



Sunteck Realty Q1 FY19 Earnings conference Call

August 14, 2018



**MANAGEMENT: MR. KAMAL KHETAN – CHAIRMAN & MANAGING
DIRECTOR, SUNTECK REALTY LIMITED
MR. PRASHANT CHAUBEY – VICE PRESIDENT,
CORPORATE FINANCE & INVESTOR RELATIONS
MR. MANOJ AGARWAL- SENIOR VICE PRESIDENT,
FINANCE AND ACCOUNTS**

Moderator: Ladies and gentlemen good day and welcome to the Sunteck Realty's Earning Conference call for the Q1 FY2019. We have with us today Mr. Kamal Khetan - Chairman and Managing Director of the company and from his team Mr. Prashant Chaubey - Vice President, Corporate Finance & Investor Relations and Mr. Manoj Agarwal - Sr. Vice President, Finance and Accounts.

Please note this call will be for 60 minutes and for the duration of this conference call, all participants' will be in the listen only mode. This call will be recorded and the transcript for the same maybe put up on the website of the company. After the management's discussion there will be an opportunity for you to ask questions. Should you need assistance during the conference call, please signal an operator by pressing '*#' then '0' on your touchtone telephone. Please note that this conference is being recorded.

Before I hand the conference over to the management, I would like to remind you that certain statements made during the course of this call may not be based on historical information or facts and maybe forward-looking statements including those related to general business statements, plans and strategy of the company, its future financial condition and growth prospects. These forward-looking statements are based on the expectation and projection and may involve a number of risks and uncertainties and other factor that could cause actual results, opportunities and growth potential to differ materially from those suggested by such statements.

I would now like to hand the conference over to Mr. Khetan, the Chairman and Managing director of the company. Thank you and over to you, Sir.

Kamal Khetan: Welcome to Earnings Call for the first quarter of the financial year, 2019. Thanks for joining us, I am happy to say that financial performance of the company during the first quarter 2019 has been robust. The increased traction in sales at our ODC Goregaon (West) project has led to a strong growth in operational performance. Our pre-sales grew by 42% year-on-year to Rs. 182 crores and collections registered a growth of 23% year-on-year to Rs. 161 crores. The regular sales activation at Sunteck City are witnessing encouraging response and help us to clock strong field number. Furthermore, pick ODC at Goregaon continuing witnessing a significant improvement in infrastructure. We believe our project; Sunteck city within this zone will create significant value for the stakeholders, just like our ultra-luxury residencies have done in BKC. Construction is happening at full pace at all our six projects, Sunteck City Avenue 1, Sunteck City Avenue 2, Signia Pride, Signia Waterfront, Sunteck Icon and the Gilbird Hill project. In the forthcoming quarter, we look forward to the launch of the first phase of our 100 Acres integrated project at Naigaon under a new brand name. The project will be a major breakthrough for the home buyers as it will provide the experience of luxury in the aspirational in home segment. This project will further augment the sale potential of the company and Sunteck's presence will be seen across the pricing spectrum in the residential segment.

Our Prudent Financial Management and philosophy and balance sheet's strength gives us an edge to look at a distressed opportunity within MMR and create a significant value for the stakeholders going forward. We are actively looking at distressed acquisition and believe this

will throw up a unique growth opportunity for us. This will also allow us to scale up our business while maintaining attractive and sustainable ROEs.

I will now handover the call to Mr. Manoj Agarwal to take you through the Q1 numbers; thereafter I will be more than happy to answer your questions, Manoj here.

