# "Puravankara Projects LimitedQ1 FY-16 Earnings Conference Call"

## August 14, 2015

**MANAGEMENT:**

**MR. ASHISH PURAVANKARA** – MANAGING DIRECTOR, PURAVANKARA PROJECTS LIMITED

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**Moderator:** Ladies and gentlemen good day and welcome to the Puravankara Projects Limited Q1 FY-16 Earnings Conference Call. We have with us today on the call Mr. Ashish Puravankara –Managing Director; Mr. Jackbastian Nazareth –Chief Development Officer; and Mr. Hari Ramakrishnan – Deputy Chief Financial Officer. As a reminder all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing '*' then '0' on your Touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Jackbastian Nazareth. Thank you and over to you, sir.

**Jackbastian Nazareth:** Thank you, Inba. Good evening, everyone. First of all apologies for having pushed the call by half an hour. Welcome you all to the Puravankara's earnings call for Q1 FY-16. The demand environment in key markets remained subdued. We are experiencing plenty of activity on enquires however, the conversions have not been picking up. We believe that there is a lot of latent demand in the markets but buying decisions are being postponed probably with the expectation of price correction. Going forward we believe that the business environment is likely to improve at the macro level leading to a pick-up in residential demand. In fact, in July we have sold close to 2,00,000 square feet. On the leasing office front we are all witnessing higher office space absorption in Bangalore and Hyderabad in the last few quarters which will eventually lead into higher employment generation from current levels and we believe that this is good and we will create a momentum and sustainability for residential demand in the mid-term.

I would also like to spend the next few minutes on articulating some of the organization level structural and functional changes that we have been putting in place over the last few months. We have worked with a reputed management consultant to merge both companies Puravankara and Provident, purely from an organization perspective. The goal here is to leverage each other strength, build synergies and improve efficiency in the system. We are encouraged by what we are seeing by the greenshoots of improvement and efficiencies in both sales and operations including planning and also more importantly in the delivery of projects. While this process will continue well into the next fiscal, we expect this transformation to help us sell our homes and execute projects more efficiently.

I will now hand over the call to Mr. Hari our Deputy CFO to share the business and financial performance for Q1 FY-16. Over to you, Hari.

**Hari Ramakrishnan:** Yes, thanks Jack. Good evening, everybody. Let me begin with the sales numbers. Area sold for the quarter ended June 30, 2015 stood at 0.35 million square feet compared to 0.25 million square feet during March 2015.

Sale value for the quarter was at INR 311 crores against INR 129 crores during quarter ended March 2015. The current quarter includes sale of land of Rs. 140 crores which got recognized in the June quarter. Completed inventory sales contributed to 31% of the sales and the balance was from ongoing projects. While we had a slow start to the year the sales in July 2015 has been very good with more than 200,000 square feet in a month which is giving us adequate comfort on the market for the balance period for this fiscal.

Additionally, our new launches have been delayed due to various approval issues and the launches which we have planned across various cities is taking a little bit of time then we envisaged and we have chosen carefully specific micro markets in this fiscal which will total up to roughly about 17 million square feet and the same has been listed in our investor presentation.

On the financial front I will begin the debt position. Our net debt as of 30 June stood at Rs. 1,698 crores and net debt-to-equity stands at 0.74x which is comfortable. The promoter backed funding in net debt stands at Rs. 259 crores making the net external debt at Rs. 1,439 crores.

As of June 30, 2015 the weighted average cost of debts stands at 12.59% as against 12.62% in March 2015. On the revenue side the revenue for the quarter stood at Rs. 450 crores against Rs. 409 crores in March 2015 which represents an increase of 11.23%. On the cost side as we had stated in the previous call, we are well on our way to deliver 6.3 million square foot of projects under PPL and PHL during this fiscal. We had also intimated in the previous call that the interest cost absorption for project Windermere which was being re-assessed by our technical team has been completed and we have absorbed roughly Rs.46 crores in quarter ended June 2015. This is primarily on account of the interest allocation which has been absorbed. Thereby, resulting in a drop in profits also. It is also important to know that the project profitability of Windermere and other projects remain in excess of 25% which will be realized through the sales of balance inventory.

