Puravankara Ltd. Q1 FY19 Earnings Conference Call

August 10, 2018

MANAGEMENT: **MR. ASHISH RAVI PURAVANKARA – MANAGING DIRECTOR, PURAVANKARA LIMITED**
MR. KULDEEP CHAWLA- CHIEF FINANCIAL OFFICER, PURAVANKARA LIMITED
MR. VISHNU MOORTHI – SENIOR VICE PRESIDENT- RISKS AND CONTROL
MR. NEERAJ GAUTAM – VICE PRESIDENT- FINANCE

Moderator: Ladies and gentlemen good day and welcome to the Puravankara Ltd. Q1 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 of Puravankara Ltd. 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 Ltd. Thank you so much for joining us on Puravankara's Q1 FY19 Earnings call today. Well in action, we are at an interesting point in our journey. Puravankara, like most other organized players has benefited from the consolidation the real estate industry is witnessing following the implementation of RERA. The share of organized players in both sales and new launches has increased by 1.5-2x over the last 2 years from FY16 to FY18 as per data from independent sources.

During the quarter, Provident sales more than doubled Y-o-Y, even without new launches in this quarter our overall sales for both brands clocked a steady 0.61 million square feet valued at Rs. 370 crores of which Puravankara's share was Rs. 313 crores. Sales were led by ongoing projects especially those of Provident which demonstrated an all-round growth across its key markets. The group sold over 6 residential units every day, a 23% growth year on year, along with double digit growth in sales realization across both our brands.

The premium affordable housing segment is witnessing strong demand growth. Provident contributed more than 57% of the total sold area and more than 70% of the total units sold. Provident sales contributed 47% of the total sales value in Q1 FY19, up from 24% in Q1 FY18. Two recent launches in Provident over the last four months have broadened the base of sales and markets both. With sales of over 860 units out of 1100 units opened up in Provident Park Square and more than 800 out of 882 units opened in Provident Adora De Goa, the latter in July. Going forward, Puravankara is expected to demonstrate the same strong growth in its targeted launches which are being rolled out over the next few quarters and where marketing and pre-launch activity on the ground has already commenced.

There has also been a change in accounting standards, accordingly effective the 1st of April 2018, we have started recognizing revenue on a completed contract method versus the percentage completion method based on the new accounting standards, whilst this does not affect the fundamentals of the business, revenue would now be recognized and accounted for only when possession and registration is completed, therefore on a consolidated basis, revenue of Rs. 3,340 crores, which was recognized until the 31st of March 2018 has now been reversed. Based on the reversal of the corresponding cost of project and taxes, retained earnings for the period up to 31st

Puravankara Ltd. No. 130/1, Ulsoor Road, Bengaluru, Karnataka, 560042
Email: investors@puravankara.com
CIN: L45200KA1986PLC051571

March 2018 has been reduced by Rs. 610 crores through an adjustment to the net worth. This reversed revenue would now be recognized over the next couple of years as the respective projects are completed and our esteemed customers take possession of their units. The numbers for the current quarter therefore are those under in the IndAS 115.

Here are the financial highlights:

Consolidated revenue stood at Rs. 394.7 crores. Continuing our focus on execution we spent Rs. 275 crores in Q1 FY19 across all our projects, an increase of 55% year on year. Earnings before Interest Depreciation Taxes and amortization stood at Rs. 107.45 crores, representing an EBITDA margin of 27.2% on consolidated revenues. Profit before Tax stood at Rs. 35.47 crores, 9% margin on consolidated revenues, whilst total comprehensive income post taxes stood at Rs. 26.46 crores or 6.7% of the consolidated revenues. Collections from operations for the quarter continued their healthy trend and stood at Rs. 333 crores. Surplus before interest and taxes was Rs. 58 crores after accounting for the operating expenditure of Rs. 275 crores.

This operating surplus was higher than the combined operating surplus of the previous two sequential quarters. The balance collection from sold units of all our launched projects stands at Rs. 1,725 crores as of June 30th 2018 and is favorably balanced against the balance cost to go of Rs. 1,631 crores combined with the unsold receivable from launched projects of Rs. 3,547 crores. The projected operating surplus is Rs. 3,642 crores on the launched portfolio as against the current outstanding debt as on June 30th of Rs. 2,303 crores. The gearing or debt to equity ratio as at the quarter end increased to 1.27 times as a result of the adjustment of Rs. 610 crores made to the net worth due to the IndAS 115 Accounting standard. The weighted average cost of debt stood at 10.76% for the quarter June 30th 2018.