Manoj Agarwal:

Good evening everybody and thank you once again for joining us today. Without taking much of your time, I would like to quickly take you through both the financials and business performance for the Q1 2019. During the first quarter financial year 2019, we reported consolidated net revenue of Rs. 211 crores versus Rs. 133 crores for the corresponding quarter last year, the overall revenue growth year-on-year is 59%. On the EBITDA front we recorded consolidated EBITDA of Rs. 112 crores versus Rs. 71 crores in the first quarter financial year 2018 which is an increase of 58% year-on-year. Our consolidated EBITDA margins are at 53% and which is the same compared to last year Q1. On the PAT front, we have recorded PAT of Rs. 59 crores versus Rs. 35 crores for the corresponding period last year which is an increase of 69% year-on-year. Our consolidated debt margin are at 28% which is higher by 154 basis points compared to Q1 last year. With regards to our operational performance, we have recorded pre-sales at Rs. 182 crores in Q1 financial year 2019 which is a 34% increase year-on-year as compared to Rs. 128 crores last year. The quarterly sales of Rs. 182 crores is divided as under; we have sold one unit in Signature Island for Rs. 45 crores, further one unit in Signia Pearl for Rs. 21 crores, so totally we have sold two units in the BKC and in the ODC we have sold 46 units for Rs. 92 crores, In Signia Waterfront we have sold two units at Rs. 3.6 crores, in Signia High we have sold two units for Rs. 9 crores and we have sold recently launched new project Gilbird Hill six units for Rs. 11 crores. So the total pre-sales consumed a Rs. 182 crores. In terms of collections, we collected Rs. 161 crores for the quarter versus Rs. 131 crores, for the corresponding period last year which is an increase of 23% year-on-year. So these are the updates on financial year business performance, now we can open the forum for questions from the participants.

Moderator:

Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We take the first question from the line of Kunal Lakhan from Axis Capital, please go ahead.

Kunal Lakhan:

Yesterday I think you were there in media and you mentioned that we plan to launch the Naigaon project in the next 15 days and you mentioned that the contribution of pre-sales could be around Rs. 250 odd crores, just correct me if I am wrong. So in that sense, what is the size of the launch that we are doing and how many units we are expecting to be sold which will contribute to Rs. 250 crores, if you can give some insight there?

Kamal Khetan:

Kunal total as you know, it is a close to 100 acres what we are talking about. In this, right now we are launching the first phase which is close to 15 acres and the square feet area will be close to 1.6 million to 1.7 million square feet and there will be seven towers what we are looking at and in these seven towers, the number of apartments what we are looking at is close to 2250 to 2500 units and what we are planning to launch is, right now launching is 1500 units which will

be in four to five towers, initially what we are starting immediately which we are looking by the month end or early in next month which is like next 15 to 20 days. So out of which we are looking in the first sale itself, out of 1500 up, 500 apartments what we are planning to launch we will be able to sell more than 1000 units which should come around close to Rs. 250 crores to Rs. 350 crores sale depending on the size of the unit; one bedroom or two bedroom whichever we are able to sell more. So we are close to Rs. 300 crores what we are looking at the first phase sale in the first launch. The first phase will generate almost close to Rs. 800 crores of sales revenue.

Kunal Lakhan: Okay and this Rs. 250 crores we are expecting in Q2 itself, we will be able to sell.

Kamal Khetan: Q2 itself this Rs. 250 crores to Rs. 300 crores sales.

Kunal Lakhan: Secondly, on the new project acquisition, you also mentioned in the media that you are looking at acquiring something in Mumbai, if you could give us some insights in terms of which kind of geographies or what kind of product you are looking at, is it going to be again in the affordable housing segment or is it going to be something in the mid income housing segment. So any color on that will be very helpful.

Kamal Khetan: Kunal, as you know that we have clearly now put across the spectrum we have, so we have clearly four segments; one is the Uber Ultra luxury segment which is our Signature brand, thereafter we have a ultra-premium luxury brand which is our Signia brand and then thereafter which we have a Premium luxury which is Sunteck City brand which we use for that Mixed Use format and now the fourth brand which we will be launching for the Naigaon project. So in across four segments, we will continue to grow and now what we are talking about the distressed assets which are, we are looking forward for a good acquisition over the coming months which is mainly targeted towards the Premium Luxury and ultra-premium Luxury and you already know that we have done something at our initial stage which was there already in the newspaper last quarter, something in South Mumbai that we continue to do all those things but we will continue to see opportunity across all the segments.

