



“Sunteck Realty Limited Q1 FY-18 Earnings Conference  
Call”

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**MANAGEMENT**    **MR. KAMAL KHETAN – CHAIRMAN & MANAGING  
DIRECTOR, SUNTECK REALTY**  
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**MODERATOR**    **MR. HARSHAL PANDYA – EDELWEISS SECURITIES**

**Moderator:** Good day ladies and gentlemen and welcome to the Sunteck Realty Limited Q1 FY18 Earnings Conference Call hosted by Edelweiss Securities Limited. As a remainder 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 ‘\*’ and then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Harshal Pandya from Edelweiss Securities. Thank you and over to you sir.

**Harshal Pandya:** Hi everyone. On behalf of Edelweiss Securities, I welcome you to Sunteck Realty Q1 FY18 Earnings Call. From Sunteck management, we have with us today Mr. Kamal Khetan – Chairman & Managing Director of the company and Mr. Sumesh Mishra – President & COO (Business Development & Strategy). I now handover the call to Mr. Kamal Khaitan for his opening comment, over to you sir.

**Kamal Khetan:** Thanks Harshal, good afternoon everybody and welcome to the earnings call for the first quarter financial year 2018. Thanks everybody for taking out the time. We recorded a strong growth in presales and collections during the first quarter FY18 with 69% year-on-year growth in presales and 49% year-on-year growth in collections. On the P&L front, the dip actually what we see in the revenue and profit is actually because of the shift in accounting methodology from project completion method under IGAP to percentage completion method under IndAS during the first quarter financial year 2017. This resulted in actually a lumpy revenue and profit during that quarter wherein we recognized 67% of the revenue of our third luxury project which we completed Signia Pearl and due to this you see the dip which is major dip.

On the operational front at our BKC project, we are witnessing a good latent demand given the completed phase, increasing habitation of this project. In the first quarter, our luxury residential BKC project witnessed a significant appreciation in fact in realization.

Now with many celebrated end users like head honchos of global conglomerate have already shifted into their apartments and more are expected to shift and their interiors are going on in next few months. We remain optimistic in our luxury residential project at BKC and in terms of sale pricing as well as volume going forward. We also saw the momentum actually for high yield deals at our BKC project continuing as more transactions were concluded for the customers and the investors who have invested in the apartment.

The first quarter of 2018 has witnessed a profound regulatory changes taking shape such as RERA and GST. We at Sunteck underline are support to this positive measure and have successfully applied for the RERA registration for all our ongoing projects well within the timeline. GST has also has been implemented across all our projects. We believe this reform will set a stage for the sustainable growth for the organized developer. We continue to focus on our execution at our ongoing projects and believe that complete and nearing completion projects will see a strong demand in the new environment. I would now like to handover the call to Sumesh Mishra, our COO, to provide you with the detail insight in our operational and financial performance for the period.

We look forward to the question and answer session later on and will be more than happy to answer all your queries, over to you Sumesh.

**Sumesh Mishra:**

Thank you sir, good afternoon everyone and good evening to all whoever you know are at various location. Thank you once again for joining us in the call today evening.

I would like to now quickly take you through the financial and business performance of quarter 1 FY18. During the first quarter, we have recorded a strong presale of 128 crores versus 76 crores for the corresponding quarter last year which is a growth of 69% year-on-year. Rs. 128 crores of presales is split between Rs. 94 crores across BKC projects and balance from other projects.

In terms of collections, we have collected Rs. 131 crores versus Rs. 87 crores for the corresponding quarter last year, this is a YOY growth of 49%.

In terms of the split of sales of Rs. 94 crores. Signature Island contributed 70 crores and Rs. 24 crores from Signia Isles project.