On the collections: For the quarter ended June 30th, 2015 we have collected Rs. 328 crores which is 11.6% higher than Q1 of 2015 which stood at Rs. 294 crores. Of the above, Rs.226 crores was from the ongoing project and the balance Rs.102 crores from completed project. It is also important to note that the collections from projects which are slated for delivery amongst the Rs. 226 crores and the same will be received upon completion of the project starting from December 2015 and we expect to realize it within the next 12 months to 15 months starting December 2015. While we have had an operating cash negative situation in this quarter this is a timing issue and we have used the existing cash reserve to meet the construction and other operating expense. This will get resolved in the ensuing quarters with the collection coming from the deliveries of 6.3 million square feet which I had mentioned earlier. Additionally the consideration of land sale of Rs. 140 crores has been received in July 2015 which was one of the prime reasons for negative operating cash situation.

The outlook for the balance quarters is as follows:Unrecognized revenues from sold units approximately will land with Rs. 1,135 crores of which Rs. 104 crore will be recognized through completion of the projects which are slated for delivery.

From the ongoing projects we expect around Rs. 1,031 crores to be recognized in the profit and loss account. On the ready stock inventory we will be we are expecting roughly about Rs. 300 crores to Rs. 400 crores of sales coming in thereby resulting in our revenue recognition. We will relook at or guidance if required after taking into account the performance Q2 of this financial year.

On the delivery side we will be completing 6.3 million square feet in PPL and PHL, of which 0.45 million has been handed over in Q1 of this financial year. Overall balance receivable from ready to move inventory as on 30th June 2015 stood at Rs. 165 crores as compared to Rs. 215 crores and we are pushing all efforts to complete the entire collection progress and we expect to complete this within the next 12 months to 15 months as well.

The new launch pipeline for FY-16 stands at 17 million square feet under both Puravankara and Provident brand across Bangalore, Chennai, Hyderabad, Pune and Kochi. We have chosen specific micro markets where we feel there is adequate demand in the medium term and have planned our launches to ensure that we capture these demands.

On the other updates, we had informed on the call of March 2015 quarter, on the bulk sale of ready to move inventory. We have postponed this bulk sale due to certain tax exposures which was not value accretive to the business. We will be revisiting this once we get adequate comfort on the tax exposures. On the APIIC front while the case is going to be heard in the Higher Court, we are also working parallelly on other options and we will have a closure on this within the next two months.

With these comments I would like to throw open the floor for Q&A. Thank you.

**Moderator:** Thank you very much, sir. Ladies and gentleman, we will now begin the question and answer session. Our first question is from Samar Sarda of Kotak Securities. Please go ahead.

**Samar Sarda:** I had a couple of things. One I missed the initial comments. Why are the sales so low and what is the outlook on the market for the next two or three quarters?

**Jackbastian Nazareth:** Samar, first quarter we did not have any launches. But however having said that like I said for July we clocked close to 2 lakh square feet at the momentum we will continue from thereon.

**Samar Sarda:** But Jack, with regards to unsold stock also like projects which were launched in the last one and half, two years, we have decent amount of inventory to push sales from the unsold stock, right?

**Jackbastian Nazareth:** We are pushing the sales of ready to move in inventory. For example, Welworth has done very well for us and we have clocked good numbers from it. As I have discussed earlier, the focus of the entire marketing team has been around the ready to move in inventory and these efforts are likely to continue going forward as well.

**Samar Sarda:** And my second question was like I was glancing through the presentation in the forth coming launches project number one is JDA in Mallasandra. Is it some new acquisition of 1.9 million square feet?

**Hari Ramakrishnan:** No, it is our JV with Keppel Land where we have got the development rights of that land so we will be developing it. So while we are also a 49% equity shareholder in the company the effective economic interest for us on that land parcel will be 87.25%. It already a part of our land bank, We are tying-up this land for development without paying any additional money.

