.

Moving on to the cash flow position required for the completion of projects in FY16-17. As stated in our previous call we will be delivering 6.55 million square feet during this fiscal and the broad cash flows for these projects are given below.

Balance selection from sold units stands at Rs. 504 crores. Balance cost to do on these projects at Rs. 369 crores. Surplus from these projects stands at Rs. 135 crores, which is a comfortable positon for us to ensure there is no disruption or delay in terms of completing these projects. The inventory value of the projects which are going to be delivered stands at Rs. 1,200 crores leaving us with a total

Puravankara Project Limited,
130/1, Ulsoor Road, Bengaluru – 560042
Tel: 080-25599000/43439999
CIN: L45200KA1986PLC051571

surplus to be generated in terms of cash at Rs. 1,332 crores. The unsold area of this 6.55 million square feet as of 30 June stands at 2.47 million square feet.

Moving on to our debt position. Our net debt as on 30 June 2016 stood at Rs. 2,295 crores and the net debt to equity stands at 0.93%. The promoter back funding in net debt stands at Rs. 259 crores making a net external debt at Rs. 2,036 crores. As of June 30, 2016 the weighted average cost of debt stands at 11.84%. We also acquired during this quarter a prime land of 12 acres in North Bangalore with 1.32 million square feet of saleable area as of economic interest and we expect to have a launch of this in Q1 of FY18. We further continue to evaluate opportunities to reduce the debt cost from the current levels.

Moving on to launch pipeline. The launch pipeline stands at 11.36 million square feet under both the Puravankara and Provident brands across Cochin, Bangalore, Chennai and Mumbai. Of the above one project in Chennai in Provident brand of 3.81 million square feet is awaiting final approval and is expected by mid of October 2016. Under Purvankara we are awaiting approvals for 2.37 million square feet. We have also initiated the pre-launch for the Cochin Marine Drive project as all approvals have been received.

With this, I open the floor for questions.

Moderator: Thank you very much, Sir. Ladies and gentlemen, we will now begin with the question-and-answer session.

The first question is from the line of Anubhav Gupta from Emkay Global. Please proceed.

Anubhav Gupta: My first question is on the pre-sales number which stood at Rs. 3 billion which is a quite a jump if you compare it YoY. So just wanted to understand the strategy to sell the completed units how it is panning out? We are seeing a good jump. You think this momentum is sustainable? And within the completed inventory Provident bookings saw decline, what was the reason for that?

Hari Ramakrishnan: Historically in the last five to six quarters we have been recording a quarterly run rate of 160,000 to 175,000 square feet under the completed category basket. This is a result of various initiatives including schemes and including push through discounts or any other marketing activities that the company is

Puravankara Project Limited,
130/1, Ulsoor Road, Bengaluru – 560042
Tel: 080-25599000/43439999
CIN: L45200KA1986PLC051571

undertaking. That is a result of all this push. What we are seeing now is the slow revival of the market sentiment. Outside of Bangalore also we are seeing this trend continuing. What is happening is this 29%, which has been the contributor from the completed category will slowly start increasing from this current level and we expect based on our current assessment to move close to 40% in the immediate two to three quarters.

Ashish Puravankara: Cochin has shown a very positive turn in the last quarter. So there is a positive movement in Cochin and the sale of the ready move inventory as well?

Anubhav Gupta: And the completed unit inventory stands at 1.9 million square feet. So that is kind of unchanged for many quarters now?

Hari Ramakrishnan: No, what will happen is that we have added three more new projects which has got completed during this quarter which is Windermere Phase-1, Bluemont and Harmony. Last time we had 1.66 million which is now moved up to 1.9 million compared to March quarter to this quarter. Including the nearing completion which is about 2.33 million square feet as of 30 June which was 1.9 million as of 31 March 2016.

Anubhav Gupta: And obviously the completion of project execution has improved a lot. So what is the reason that the revenue growth is still not reachable in the same proportion the execution is improving?