With regards to our P&L statement as our Chairman pointed out, we recorded a sales of Rs. 133 crores in the Q1 versus Rs. 525 crores and this dip was primarily because of the first-time recognition of our Signia Pearl project in the P&L last year. We recorded EBITDA margins of 55% in this quarter versus 23% in the corresponding quarter last year and this jump in the EBITDA margins was primarily because of the higher realization in our BKC project. Similarly, PAT margins were an impressive 26% in this quarter versus 12% in the corresponding quarter last year. This was an update on our financial performance and the business performance in terms of project level.

We recognized Signia High project in the last two years and this year also we could incremental sales of Signia High project were included in the P&L statement and we look forward to any you know in terms of once we cross the threshold, we look forward to booking the Sunteck City project in this P&L from this financial year onwards

So this was the update on financial and business performance. We can now open the forum for any questions from the participants.

**Moderator:**

Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Sagar Karkhanis from Nirmal Bang. Please go ahead with the question.

**Sagar Karkhanis:**

Congratulations for the good presales we have done in BKC in the high ticket size. Sir, my question is given the current trend where there is a demand for only completed projects vis-à-vis under construction projects, so for our Oshiwara Sunteck City, how do you see the debt situation going forward and what is our current debt in those projects and in the next one year how will that be, could you share some light, thank you.

**Sumesh Mishra:** Overall Sagar, we have 23 acres of development coming up there. Out of 23 acres, this is divided into 5 to 6 phases, so right now work on approximately 1.35 million square feet is going on in Avenue 1 and Avenue 2, which is spread across 7 acres, so just to answer your question on the debt position, our 16 acres is completely debt free and 100% owned by Sunteck with no incumbrance on it. On the 7 acres that we have in Sunteck City in Avenue 1 and Avenue 2, we would have approximately Rs. 250 crores of loan outstanding against which we have already we have sold approximately 40% of the inventory and there are receivables enough to cover that and over and above that we would have an inventory value which could be approximately 1150 crores Rupees net of all the costs.

**Sagar Karkhanis:** Sir, is it safe to assume that we will not see great debt addition in Oshiwara for our construction of the already launched projects.

**Sumesh Mishra:** In fact Sagar, you know we don't really see much of an increase in debt because these are primarily residential projects and you know the sales or presale numbers have been you know good enough and with every activation we have been able to you know show increasing numbers and which have been able to take care of our construction, so primarily we don't see much of an increase in the debt position.

**Moderator:** Thank you, the next question is from the line of Adhidev Chattopadhyay from MK Global, please go ahead.

**Adhidev Chattopadhyay:** If you could just elaborate under now under the RERA and with GST, how have we reworked the agreements on our ongoing projects and our completed projects, just give us a color, what are the regulatory changes there.

**Sumesh Mishra:** Hi, Adhidev, Sumesh here, I will just take the first bit of question here and then sir can add to whatever you know I have mentioned. So with regards to the ongoing projects, first of all for example the BKC projects where we have received the OC, we don't need to change any agreement for say with regards to RERA for whatever we are selling and that is under OC, plus there will be no GST impact also there, so BKC projects are out of that purview parse. With regards to our other ongoing projects for example the ODC, the Goregaon Sunteck City project, I think the agreements initially also as per MOFA were in line with most of the covenants placed under RERA and with the escrow mechanism with the banks in place, we did not have to change much. Only thing I think under RERA certain bit of timeline and design aspects had to be covered, so those cursory changes with regards to the timeline and the you know clauses for design and other changes which needs the you know approval from the clients and the customers if at all there are any changes only that were covered, so broadly and also in terms of payment schedules slightly because under RERA you cannot take more than 70% unless your super structure is ready, so these 2 or 3 elements were you know changed to accommodate the you know clauses of RERA and requirements of RERA. Sir would you like to add.

**Kamal Khetan:** Just for your clarification because we were MOFA used to cover lot of RERA things except the Escrow mechanism I think and we were following MOFA very properly we were in almost

aligned I can say, we were almost aligned that terms of RERA and in Maharashtra I think RERA is elemental and the MOFA was equally good, so I don't see any problem.