Kunal Lakhan: Considering that Luxury or Uber Luxury continues to sell little softly.

Kamal Khetan: But if there is a distress I do not think there is a problem and it is a micro market Kunal which micro market is doing well and which micro market, if you see like other micro markets are struggling whereas we feel relatively, BKC we are doing much better and again if you see other projects whatever in the luxury which is there in the Western Suburbs are really doing quite well.

Kunal Lakhan: And lastly, if I may on the BKC front we have about 50 or 49 odd units left, again like we keep asking this but timeline on exiting BKC, what are the internal targets and how are you going to achieve that?

Kamal Khetan: I continue to maintain that, I think there are only 49 units which are left right now. So what we are talking about is right now 49 units and we continue to maintain that we are looking to sell

over a period of three to four years and you see our past, the way the performance has been, two to three units every quarter and we are maintaining that. So if you see, every year we are able to sell 12 to 15 units and this clearly shows that we will be able to exhaust the entire inventory over a period of three years.

Moderator: Thank you. Next question is from the line of Adhidev Chattopadhyay from ICICI Securities, please go ahead.

Adhidev Chattopadhyay: I just wanted to clarify on the IndAS, has there been any change whatsoever from the earlier method in terms of how we are now representing our numbers?

Kamal Khetan: We have not changed anything, so our, in fact, accounts are exactly the way we were mentioning in the percentage completion method. So, there is no change in accounting system at all by us, so we have maintained everything similar to what we have been doing since we have started following a percentage completion method.

Adhidev Chattopadhyay: Second question is, in our ODC project now you have sold around 46 units in the first quarter, so any particular target you have for the full year and do we expect an Avenue 3 launch also in the second half of the year over there?

Kamal Khetan: Yes, so definitely we look forward for after the Naigaon launch, the next target is to launch our Phase 3, Avenue 3 which is in ODC but we are definitely targeting those sales of almost like 150 to 200 units in ODC every year-on-year going forward.

Adhidev Chattopadhyay: Okay but this is excluding anything, any kicker you may get from Avenue....

Kamal Khetan: Over and above, I do not see that anything additional should come; during the launch of Avenue 3 obviously we will see that additional sales coming from there, over and above the 150 to 200 units.

Moderator: Thank you. Next question is from the line of Ruchi Parekh from Anand Rathi, please go ahead.

Ruchi Parekh: Just wanted to know when are you targeting the launch of Gateway 51?

Kamal Khetan: Ruchi, we are expecting commencement certificate very soon, maybe by the end of this quarter and immediately once we receive that commencement certificate, we will be able to launch, I think so, we will be looking for the launch definitely in the next quarter.

Ruchi Parekh: Okay, so in Q2. And one more thing, just wanted to know about whether this project be, I mean it is a commercial project, just wanted to know it will be on lease or it would be on sales, outright sale?

Kamal Khetan: In fact we are getting inquiries for both, we have inquiries to the 'Build-to-Suit' sale model also and we have people who are asking for lease as well. So we are exploring, we will see whatever

best for the company, what best value the company can create out of it, we will go with that and definitely we would like to create which is better for the company.

Ruchi Parekh: And Sir, one last question; for BKC like as you said that it would around 3 to 4 years to liquidate the full inventory, just wanted to understand how is the conversion ratio? So for example, in a quarter how many inquiries you get and out of which it is like two or three gets converted. So if you can share the inquiry number.

Kamal Khetan: So this is very frankly, this is not a project which we go on a mass like advertising how we do ODC or any of our other projects. This is purely by invitations, so we want to maintain that standard and the people, the gentry and everything, so it is not that we get hundreds of inquiries and only two or three gets converted, we have about definitely only few inquiries and out of which we try to maximize if we like the gentry and if we like the customer.