Hari Ramakrishnan: The impact of revenue and profit margin is on account of three reasons. As stated earlier in the call, the first one is we are following on the guidance mode on revenue recognition which has three thresholds. For three of our projects which is Sound of Water in Bangalore, Kenworth in Hyderabad and Silver Sands in Pune, the revenue and the consequential profit has not been recognized which was hitherto our policy of revenue recognition under the earlier accounting regime. This impact is one significant issue.

The second reason is because of we having to follow this guidance from a threshold norm the expenditure incurred on selling, marketing and other period costs will be recorded as an expenditure in the relevant quarter or period. You will have expenses ahead of revenue for these projects which was another reason for the profit margins taking a hit. And the third reason is, the current ongoing projects which was following older accounting policy of land revenue

Puravankara Project Limited,
130/1, Ulsoor Road, Bengaluru – 560042
Tel: 080-25599000/43439999
CIN: L45200KA1986PLC051571

recognition is now in the final stages of completion. As we speak, we have only the construction profits being recognized in the profit and loss accounts, because for the sold units, the later part of the land profits has already been recorded in our earlier periods. Because of these three factors the revenues and the profit margins are showing a dip as compared to our earlier periods. This will get corrected once we start delivering 6.55 million square feet by March 2017.

Another three more quarters we will have these kind of numbers being reported, but these are more temporary in nature because the unsold inventory sitting in these projects have margin impact for each of those projects. Once I start selling those, coinciding with the sentiment pickup in the market, the revenues and profits will start reflecting back into the profit and loss account.

It is more of a timing issue rather than any specific one-time event or any such other activity.

Anubhav Gupta: Completed unit in the first quarter is Rs. 60 crores at Puravankara and Rs. 18 crores at Provident. So this Rs. 80 crores would have been accounted fully, right because these are completed projects?

Hari Ramakrishnan: Which number are you referring to?

Anubhav Gupta: Our completed and nearing completion so Rs. 58 crores was in Puravankara and Rs. 18 crores was in Provident?

Hari Ramakrishnan: Yes.

Anubhav Gupta: So this Rs. 80 crores; Rs. 76 crores would have been accounted fully in first quarter, right?

Hari Ramakrishnan: You can take roughly 75% because a few of the customers would not have signed agreements before 30 June and given to us.

Anubhav Gupta: Right and what would be the EBITDA margin on this segment I mean broad number? I know it is difficult it depends?

Hari Ramakrishnan: On completed projects, the margins are anywhere between 35% to 40%.

Puravankara Project Limited,
130/1, Ulsoor Road, Bengaluru – 560042
Tel: 080-25599000/43439999
CIN: L45200KA1986PLC051571

Anubhav Gupta: Okay. And that includes the legacy projects also?

Hari Ramakrishnan: Yes.

Anubhav Gupta: The new launches were around 1.5 million square feet. So you think the run rate of 6 million square feet can easily be achieved in full year?

Hari Ramakrishnan: We had given a guidance of 3 million. Welaunched Silver Sands of about 1.53 million about two months'ago in Pune,. Weare still in the process of selling consistently. We will get a full grip on the entire picture of this launch by the end of Q3 or early Q4. Today I do not foresee any reason why we will not be able to meet the guidance.

Anubhav Gupta: And the debt has gone up and although pre-sales are also going up so there would be strong customer advances inflow as well. Any specific reason?

Hari Ramakrishnan: Debt has been increased primarily because of our acquisition of land in North Bangalore. That has actually shored up the debt by about Rs. 100 crores. And barring that, the requirement of construction-related debt was not significant because of the reason explained earlier. Balance collections from sold units to balance cost to go is a positive number for all the projects which are up for delivery. This debt has predominately been taken for an acquisition of a project in North Bangalore.

Anubhav Gupta: Right. Is it a virgin land or a distressed land?

Hari Ramakrishnan: No, it is a new parcel.