**Adhidev Chattopadhyay:** Sir just a follow up on that, sir just to my query for the ongoing for project such as let say at halfway I mean you are complete, would have added service tax under the previous tax regime which now shifts to GST but under GST, but the incremental burden is around 12% on the customers, so are we absorbing some of that cost or is it a full pass through of 12% which you are taking from the customer.

**Kamal Khetan:** In the past definitely whatever we have sold, it depends on the stage of the project, where the project is and how much benefit we are getting from the setoff which we will get under GST, we will definitely like to pass on that to the customer as a fair policy regime and that should be I think should range from 1% to 4%, because the incremental is 6.5, initially the cost was including VAT and service tax was close to 5.5% and with GST coming in, it is now 12%, so differential is 6.5, so out of which whatever we get benefit depending on how much project is completed and how much we can pass on, we will definitely look forward to pass on. Coming forward for the new sales, I think similarly like the additional 6.5% benefit what we get by set off and which has been increased would definitely like to pass on to the customers to that extent, not beyond that, I don't think so.

**Adhidev Chattopadhyay:** For the new projects which you launch now, what are the subsequent phases, the entire GST burden is borne with the customer or against input credit do you have some clarity now, how much you can benefit you can give.

**Kamal Khetan:** Customer obviously pays the entire 12% but we pass on that benefit in terms of rate, so whatever 6.5% or 5% benefit what we get out of the input credit, we try to reduce that by the rate and the customer has effectively he pays where it practically he pays 6.5% but theoretically he will have to pay that 12% additional GST.

**Adhidev Chattopadhyay:** Sure that is very helpful. Sir, just one last thing, what about our business development plans, now are you seeing post RERA coming in more smaller developers coming to the proposals and can we expect to hear something on that front within this year.

**Kamal Khetan:** Yes, I can tell you one thing, we are aggressive, we will definitely always looking at a strong balance sheet and a potential cashflow what we are expecting to come from also the ready inventory what we have entire cashflow comes to us, so we will definitely look at a lot of stress which is available in the market and we will take the maximum benefit out of it.

**Moderator:** Thank you. Next question is from the line of V.P. Rajesh from Banyan Capital Advisors, please go ahead.

**V. P Rajesh:** Just could you share the pre-collection numbers from ODC, what is that.

**Sumesh Mishra:** You want to know the presales or pre-collection numbers?

- V. P Rajesh:** Presales.
- Sumesh Mishra:** Presales, so out of 128 crores Rupees of presale about Rs. 23 crores came from Sunteck City and in terms of collection of Rs. 131 crores about Rs. 13 crores came from it.
- Kamal Khetan:** Also, Rajesh I would like to add that just to under we were in this quarter, we were, so we were also going slow on the under construction project, we were safe on the completed projects since GST and RERA everything and people also wanted to wait and watch, so we did not do any activation in the last one quarter, so once always in the under construction project if you need a push for the sale you need to activate the sales for something like a launch or something in some format, so we did not do any activity at last quarter, so still I will see that we could maintain our pricing and we could do this kind of sale.
- Sumesh Mishra:** Having said that, I would like to just highlight one thing that in terms of cost, we have infused in fact 50 crores Rupees towards expediting construction there because we obviously believe that you know faster construction will give more and more comfort and pushing the sales going forward.
- V. P Rajesh:** Right and in terms of number of sales in BKC what was that.
- Sumesh Mishra:** In terms of number of apartments, it was two apartments, one in Signature Island and one in Signia Isles which gave us a total sales of Rs. 94 crores.
- V. P Rajesh:** So that must be very good per square foot rate or was it just at the highest flow level.
- Kamal Khetan:** We got a very good realization I think and this was much higher than the last quarter rate. In fact if you will see from last two to three quarters, we have been able to club the sales close to 70 to 75 crores if last consecutive two quarters if you see and this quarter we could do almost close to 200 crores presales.
- V. P Rajesh:** Right that is fantastic and last question on the debt side what is the current position.
- Sumesh Mishra:** So, yes Rajesh in terms of debt position, we remain more or less similar on the debt that we had as on March. In March, we had a net secured borrowing of Rs. 680 crores, so by and large we continue to remain at the similar level. Out of the 25 projects portfolio, construction finance on seven projects.
- Moderator:** The next question is from the line of Dhruvesh Sanghvi from Prospero Tree. Please go ahead.
- Dhruvesh Sanghvi:** Yes, hi, and great set of numbers. Can we have the Airoli project breakup for the presale, if I have missed it I don't know if you have already said it?
- Sumesh Mishra:** Hi Dhruvesh, so we had a 10 crores sale here because again we were focusing on the RERA registration of similar projects so no activation in this quarter, so last quarter by and large as sir