Moderator: Thank you. Next question is from the line of Raj Rishi an Individual Investor, please go ahead.

Raj Rishi: How do you see the landscape presenting vis-a-vis say what you saw six months back in residential and commercial?

Kamal Khetan: So definitely there is a good traction, everybody knows that commercial has already picked up and there is everything good which is we are hearing about commercial but if you see last two quarters, in fact for the organized players the residential has also picked up and we are continuing to see growth in sale and we continue to see this getting better over the next few quarters.

Raj Rishi: And what about prices commercial, you expect them to stabilize here or move up or maybe correct a bit, like what is your guess in this?

Kamal Khetan: Again this will be Raj depending on the micro market, very frankly which micro market, I feel overall the prices will be stable here but definitely nevertheless in certain micro markets I do not mind telling that there may be some correction there, where there is too much of oversupply and where it comes to some few markets, those would be negligible I would say very few markets where the demand and supply is where demand is more and the supply is less; only those pockets you may see slight growth, otherwise overall if you look at it, there prices more will be stable.

Raj Rishi: No in the areas like Sunteck is operating largely, what is your expectation about prices?

Kamal Khetan: Very frankly BKC if you see quarter on quarter we are either able to sell at the similar pricing or we can marginally take a higher pricing quarter-on-quarter and in spite of the bad market over the last few quarters and in fact last few years I would put it. And ODC in fact, we have been able to maintain stable.

Raj Rishi: And Kamalji about expansion plans, etc. would you be averse to raising debt or you would be comfortable with present level of debt equity?

Kamal Khetan: You see our present level of debt is negligible, almost 0.17, it again depends on what kind of opportunity, we will always be focused on our return on equity and IRR, so depending on the kind of project we will not be totally averse to taking the debt at the same time but if the margins are less we would not like to be, rather prefer to do a JDA model.

Raj Rishi: What sort of IRR you have generally, what sort of range you have in mind when you try to go for a project, if you can share it with us?

Kamal Khetan: Obviously whenever we take the project we definitely look IRR which is upward of 25%, 30%.

Raj Rishi: Pardon, I did not get you, how much?

Kamal Khetan: Upward of 25%, 30%.

Moderator: Thank you. Next question is from the line of Abhishek from Systematix Shares, please go ahead.

Abhishek: I just have two questions; what is the debt number for this quarter, I mean what are the debt levels and how you see the debt levels going ahead?

Kamal Khetan: The debt numbers are almost similar to the last, if you see the last quarter and going forward till the time we do not get some distress or very good acquisition, you will continue to see the debt level remaining almost same and with the kind of cash flows Abhishek what we are looking forward to see from our existing projects, since our debt equity is negligible we do not see the debt levels going substantially higher than this.

Abhishek: Secondly, I just want to understand, whether Naigaon market can absorb this kind of inventory. I mean we are launching a project of roughly 10 million, so is it I mean whether that market can take that kind of an inventory, absorb that kind of inventory?

Kamal Khetan: Abhishek, if you have seen some of our few launches, which has been done in this segment in fact basically in the affordable segment what we are talking, especially even the Navi Mumbai and that side, the kind of sales which are seen are really encouraging and those are really good numbers and since this location is very close to the station and on the Western line, in fact if you see the last few quarters, in fact few years I can say there has not been such big launch, so people are waiting for some good developer or an organized developer to do a good launch and we are very confident that we will do good sales in this location.

Moderator: Thank you. Next question is from the line of Monami Manna from Arihant Capital, please go ahead.

Monami Manna: I have few questions regarding your Naigaon project; here your total as per from your presentation what I can see your total unsold saleable area is around 10 million to 12 million square feet, so you say that there will be around seven towers so this will be around 2500 units and in the first phase you are launching around 1500 units, so ..