In summary:

We are confident of the overall market scenario especially for the gateway cities of South and West India which continue to be our focus. Our recent successful launch of Provident Adora De Goa in the end of July demonstrates our commitment to our brand and our ability to capture emerging opportunities by spreading our presence across our focused markets on a pan India basis. With this I hand you back and would like to open the floor for questions.

Moderator: Thank you very much. We will now begin the question and answer session. We have the first question from the line of Ruchi Parekh from Anand Rathi. Please go ahead.

Ruchi Parekh: Sir just wanted to understand that the launches could not happen in this quarter, so if we see in the last conference call, we had said that there would be approximately two launches which would happen, the two Bengaluru launches, so any update on that as approvals were in place?

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Ashish Puravankara: So far, we have already done two launches, Park Square in Bangalore got launched last quarter, which did really well, then we had Goa launch 3 weeks ago which did really well; out of 880 we had sold 800+ units there. The next launch we should see next month in Bangalore; it is just the marketing and pre-launch. For another three launches we already have all sanctions and clearances, it is just marketing sort of on ground pre-launch activities which has pushed it by a couple of days here and there, but you should see two launches in the next 2 months.

Ruchi Parekh: Okay and are they in Bangalore sir?

Ashish Puravankara: Yes two in Bangalore.

Ruchi Parekh: Okay and as we have reversed the revenue of around Rs. 33.4 billion, so by what time do you expect these to comeback like say around 2 years, 3 years?

Ashish Puravankara: About 2 years.

Ruchi Parekh: Okay and sir just the last question if I may ask, sir debt to equity ratio which is around 1.27 now, so what is the comfortable level for you although of course it has been because of the IndAS adjustments, but just wanted to know what is the comfort level that you would be happy with?

Ashish Puravankara: In the earlier format we had said anywhere between 0.7 to 0.8 is comfortable, so if I do a like to like comparison, today we are at 0.85; with the ready to move in inventory we should see that number coming down and making it a little bit comfortable.

Moderator: Thank you. Next question is from Sangeeta P from Cogito Advisors. Please go ahead.

Sangeeta P: I actually had two or three questions. One is that on the pace of sales on slide 9 you have basically given the sales booking, now this is the value of the sales booked during the quarter, right?

Ashish Puravankara: Yes, the value figure of Rs. 370 crores is the value of sales booked during the quarter.

Sangeeta P: Okay, so how does that compare to the previous quarter and is it possible for you because this is an important trend to watch, is it possible for you to give a line graph of the last 6-7 quarters in your next presentation, it just gives us sense as to how?

Ashish Puravankara: We will surely give you that but what we want to tell you is a very simple point, which is that every time we do a launch, you will see a huge spike, example last quarter we reported Park Square that sold about 860 units out of 1100 which is probably around 7.5-8 lakh square feet. Goa, 800 units is in excess of 6.5 lakh square feet that happened end of July. So, what we are trying to say is every launch we do depending on the size of the project, you would see us selling

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between 60-90% of that launch. In this quarter we did no new launch and yet we have had a healthy growth. We will give you that comparison of how we have done over the last 6 quarters.

Sangeeta P: Okay and the other question I had is that you had in your earlier calls mentioned that there was a lot of interest coming into completed projects and those projects which were nearing completion, right? Now is that the inventory which is getting sold out first and is there a trend which is now, is the confidence coming in terms of booking for projects under construction also, is that confidence coming back to the buyers. The second question is that you had mentioned in the earlier calls that there would be a reduction in debt levels as we go along or not a significant increase, yet we have actually seeing debt levels go up, so any thoughts on that?

Ashish Puravankara: For the first question; if you see our quarterly sales number, almost 40% is the contribution from ready-to-move-in inventory and we do not see that trend changing; so that has been a healthy contribution on our quarterly sales minusing the new launches' contribution, so that continues. On the other hand, if you look at our two launches that happened last quarter, again I will repeat the numbers there; so which was in Bangalore Park Square, we launched about 1100 units where we have sold 860 units which gives you a sense of the confidence of people wanting to buy at launch under construction. We had a similar experience two weeks ago in Goa when we launched; out of 880 units we sold 800+. 700+ have already paid us the 10%, so these are confirmed, so we have positive trend on both sides.