also pointed out the projects which were under execution and we were going for RERA registration, activities in terms of marketing push or any new activation were on the backburner so that is why in terms of sales, presales number we would have approximately Rs. 10 crores of.

- Dhruvesh Sanghvi:** And in terms of receivables what are our current status in terms of receivables.
- Sumesh Mishra:** So overall portfolio today out of the presales numbers of approximately 4000 crores, we have already received approximately 3150 crores approximately, so we would have a receivable of about 760 crores Rupees approximately.
- Dhruvesh Sanghvi:** Okay and out of this majorly would be BKC, is that assumption right or if you can break it up.
- Sumesh Mishra:** So it is a mix Dhruvesh in terms of ongoing and completed projects. If in terms of completed projects out of 760 crores about Rs. 370 crores will be contributed from the completed projects which is primarily from these three BKC projects and about 318 odd crores Rupees will be from the ongoing projects primarily ODC.
- Dhruvesh Sanghvi:** Two small very factual questions; one, when do we receive the Borivali project OC?
- Kamal Khetan:** Dhruvesh building is almost complete. We have already received CFO NOC, so hopefully we can see in the next quarter.
- Dhruvesh Sanghvi:** Okay and the last one is any updates on the small housing projects that we were looking at our I think we are as you said last time also that we are actively scouting for people but is there anything there coming or something near finalization.
- Kamal Khetan:** Definitely we are looking at it and we will let you know at the right time and we will inform the market accordingly.
- Moderator:** The next question is from the line of Adwaet Shah from Arvind M Shah. Please go ahead.
- Adwaet Shah:** My question was with respect to the BKC project. Now as the BKC projects are not subject to any GST, are they relatively cheaper to the projects of the same quality in the designated area or areas around BKC where other projects are there because they are being subject to GST and you are not subject to GST making them a little costly. I just want to get a feel of what is the differential from that angle?
- Kamal Khetan:** Yes, you are perfectly right so these projects as good as come 12% cheaper for them because of no GST and it also in the RERA regime, the entire money in fact, the entire cashflow comes to us in this project. So this is definitely very beneficial and anything.
- Sumesh Mishra:** And just to add with the high-end development and with the kind of neighborhood and the kind of people who have already moved in in the buildings and also with a higher efficiency in terms of the areas and with no GST, I can definitely say that it is a higher value for money for the

clients rather than positioning the product as a cheaper product, we would like to position it as a more higher value for money.

**Adwaeet Shah:** Sir, in fact, that is the reason for you to effectively increase the price and keep a better margin or keep the same price and increase the volume of sales.

**Kamal Khetan:** Definitely we would like to increase the volume, it is not that we reduced the price by 30% and the volumes will increase, I doubt that. It is a different project and a different league project and we want to maintain the gentry and this project is definitely not that open for, these are really by invitation. You must have never seen the advertisement or brochure or anything on this. So we have adopted at a very different marketing strategy for this and we want to continue with that and I can tell you the main thing that we are very-very clear, definitely our focus is to increase the volume.

**Adwaeet Shah:** The second question is with respect to the sales volume and value. Now because ODC is subject to GST, it has become costlier but that is in case for all the developers but is there any shift in term of market share because of GST and RERA from unorganized to organized in case of ODC project because that being our project which is subject to GST.