- Kamal Khetan:** Yes, in the launch we are doing 1500 units because we will not be starting all the towers together.
- Monami Manna:** I mean four to five towers in the first phase of launch; you will I mean launch all the towers, four to five towers.
- Kamal Khetan:** Yes.
- Monami Manna:** So this 100 acre this project as you said that you will try to complete it within five years otherwise it is not been viable because since it is affordable kind of a project.
- Kamal Khetan:** But we have not invested any money in this, so the ROE is infinite, so not viable there is no reason of saying it is not viable for if we do not make money we will not launch further phases, we are very confident in fact, we will be able to launch and we will be able to complete this project over a period of five to six years and we will make good money out of it.
- Monami Manna:** What I am trying to tell since this is an affordable segment, so here you will try to play on the volumes rather than on the ticket size, right?
- Kamal Khetan:** Yes obviously.
- Monami Manna:** Yes, so here the time factor is much more important than your Super Luxury or the Ultra Luxury projects, so that is why I am trying to tell that within five years if you cannot complete this then you will exit the project, right?
- Kamal Khetan:** This particular phase we will be able to complete in less than two, two and a half years, we are talking about all the total launch of 100 acres, if we continue this way, we will be able to launch four to five phases, it will be over a period of four to five phase. This is our first phase and every year we will be able to launch such similar phase and in four to five years each year if we launch one phase, we will be able to exhaust all the phases.
- Moderator:** Thank you. Next question is from the line of Adhidev Chattopadhyay from ICICI Securities, please go ahead.
- Adhidev Chattopadhyay:** Just an update on what is happening on the commercial buildings at ODC, have we got the approvals, and do you expect to bring it around this year or so on the construction?
- Kamal Khetan:** Yes, we are in the process Adhidev to get the approvals and definitely we are very confident that we will be able to launch those commercial as well over a period of this financial year.
- Adhidev Chattopadhyay:** Sir, second on the Naigaon project again, how will the working capital work, means how much have we invested in the project till date means pre-launch and going ahead like the entire 100 acres you would like to develop the infrastructure simultaneously or it will be in phases?
- Kamal Khetan:** Here this is kind of a I would say relatively like a Brownfield project because we took this as a distressed asset, so there were already an infrastructure in place, the developer was doing already

the constructions there and our scope in this is he will give us all the infrastructure and the FSI to construct and we just need to construct and do sales and marketing and even the approval is under his scope. So we do not have to worry about the infrastructure. So that simultaneously the landlord has to do it and we are pretty confident that we will be able to do this. So sorry your question was basically also, how much working capital what we will be deploying. So I think if we do a good sales we should be almost, our cash flows should be positive from the day we launch, in fact.

Adhidev Chattopadhyay: And Sir, typically it would be a back ended payment to the landlord right, if I am correct depending on his performance or?

Kamal Khetan: Back ended payment, so every sale what we do is, we have to give a 27% of the top line and out of which we get a 5% as our brand fee to the Sunteck, so effectively we give in 25%, 26% only, net top. So close to 26% net and whatever sales we do and whatever the cash flow comes, out of which we have to give him this net 25%, 26%. So for us this project will be cash flow positive from the day we launch it.

Moderator: Thank you. We would take the next question from the line of Monami Manna from Arihant Capital, please go ahead.

Monami Manna: Actually, what I was mentioning that time, Naigaon you were saying that in four to five phases you will launch. So just correct me, if I am wrong; in the first phase you will launch these four to five towers, right?

Kamal Khetan: Yes.

Monami Manna: So in the total five phases there will be around 25 towers, I do not think so, I am wrong.

Kamal Khetan: So Monami very frankly, if you want we can explain you separately also in detail. This is 2500 apartments basically and we will be, for to make it simple for you the launch of this Phase 1 we will have a 2500 apartments, out of which we are looking to launch right now that is a sales launch, in the first sales launch, for the construction almost we have prepared the ground for the entire 2500 apartments and for that 1500 apartments sales what we are launching right now, we are confident that we will be able to sell more than 1000 apartments, that is what we are trying to say.