Sangeeta P: Okay and just coming to your accounting change, is it now mandatory for all real estate companies to report sales on the basis of handed over possession?

Ashish Puravankara: Yes, the Accounting Standard 115 actually applies to the entire industry, not just real estate. Now the reason why real estate has come into focus is because real estate was one of those rare cases where before the project was finished, and a product was delivered, revenue was allowed to be accounted for under the guidance notes issued by the government. Even infrastructure projects will now move; there are some technicalities but just to explain it to you, if the project was being done at the customer's sight, then you are allowed to account for it on a percentage completion method basis. So therefore, contracting companies can still continue that same principle of percentage completion but for residential and commercial regions which are delivered on a sale basis, we need to follow Accounting Standard 115 which is on possession or registration and 100% receipt of money.

Sangeeta P: So suppose somebody registers after paying you 10%, you still cannot book it as revenue.

Ashish Puravankara: No. We do not register. We cannot register on payment; you know registration means that title has passed on from us to the buyer, registration of the sale deed.

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Sangeeta P: Right, so I thought that under RERA now, that is my understanding from the Bombay market that once you pay 10%, it is mandatory to register the property.

Ashish Puravankara: So what you are registering at the 10% is an agreement for sale, not the final sale deed. In Bombay, there is no sale deed concept so therefore a little bit of confusion. But for example, in Bangalore, when a customer pays us 10%, we sign an agreement for sale which also gets registered, once the apartment is ready and we have received 100% then we register a document called the sale deed. Sale deed is the point at which the title transfers from the developer to the customer.

Sangeeta P: So till then everything will be shown either as advances from customers and on the other side it will be what, WIP or something, is it?

Ashish Puravankara: Absolutely correct, you got it.

Sangeeta P: On the debt levels, could you just comment what is the thinking over there, are you going to maintain that level or will there be any reduction there, are you seeing cash flows strong enough in the next couple of years for debt to come down?

Ashish Puravankara: So debt will remain at these levels, in fact over the last quarter it has been flat, from Q4 last year to Q1 this year has been flat, that is number 1. Number 2, we are comfortable at this level, number 3 although cash flows continue to be good, we want to focus on at this point in time to capture the opportunity in the market to do new launches and to use cash flow for that purpose so that we create a platform for taking advantage of the traction that organized players, that Provident, that Puravankara are seeing at this point in time.

Sangeeta P: Just one request; I think I had made it last time also that on slide 15 when you are showing the cash flows, actually these need to be adjusted for tax as well as interest if the purpose is to compare or say that the cash flows are good enough to cover the debt in the next year or two. Otherwise, I think that is overstated.

Kuldeep Chawla: See I will tell you what; whilst we can attempt to do that, I think here is what we struggle with. Interest and taxes are; some of these things are mourn within a range but they are not predictable, interest is the function for example of cash flows. If the cash flows come sooner, whether we use the cash flows like I am planning to, we are planning to for growth or we use it to pay down debt, the interest will vary a little bit, right? What we can tell you is that even if you make the assumption that it will take us two years to sell this inventory then interest you can take at example, Rs. 250 crores a year at the current level, so that is Rs. 500 crores, you can take our expenditure, overheads everything of about Rs. 150 crores to Rs. 175 crores a year, it will take that into two years, to Rs. 350 crores, right? And take another Rs. 100 crores for taxes, so all

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told not more than a Rs. 1,000 crores including contingencies you can knock-off. That will still give you from these levels Rs. 2,500 crores versus our debt of Rs. 2,300 crores, but we hear you.

Moderator: Thank you. Next question is from Prit Nagarseth from Wealthfinder. Please go ahead.

Prit Nagarseth: My question is more related to the inventory and the competition. I think across industry there seems to be a number of launches happening, not just from Puravankara and Provident, from other competitors as well, I also see a lot of inventory that is there in the presentation that you have provided, I think it is roughly totaling Rs. 3,500 crores that is open for sale. So, can you shed some color on how you have planned to reduce your inventory with the kind of landscape that we are, in terms of competition?