Anubhav Gupta: And when do you expect to launch the project?

Hari Ramakrishnan: Current feasibility is Q1 of FY18. Subject to the current environment which is prevailing in Bangalore, we feel that we will be able to launch before June quarter of 2017.

Anubhav Gupta: And lastly, what will drive the reduction in debt? Obviously you are waiting for Hyderabad money to come in. Any other land monetization you are planning or any other asset sale you think could bring the debt down?

Puravankara Project Limited,
130/1, Ulsoor Road, Bengaluru – 560042
Tel: 080-25599000/43439999
CIN: L45200KA1986PLC051571

Ashish Puravankara One is our Hyderabad money. One is the balance money from Cochin that we are expecting. And there is another land parcel which was in our future launches in Cochin which with the launch of Marina 1 we probably will not be launching that and we are also looking at monetizing that. Discussions are at a preliminary stage.

Anubhav Gupta: So 4 billion from Hyderabad, 1.6 billion from Cochin and another if you?

Hari Ramakrishnan: Yes, roughly about 3 billion to 3.5 billion from the Cochin circle.

Anubhav Gupta: Would you like to comment on timeline for Hyderabad money?

Hari Ramakrishnan: We should have more clarity within this month. The process is more government driven so it is taking its time. As per the latest information available with us, we will be able to get our fix on this transaction by end of this month.

Moderator: Thank you very much. The next question is from the line of Prem Khurana from Anand Rathi. Please proceed.

Prem Khurana: Most of my questions have already been answered. Just a couple. One was we have been doing pretty well in terms of new sales at least for the last two quarters now. But if I were to look at your cash flows, we are yet to see any significant traction rather at least if I look at the numbers for the last two quarters we still seemed to be doing negative projects surplus. So when do you expect this situation would turnaround and in terms of we started doing projects of surplus positive because that is what we were decided whether we will be able to repay our debt on because as of now as things stand today and it seems to be every quarter we are doing almost Rs. 5 crores Rs. 6 crores of negative number which comes to add to our debt?

Hari Ramakrishnan: I will answer this question in two parts. First, on the cash flow for the quarter and the year. As we have been seeing us we have increased our construction spend dramatically from what we used to spend earlier to our current level. Last year we closed at 10 billion of construction spent. And the reason why we had to do that was we wanted to ensure that there is absolutely no delay in deliveries of any of the projects what we had launched.

That trend will still continue this year because I am delivering 6.55 million square feet in this fiscal. Our primary objective is on execution and hence the

Puravankara Project Limited,
130/1, Ulsoor Road, Bengaluru – 560042
Tel: 080-25599000/43439999
CIN: L45200KA1986PLC051571

better part of the cash which has been collected is going to be spend only on construction on lease. If you have been comparing us with the previous quarters, we have not been significantly tying up plan through outright and after a very long time we have done an outright purchase of land due to its opportunistic value in this quarter.

This land that we have bought , there will be significant amount of cash as well as profits once it goes into the cash flow cycle from next year onwards. Excluding this we are not only going to be depending on project collections to meet the debt reduction as told by Ashish earlier, we are also going to focus on the Rs. 4 billion money, which is going to be received from Hyderabad land; Rs. 1.6 billion from to be collected from the other JV transaction. And also the monetization which we have just come in discussions. Substantial part of this money will be going for debt reduction. What we are looking at is this entire project basket which is getting delivered today is at the fag end of the current ongoing projects. Moving on, every new project will have to be compliint under RERA. There will be each project having its own cash flows and profits. We will not be easily movable from one project to another. We are fixing our entire balance sheet through two steps.

First step is 6.55 million square feet. Excluding the 6.55 million square feet, we only have 5 projects under ongoing status and for all other new projects which have been launched, including Silver Sands, we will follow everything under RERA. So which means I will only construct to the extent of whatever I sell. The stress levels on cash flow on all those new projects will not arise.