**Kamal Khetan:** So obviously today you see in fact it is there in the market everybody that the organized players are selling more and more and more volumes and the unorganized players are finding it difficult to even sell in spite of even they are RERA registered or something. People are not comfortable. People are more comfortable buying with the organized developers. So, we see that benefit and we will continue to get that benefit going forward.

**Adwaeet Shah:** The reason why I am asking you sir is that with GST cost, the stamp duty cost almost one-fifth of the cost is taken over by the Government of India when you are purchasing a property. So effectively the cost of the property being rising, has is there expected reduction in the sales because of this or still there is a flow coming for ongoing projects which are yet to be completed.

**Kamal Khetan:** See Adwaeet, I think I shared this in the beginning as well, so the incremental cost is now 6.5% because of the GST. So the 5.5% was already the cost of VAT and service tax and now it is 12%. The differential cost for the buyer is only 6.5% and I believe most of the good organized players for the new sales, they are giving that benefit in the pricing because we get that benefit while set-off so we get that almost at 6 to 6.5% set-off when we are paying that money so I think we are passing on that entire benefit. So effectively it does not go from the pocket of the developer or from the buyer.

**Adwaeet Shah:** Sir excellent, sir, in a way it also means that the buyer who is buying from unorganized people may not get that benefit but he might be getting the benefit from you because you being organized, indirectly.

**Kamal Khetan:** Correct.



- Moderator:** Thank you. The next question is from the line of Harshal Pandya from Edelweiss Securities Limited. Please go ahead.
- Harshal Pandya:** Just wanted to understand, you mentioned that you have roughly 360 crores of receivables from completed project, I presume sir this would be largely the BKC project, sir given that these are 100% complete, why this number is so high.
- Sumesh Mishra:** Sir, for the third project which is the Signia Pearl Project, we just started giving the possession in the last quarter, so obviously that will throw into you know may be one more quarter in terms of people taking possession and making the payments, also the new sales. And also the sales which has happened in Q1, that will flow into Q2 quarters, so you will see that gap in terms of the receivables pending and the money actually receive should become narrower by the end of this second quarter.
- Kamal Khetan:** So Harshal like we have done sales of like in this quarter close to last quarter 96 crores to 100 crores and out of which obviously may be towards the end of the closure of this quarter only 30 to 40 crores must have received so that adds to the almost 60 to 70 crores add to that 370 crores and 300 crores will be obviously mainly fixed from the Pearl because the people are in the process of taking possession.
- Harshal Pandya:** Okay, sir largely significant amount of this should be coming through over the next 3 to 6 months and post that only the incremental sales which are happening, a part of that amount would be receivable at least from the BKC project.
- Kamal Khetan:** Correct and out of this 370 crores almost close to more than 50 crores is from other projects as well like Signia Ocean, Sunteck Grandeur, Sunteck Kanaka which is in Goa and Signia Sky in Nagpur so all those also add to approximately 50 to 60 crores.
- Harshal Pandya:** My second question is have we begun the sales in Signia High because we mentioned in the opening remarks that there is a part of revenue which has been contributed by that project?
- Sumesh Mishra:** So Harshal, in the earlier phase of launch we had done approximately 50% of sales, so that is getting booked into the revenue plus we have not started marketing the project because we wanted to take the advantage of getting the OC so that saves on that 12% GST also for the client and gives more comfort to the client because that is the kind of product that we are developing and positioning in the market, it is one of the most premium and luxurious project of that micro market and it will help the clients to sell their existing apartment wherever they are selling and graduate or upgrade themselves into the lifestyle provided by the Signia High Project.
- Kamal Khetan:** Sir, Harshal 12% is a big money for this 4 crores to 5 crores apartment and definitely people won't otherwise if they want to buy the apartment now which they sell off almost close to 60 lakhs extra, which no one would like to do, so definitely we decided that we are expecting this occupation certificate in the next 30 to 40 days. So we will go excessively and sell these apartments. In fact, we have very hot lease, people are saying that once you get the occupational

certificate, you let us know and we will be billing. So we will see a good traction of sales coming from the Borivali project Signia High as well once the OC is received.