**Samar Sarda:** I have some other things I will take it with you offline Hari.

**Moderator:** Thank you. Our next question is from Anubhav Gupta of May Bank. Please go ahead.

**Anubhav Gupta:** Yes, hi, sorry the phone got disconnect earlier. Just wanted to check that since you have postponed the sale of ready to move in inventory, to service debt from current cash flows, how soon you think that tax issue thing will be resolved and we can again have some visibility on the ready to move inventory sales.

**Ashish Puravankara:** Anubhav, Ashish here. So two things, one is while are trying to find the solution to the tax issue on the ready to move in inventory, we have actually now started pushing it. So we have requested marketing to ensure we do not lose a single sale. That is why if you look at our July numbers where only in the month of July we have touched almost 2,00,00 square feet of sales, a large portion of that is from the ready to move in inventory. So, it has started selling. I will give an example of Welworth City where we have close to about 500 units unsold out of 3,360. We were clocking a run rate of about 5 to 7 apartments a month. The whole ready to move transaction was getting delayed on account of tax we renewed our focus on the push. Over the last two months we have sold about 140 units out of the close to 500 units. So the push has started giving us result. We will continue the push while we explore the possibility of resolving the tax issues. The second point there is also in terms of our Hyderabad issue where we had paid about Rs.403 crores to the Hyderabad Government. We are confident of having a possible solution over the next two months. Even if the court does not work out, now we are seeing a lot of interest where people are approaching us to partner with us or buy stake in the project giving us the cash out. So the option of taking the possession of our land is also being explored. I mean the location is good, it is in high-tech city so we have options available for a possible solution there either 100% or 50% cash out which we are exploring.

**Hari Ramakrishnan:** And additionally Anubhav, we are also planning new launches aggressively starting from this month onwards, so that cash also will flow back into the main account which will help us in addressing the interest cost. Additionally, I will have to bring it to you attention that the balance debt payment of this financial year will be only to the extent of Rs.180 crores where we have worked with the banks to push the existing debt repayment beyond a particular time period.

**Anubhav Gupta:** Sure. And on the Hyderabad land have you done the evaluation of that particular land parcel what it comes out to be at?

**Management:** Come again.

**Ashish Puravankara:** So the current what we have paid the government is about Rs. 403 crores. I understand that a month ago there was an auction close to 20 crores an acre land was sold to Ikea in the same location.

**Anubhav Gupta:** Right. So given how many acres you have? What kind of approximate market value you can estimate?

**Ashish Puravankara:** I think market value for the land continues to remain the same. And depending on what transaction we click either we get a 100% cash out for 50% or 75%. So there are funds who want to partner with us for the development or want to pick-up the entire stocks.

**Hari Ramakrishnan:** So we are working on internally to see whether we will exit with the sale of land or also participate in the development profit for the balance construction which will accrue to us as well. So that is a discussion which we are also having currently.

**Anubhav Gupta:** Right. And lastly given that you have opened the ready to move inventory for normal pre-sales so, you would go for the PE fund with less than 2 million square feet which you had earlier expected.

**Jackbastian Nazareth:** Correct. Because Anubhav, I think while we are talking to the PE fund in terms of the structured deal we are not losing out on any opportunity to sell the stock because it is also important for us in terms of ensuring that we do not miss out on a single customer who visits.

**Anubhav Gupta:** Yes, sure. And just last one thing on the EBITDA margin so the cost overruns over the legacy projects we can still see. Right in the P&L?

**Hari Ramakrishnan:** No, all those are over this is purely as I had informed in the last call. My interest cost allocation per project is changing because of my delay in new launches. So where the Rs.200 crores was getting absorbed over 24 million it is slowly getting absorbed in a lesser area which means my square foot allocation get increased. So that mix is creating an impact in my percentage of completion resulting in my EBITDA issue as well. So this will get corrected with the new launches coming into play starting from this month.

**Anubhav Gupta:** Okay. And you see more sales from the completed units so that will also help

**Management:** Yes.

**Moderator:** Thank you. As there no further questions from the participants, I now hand the floor back to the management for closing comments. Over to you.

**Jackbastian Nazareth:** Thank you everyone for being on this call. Hari and me will be available for any questions that you would have. Please feel free to reach us. Thank you. Thank you, Inba.

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

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(*This document has been edited for readability purposes*)