This is the approach that we are following. You can expect us to have an announcement once we have a clarity on themonetization routes. Once we get a fix on this, It willgo for debt reduction only.

Prem Khurana: But then I mean the land that we bought during the quarter was it a JDA arrangement or it is an outright buy on our or it is a JV kind of a structure?

Hari Ramakrishnan: It is a mix of both. We had other land parcels of about 12 acres out of which 7 acres is bought by us and the balance 5 acres is on a JD basis.

Prem Khurana: But then was it necessary to buy this land parcel because I mean anyway which was kind of looking at monetized some of our assets and at the same time we

Puravankara Project Limited,
130/1, Ulsoor Road, Bengaluru – 560042
Tel: 080-25599000/43439999
CIN: L45200KA1986PLC051571

are buying some land parcel. So is it that lucrative so as to not to be able to kind of ignore or?

Hari Ramkarishnan: This is a very lucrative project and the reason its location which is Thannisandra where we have three different projects. Harmony for example we sold almost 95% a year-and-a-half before it was completed. The same success we have seen in Palm Beach also. If you see the sales in Palm Beach, collections have been very robust, very strong with great profit margins. This project is on Thannisandra main road.

Ashish Puravankara: It is an opportunistic buy and we feel it is going to give us excellent returns on cash and like Hari mentioned, we have been very careful. So if you see, in the last couple of years, there have been very few transactions where we have bought outright. Most of it is on JD.

Prem Khurana: And sir, just one last from my end. When do we expect this money from Sobha to come to us because I mean as I see it you were planning to launch it in I mean the planning to launch this Marine Drive project in the third quarter of this year?

Ashish Puravankara: We have already started the pre-launch of Marina One from this month onwards. The response has been quite good for the pre-launch. Since there was a delay in getting sanction, we have given them a little extension on paying us the balance money. So it is going to be due on October 2017 post which it is interest bearing at the rate of 15% and they have a hard stop of April.

Prem Khurana: Just one last thing on launches. How confident are we managing our launches because I mean as we get to understand I mean Bangalore till sometime are used to be considered one of the best cities in terms of getting approvals in place but then now what we get to hear is I mean you get to see some kind of delays because of some other reason. So I mean would we be able to stick to the kind of timelines they were looking at to launch it or you expect it to?

Ashish Puravankara: I think 80% of the projects we are quite confident of meeting. Even the 20% I am just trying to be extra cautious. I think 80%, there is no issue.

Prem Khurana: And one more I mean we seemed to be doing pretty well overall I mean at least for the last go in terms of new sales and you talked about some marketing efforts and some more efforts. We have been putting these kind of efforts earlier

Puravankara Project Limited,
130/1, Ulsoor Road, Bengaluru – 560042
Tel: 080-25599000/43439999
CIN: L45200KA1986PLC051571

as well. But then why it has changed suddenly over the last two quarters so as to be able to get these kind of numbers because I have been interacting with you last for six years now and we have always been pushing to kind of get to the sales done?

Ashish Puravankara: I think it is a combination of various activities. For example, even the way we market ourselves, I think a lot of focus was on print media for outdoors. We now have a very robust internal tracking system where we have realized that digital marketing is giving us a lot more benefit even in terms of the internal process of tracking each enquiry and then doing our cost and follow up has also given us positive results. In terms of ready to move in, in Cochin which was very, very slow for us earlier, over the last three, four months has really picked up. Even in a project like Eternity where we were selling one or two apartments in a month. Now we are almost tracking 10 to 12. Some months we have touched even 18 and 20. I think the Cochin market has drawn positive for us. I think the marketing efforts are also giving us lot of benefits.

And also the ready to move in, once you handover and the association gets formed and that gets stabilized I think there again we are seeing a good traction in terms of sales.

Moderator: Thank you. The next question is from the line of Kunal Lakhan from Axis Capital. Please proceed.

Kunal Lakhan: Just a clarification. So we paid about Rs. 100 odd crores for acquiring this land in this quarter, right

Hari Ramakrishnan: Correct.