Ashish Puravankara: So, one fundamental change you would see is in all these recent launches, we have changed the way we sell. These inventories which you see are projects that were launched more than 4 or 5 years ago where the strategy was to sell only a 10-15% at launch and then spread these sales across a period over 4-4.5 years through the course of the construction of the project. There the strategy change has been to have a dedicated focused team, therefore you would have seen about a year ago ready to move inventory was hardly contributing 10-15% to quarterly sales which has now been pushed up with focused team to about 40% consistently, point number 1. Point number 2, the change in strategy we have done is - with this whole pre-launch and book building process we are able to sell a much higher percentage of our opened-up inventory at higher prices, so again if you go back to Park Square, out of 1,100 apartments we have sold 880 in the first two quarters of the launch, right. So, I have to just sell the balance over the next 3 years of the project construction. Goa, out of the first phase of 880, we have sold 800+.

Kuldeep Chawla: I would interrupt Ashish, just to put that launch in perspective as much we sold on regular sales in a full quarter, we sold as much in one launch in Goa. So, the whole strategy of selling has changed completely from what it was a few years ago, back to you Ashish.

Prit Nagarseth: Sorry to interrupt I think what you are saying as a strategy level is to now also account for more sales for finished inventory where possible, in terms of what you had 4-5 years back because that is what we can see in your revenue numbers?

Ashish Puravankara: Going forward new launches - our strategy is to sell as much as possible, even 100%, just theoretically, to sell 100% of the entire stock and not at a low price but with this whole book building price discovery mechanism. For the older projects that were launched, where we have inventory that has been unsold, there the focused marketing team that we have put is bearing fruits where we are seeing a 10% quarterly contribution has gone up to 40%.

Prit Nagarseth: And do you think this is sustainable going forward?

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Ashish Puravankara: The 40% number, yes. Obviously as that inventory number comes down and you are left with a few difficult apartments then that percentage will come down but then even the size of the problem is much smaller.

Prit Nagarseth: Right and then you will have more projects being added to the queue so.

Ashish Puravankara: But the new projects that are being added, I do not foresee having this kind of a problem with the new selling strategy which we have done. If you go to Silversands in Pune, phase 1 was 800 odd apartments, I am just giving you a ball park number, we have sold close to 700. If you go to Kenworth in Hyderabad where we have opened up, where 87% is sold out and we are still 1.5-2 years from completion, Goa same thing, Bangalore which happened last quarter - same thing, West End same thing. So, all the new launches we have successfully implemented across 5-6 projects this revised sales strategy which will ensure there is no build-up of inventory.

Prit Nagarseth: One related question then will be that because you are booking so much early now, you will be getting that much cash with you and you just mentioned that you may be utilizing that cash either for debt repayment or for growth?

Ashish Puravankara: No, because the payment, the booking is done but your payments will come as per your construction progress, right? RERA is there, it will be in that RERA account but you have secured your sale at the right price. Dheeraj project secured the sale and you have visibility to cash flow, the important point is that.

Moderator: Thank you. Next question is from Giriraj Daga from KM Visaria Family Trust. Please go ahead.

Giriraj Daga: My first question is, there will be two launches in Bangalore maybe in the next two-three months but what is it like for the next nine months and what is the total launch that we are looking in terms of square feet?

Ashish Puravankara: If I can take you to Page number 10, slide 10, that gives you the breakup of the launches.

Giriraj Daga: It is there but we will not be launching everything at one-go, right?

Ashish Puravankara: If you go to the last column, it says expected launch date.

Giriraj Daga: No, what I am saying is that the full project will be launched at one-go only?

Kuldeep Chawla: Barring our Thirumalai side, pretty much.

Ashish Puravankara: So I think slide 10 gives you an indication of which are the new launches under each brand of: a) Puravankara and Provident, b) it gives you the timing of that launch. To answer your specific

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question, if I have understood it correctly, anything which is in excess of a million square feet, yes you can assume that we will carve out a million square feet and launch that as a Phase and then maybe depending on how the phase velocity is, launch subsequent phases.

Giriraj Daga: Second is on the accounting, when we say that we have booked close to Rs. 400 crores, Rs. 380-390 crores revenue this quarter but we have not closed any project. So how do we reconcile this situation that has stable registration with a closer older project, how do we get a hand on this number?