**Harshal Pandya:** Okay, so do we intent to relaunch it over the next may be 3 to 6 odd months.

**Kamal Khetan:** Yes, we will see that in less than 3 months or 2 months so the reactivation once the OC is received we would like to do that.

**Harshal Pandya:** Okay, sir my third question is related to your Goregaon 16 acre land parcel, now just to understand would the new development plan which is under proposal and could be expected over the next couple of months, would the DP be applicable even to the ODC?

**Kamal Khetan:** No. This is applicable to only the BMC. It is prepared by Bombay Municipal Corporation, it is not for the MMRDA. So we don't have to wait for the new DC plan for the MMRDA and ODC will not get affected with that.

**Harshal Pandya:** Okay fair enough. Sir, we have mentioned in the note that we have done the master planning for the Avenue 3 now is this for the entire 16 Acre or only the Avenues 3 which might be residential or commercial?

**Kamal Khetan:** This is Avenue 3 is like we have divided 16 acres into again like 3 to 4 parts approximately and we will be launching Avenue 3 which will be you can say in terms of FSI which will be one-fourth of the total FSI and it will be close to 1 million square feet and that is what residential what we plan to launch and different configuration, so the Avenue 1 does not compete with Avenue 2 and Avenue 2 does not compete with Avenue 3, that is a thought process.

**Harshal Pandya:** Okay fair enough, sir just one final question. The ban on the construction in Mumbai still persist, so would our Avenue 3 launch plan get impacted because of it or do we have approval along with the 7 acre for this land parcel as well for construction.

**Kamal Khetan:** No, so Harshal your question to that is definitely if the ban on construction is continued, obviously even we get affected. We will not be able to launch if that is not allowed. In fact, they have stopped the dumping activity so if the dumping is not allowed started so we won't be able to excavate the ground, we will not be able to do the ground breaking. Although IODCC and other process will continue. We are in the process of getting all the approvals up to the CC level almost and we will just wait for that ban to go away.

**Moderator:** The next question is from the line of Sagar Karkhanis from Nirmal Bang. Please go ahead.

**Sagar Karkhanis:** Yes, thank you, sir in terms of the unsold inventory now that we have in BKC in Signature Island we have now 21 units of unsold inventory is that correct?

**Sumesh Mishra:** In terms of areas we have approximately 400,000 square feet which is in terms of units we will have about yes 22 apartments in Signature Island unsold.

- Sagar Karkhanis:** And similarly for Signia Isles and Signia Pearl what would be?
- Sumesh Mishra:** We just have 12 apartments in Signia Isles and approximately 24 apartments in Signia Pearl.
- Moderator:** Thank you. The next question is from the line of Pranav Joshi from Dolat Capital. Please go ahead.
- Pranav Joshi:** Hello sir, just one question, what is the CAPEX expectation this year FY18?
- Sumesh Mishra:** CAPEX in our business I think if you analyze in terms of overall spends primarily we will go into our ODC project in Goregaon West and we are targeting to Rs. 300 crores to Rs. 325 crores through the construction activities or as a capital.
- Moderator:** Thank you. As there are no further questions from the participants, I would now like to hand the conference over to the management for their closing comments.
- Kamal Khetan:** Thank you all for your time and have a pleasant evening and enjoy the long weekend to those who might be going away for a vacation over a long weekend. In case if any queries have left unanswered, you can get in touch with me or my team and we look forward for your continued support. Thank you once again for joining us today everybody. Thank you everybody once again.
- Sumesh Mishra:** Thank you.
- Moderator:** Thank you very much members of the management. Ladies and gentlemen, on behalf of Edelweiss Securities, that concludes this Conference Call. Thank you for joining us and you may now disconnect your lines.