Kunal Lakhan: And so there was a deficit of about Rs. 200 crores that we can see in the cash flows. So what I wanted to understand was basically our sales were better this quarter considering like we would have collected at least 20% from the Pune launch, why was our collection so low in this quarter?

Hari Ramakrishnan: Out of that the entire Rs. 314 crores we will be collecting only piecemeal over a period of time because the agreements have to be signed and given to us and the process with the banks have to be commenced with the customers as well as us. That is the reason why you have some deficit coming in the topline collection.

Puravankara Project Limited,
130/1, Ulsoor Road, Bengaluru – 560042
Tel: 080-25599000/43439999
CIN: L45200KA1986PLC051571

But having said that, what we have done is in this quarter is that while Rs. 190 crores to Rs. 200 crores is the deficit which you rightly pointed out we have only resorted to Rs. 79 crores of additional debt to fund the deficit and the balance has been made good through our internal cash balances. To see opening cash balance which is at Rs. 292 crores and the closing cash balance at Rs. 107 crores.

We had used the internal cash reserves substantially which we would not have done in the earlier periods

Kunal Lakhan: Accounting for the cash balances, the net debt has still gone up by Rs. 300 odd crores. And out of that Rs. 100 crores is because of your land payment and Rs. 200 crores is still that main deficit that operational deficit, right?

Hari Ramakrishnan: Correct. Rs. 200 crores is at the operating level and another Rs. 70 crores will be at the investing level. Basis that we have used Rs. 79 crores and balance Rs. 200 crores we have used from internal reserves.

Kunal Lakhan: Coming to the collections part 2, can we in Q2 the collection rate improving considering like some of the agreements especially in the Pune project would get closed and how do we see the collections going forward?

Hari Ramakrishnan: So as stated earlier, deliveries are scheduled and are having a consistent level of run rate coming up. If you have been following us, roughly Rs. 320 crores to Rs. 350 crores is given as a regular run rate. Now with the new launches coming in this will go up plus I will not be using those new launched money in any of my other projects, because of compliance under RERA, because each project cash will be used only for that particular project. Out of this Rs. 320 crores to Rs. 350 crores, what is important to understand is, I currently have outstanding debtor collection of roughly Rs. 211 crores from completed projects as on 30 June and another Rs. 189 crores from the ongoing bucket.

When the ongoing is going to be coming basis my cash flow progression, we are putting in efforts to collect the Rs. 211 crores which can boost our cash flows in either one or two quarters. So you will see Q2 or Q3 having an increase as compared to the current levels of Rs. 325 crores average to may be another Rs. 75 crores to Rs. 100 crores higher than what we used to collect earlier.

Kunal Lakhan: Lastly, any update on the BBMP order on your Skydale project?

Puravankara Project Limited,
130/1, Ulsoor Road, Bengaluru – 560042
Tel: 080-25599000/43439999
CIN: L45200KA1986PLC051571

Ashish Puravankara: On the BBMP, at the end of the day it was I think a personal issue with the mayor and some relative of his who was running our private property next to our site. Just to support we had not bought his land and joined it to our project is why this I think issue has come up now. But having said that they have asked us to stop construction temporarily, which is about 10 days. There was an inspection done last week which is very clear that we have not encroached on any nala. So just waiting for that report to be formalized post which I think my hope is in the next one week the work will start.

Moderator: Thank you. As there are no further questions, I now hand the conference over to Mr. Ramakrishnan for closing comments. Over to you.

Hari Ramakrishnan: Thank you all for taking your time out to attend this call. If you have any further questions or clarifications, please do feel free to reach out to any of us and we will be happy to take the call. Thank you all.

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

(this document has been edited for readability purposes)

Puravankara Project Limited,
130/1, Ulsoor Road, Bengaluru – 560042
Tel: 080-25599000/43439999
CIN: L45200KA1986PLC051571