Ashish Puravankara: Sorry, could I request you to explain what you mean by closed, are you talking about registration?

Giriraj Daga: No, so what we are looking at is that there is a completion project, so obviously registration will happen …

Ashish Puravankara: If you are talking about recognition of revenue, then I think I would like to just point you to a simple data point, that we reversed Rs. 3,340 crores.

Kuldeep Chawla: See if you look at this quarter's revenue, we have recorded revenue of Rs. 394 crores which is coming out of completed and handed over possession only.

Ashish Puravankara: So in this quarter wherever we have handed over possessions, as per the Accounting Standard wherever registrations have taken place, is what revenue were recognized.

Giriraj Daga: I understood that, the logic is there. So what I am looking at is last full year we had about 6 million square feet of completed project. As per the normal thought process, once the project will be complete, once we get the OC, then only we will go for the registration, is that the right thought process?

Ashish Puravankara: Correct.

Giriraj Daga: So that means normally, suppose if it happens this quarter, we will be able to close in the next quarter; that should be one quarter window, right or it might be a bit longer period also?

Kuldeep Chawla: Inventory which you have seen in previous quarter, we have not reversed any sale or any revenue of the completed project till 31st March, where we have given possession. We have only reversed revenue of Rs. 3,340 crores on ongoing projects and the projects where we have not given handover. So coming quarter, the revenue which we reversed and where we are going to give possession, those will come and new possession that we are going to give, those revenues will come going forward.

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Kuldeep Chawla: I will give you an example; in the month of March somebody made a booking on a completed project but registered it in the month of April or May, that revenue will get recognized. In the same way, somebody paid last year example 80% of a project that was nearing completion. That project got completed in the month of August or September; he registered in October or September that revenue will get recognized in September, October. So these are the two types of revenue recognition that will happen in this current financial year.

Giriraj Daga: When I look at net worth, it has gone down because of this IndAS adjustment. Are all the bankers and credit rating people okay with that kind of a debt equity going up?

Ashish Puravankara: Yes.

Moderator: Thank you. The next question is from the line of Dhruvesh Sanghvi from Prosperotree. Please go ahead.

Dhruvesh Sanghvi: Just one question; I actually missed the starting part, the sales that has come in this quarter automatically means it has only come out of completed projects, is that right?

Ashish Puravankara: Correct; revenue in the P&L account.

Dhruvesh Sanghvi: And the sales that we are showing as a booking, I think Rs. 370 crores, it includes both.

Ashish Puravankara: Yes, correct.

Dhruvesh Sanghvi: Can you just split this two for me in terms of the completed projects and the under construction projects; the booking figure I am talking about?

Ashish Puravankara: Completed sales were basically in between Puravankara and Provident were about Rs. 104 crores, out of Rs. 370 crores but I just like to make a small point, out of the Rs. 104 crores, not everybody would have registered in the quarter. Example, if somebody bought in June, he may not have registered in June, he may have registered in July, then the revenue of Rs. 395 crores which we recognized will not include all the Rs. 104 crores.

Dhruvesh Sanghvi: You have been saying that you see approximately Rs. 1,000-1,500 crores worth of ready inventory to get exhausted probably by the next five to six quarters, is there a change in that outlook or this still remains, probably five quarters from now we would see almost everything gone including Chennai or we should not include Chennai in that aspect?

Ashish Puravankara: No, it still remains, the same outlook remains.

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Dhruvesh Sanghvi: And is there further scope of reduction of interest rate in terms of, considering the current environment where we have seen the yields rise a little bit, further scope of decreasing interest cost for us or do you see an upwards.?

Ashish Puravankara: It is a continuous process; there is one team that only works on that aspect but considering the environment, I do not know if it can go further down but the effort is on.

Moderator: Thank you very much. I would now like to hand the conference back to the management for any closing comments.

Kuldeep Chawla: Thank you and thank you everybody for joining us this evening. Like I said we are at an interesting cusp, we will continue to share with you our joys and our experiences as we continue this exciting journey. Thank you once again and have an enjoyable evening.

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

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Puravankara Ltd. No. 130/1, Ulsoor Road, Bengaluru, Karnataka, 560042
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