Monami Manna: Within two years?

Kamal Khetan: No, this will be immediate sales, what we are talking about.

Monami Manna: Okay fine, I will take it offline probably my understanding is a little bit blurred here.

Kamal Khetan: No problem, you are always welcome, you can contact Mr. Prashant Chaubey, our IR person or you can call me, we will be happy to explain you.

- Monami Mannan:** Another thing regarding the CAPEX, in the Naigaon you will be recurring around 120 crores of CAPEX?
- Kamal Khetan:** Overall, if you look at the total construction cost over a period of the entire 100 acres maybe we will be spending but that will be coming from the cash flows of the sales.
- Moderator:** Thank you. The next question is from the line of Aditya Chandrashekhar from Edelweiss. Please go ahead.
- Aditya Chandrashekhar:** Just a quick question, what was the construction spend during the quarter?
- Kamal Khetan:** The construction cost incurred during the quarter was close to 63 crores.
- Moderator:** Thank you. The next question is from the line of Ruchi Parekh from Anand Rathi. Please go ahead.
- Ruchi Parekh:** I just wanted a breakup of the unit sold at ODC that is 36 units, how much was from Avenue-1 and Avenue-2?
- Kamal Khetan:** Avenue-1 was 11 units and Avenue-2 was 35 units.
- Ruchi Parekh:** And were these from the upper floors or lower and the average realization if I can get for ODC?
- Kamal Khetan:** You can say this all from middle floors, upper floors and lower floors all put together. This will be the average.
- Moderator:** Thank you. The next question is from the line of Saurabh Gilda from Karvy Stock Broking. Please go ahead.
- Saurabh Gilda:** Just wanted to know what were the realizations at the BKC projects?
- Kamal Khetan:** So the average realization was close to Rs. 53,000 square feet from the BKC project.
- Saurabh Gilda:** Can we bifurcate between Signia Island....
- Kamal Khetan:** I can give you separately, I don't have right now. But I will be happy to share with you.
- Moderator:** Thank you. The next question from the line from Yash Jain, individual investor. Please go ahead.
- Yash Jain:** I want to know about the CAPEX expectation this year?
- Kamal Khetan:** Our CAPEX expectation it will be very hard to say what kind of acquisition but as far as construction is concerned and plus the spend on the fungible FSI and other cost which are payable by us which we will be paying for the construction and all will be close to Rs. 300 crores.

- Moderator:** Thank you. The next question is from the line of Nimit Gala from Edelweiss. Please go ahead.
- Nimit Gala:** Just a follow-up question, on the opportunities you are looking out, I understand that it could be across the various segments but any particular business model you are looking at, whether it is going to be JV, JDA or DM any particular preference for that?
- Kamal Khetan:** Nimit very frankly it will all depend on the project size definitely and the segment so definitely we are very clear in this especially in the aspirational luxury segment which is affordable segment where the margins are always thin, and the volumes are very high. We would like to put less of a CAPEX and we would like to encash on our brand and our execution spend. So when it comes to luxury if we get a good distress what we can buy so we don't mind putting the moneys looking at our strong balance sheet and cash flow. And we will try to maximize with that. So depending on the segment and the project which we are looking at but our focus will be to maximize the return on ROEs so return on equities is very important for us and we are totally focused with IRRs.
- Moderator:** Thank you very much. Well ladies and gentlemen, this seems to be the last questions for today. There are no further questions. In would now like to hand the conference over to the Chairman and Managing Director – Mr. Khetan for his closing comments.
- Kamal Khetan:** Thank you all for taking out the time from your busy schedule today. In case, if you any of your queries have been left unanswered, you can get in touch with me or my team. We look forward for your continued support. Thank you once again for joining us today and have a pleasant evening.
- Moderator:** Thank you very much. Ladies and gentlemen, on behalf of Sunteck Realty that concludes this conference call. Thank you all for joining us and you may now disconnect your lines.