



“Sunteck Realty Q3 FY 2019 Earnings Conference
Call”

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**MANAGEMENT: MR. KAMAL KHETAN – CHAIRMAN AND MANAGING
DIRECTOR
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ACCOUNTS)
MR. PRASHANT CHAUBEY – SENIOR VP (CORPORATE
FINANCE).**

Moderator

Ladies and gentlemen good day and welcome to the Sunteck Realty Earnings Conference Call, Q3 FY 2019. We have with us on the call today Mr. Kamal Khetan – the Chairman and Managing Director of the company along with the Senior Management Team of Sunteck comprising of Mr. Mohit Arora – EVP (Investor Relations & Business Development), Mr. Manoj Agarwal – Senior VP (Finance & Accounts), Mr. Prashant Chaubey – Senior VP (Corporate Finance).

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. The conference is being recorded and the transcript for the same may be put on the website of the company. After the management discussion there will be an opportunity for you to ask questions.

As a reminder all participant lines will be in the listen-only mode. 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.

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 may be 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 expectations a projection and may involve a number of risks and uncertainties and other factors that could cause actual results, opportunities and growth potential to differ materially from those suggested by these statements.

I am now glad to hand the conference over to Mr. Khetan – Chairman and Managing Director of the company. Thank you and over to you Sir.

Kamal Khetan

Thank-you. Good evening everybody and welcome to the Earnings Call of Q3 FY19. I would like to thank everyone for joining us in this call. To start with I am glad to inform you all that we have more than doubled our presales in last 9 months and we are confident and continue to see this momentum going forward. With our aggressive sales strategy we have been able to achieve strong sales number not only in our affordable that is our aspirational luxury segment. but even across all our products segment from Uber luxury, ultra-luxury and premium luxury homes. We have also commenced the construction on our 2 commercial projects at the junction of BKC and see a very good leasing demand in that micro market. The strong execution across all our projects infact has further strengthened our collection and cash flows. We will continue to see this strong cash flow given the presales and execution momentum especially in our key projects located in BKC, ODC and Naigaon. In fact, now the NBFC crisis that emerged in last few months has only added very positive velocity to our growth and opened up many opportunities for us. With our proven balance sheet, strength and healthy visibility of cash flow, we are now geared up to grow to the next level. I now look forward to the question and answer session. And will be more than happy to answer your queries. Before that I will hand over the call to Mr. Mohit Arora to take you through the Q3 numbers.

Mohit Arora

Thank you sir. Good evening everyone and thank you once again for joining us today. I would now like to run you through the financial and business performance numbers for the 3rd quarter of the financial year 2019. To begin with the net revenues for the 3rd quarter of 2019 are Rs. 194 crores against Rs. 201 crores in the corresponding period last year.

During the first 9 months of financial year 2019, we reported a consolidated revenue of 586 crores vs Rs. 681 crores for the corresponding 9 months last year which included first time revenue recognition from Sunteck city. On the EBITDA front we recorded consolidated EBITDA for Q3 FY19 at Rs. 81 crores. Against Rs. 89 crores in the corresponding period of the last financial year. The consolidated EBITDA for the first 9 months of the FY19 is Rs. 271 crores vs Rs 261 crores in the corresponding period of the last financial year. Our consolidated EBITDA margin for the first 9 months of the FY19 is at 46% which is higher by 800 basis points compared to similar period of last year.

With respect to PAT recorded PAT for the FY19 is at Rs. 49 crores against Rs. 58 crores in the corresponding period of the last financial year. We have reported PAT of Rs. 177 crores in the first 9 months of FY19 vs Rs. 162 crores for the corresponding period last year. Our consolidated PAT margins for the first 9 months of FY19 are at 30% which is higher by 600 basis points compared to last year.

With regards to our operational performance we have recorded presales of 310 crore rupees in Q3 of FY19 which 199% increase YoY is, as compared to Rs. 104 crores last year. The presales of first 9 months of the FY19 are Rs. 913 crores. Which is a 127% increase YoY as compared to Rs. 401 crores last year. I will also now run you through the project wise break up of quarterly presales of Rs. 310 crores. In Projects Signature Island and BKC we sold 2 units at Rs. 86.3 crores. In our Signia Isles project in BKC we sold 1 unit for Rs. 25 crores. In Sunteck City we sold 15 units for Rs. 26.6 crores, in Signia Waterfront we sold 10 units for Rs. 21 crores. In Signia High Borivali we sold 4 units for 21.5 crores. We recorded presales of 381 units for Rs. 130.2 crores in our Sunteck Westworld project in Naigaon. In terms of collections we have achieved collections of Rs. 152 crores for the quarter, and Rs. 454 crores for the first 9 months of FY19. The same are higher by 52% and 21% respectively as compared to the corresponding period last year. This is the update on our financial and business performance. We can now open the forum for questions from the participants. Thank you very much.

Moderator

Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Kunal Lakhan from Axis Capital.

Kunal Lakhan

Sir, only on our ODC numbers. 15 units, I mean I remember in the previous call you had mentioned there are targets to sell about 150 to 200 units annually so how should we look at these numbers. These number need to ramp up significantly going ahead and how do we intend to achieve that.

Kamal Khetan

Kunal, I agree last time we said that. Just to take you through project wise. At BKC we have been maintaining we would be selling 10 to 12 units YoY out of which in 9 months we have

already sold 8 units and ODC I agree we have been maintaining that we will be able to sell 150 plus units YoY. Till now in 9 months we have been able to achieve a sale of 65 units and we are confident that we will be able to achieve (+150) units in the current quarter. We are already seeing the momentum and you just have seen today the front page add in times of India jacket. We have launched it and we are aggressive. So, we believe this quarter we will be able to do the balance number of sales that are pending from previous year target. So, we continue to maintain that we will be able to sell 150+ units.

Kunal Lakhan

Just on that activation strategy. I remember last quarter you had mentioned that we will focus on activation on marketing of one project every quarter. But how? Is there any limitation in terms of band width here? Because why can't we have multiple project acquisitions? Are like missing out on opportunities in projects which are not getting activated in a particular quarter.

Kamal Khetan

I don't think so Kunal. I totally understand you concern. But that is not the way. It's a marketing strategy. Today people are not that. it's not the bandwidth. People who have the band width are also not selling in. Whatever we have maintained our targets, you have to understand that where people are not able to sell in the luxury segment, especially in BKC, where we have sold out of the 3 units, 2 units are in signature island. Larger ticket size. And so that's what in my opening remarks I said. Not only in the aspirational segment Naigaon, we sold overall like 2000 units and in a year at BKC we sold almost 3 units every quarter. ODC our strategy is slightly different. Be patient, this quarter you will see that number which is missing. that magic number. So, we have our own sales strategy, it's not the bandwidth problem I think so. Because we have enough sales team and today if there is bandwidth problem today, we can always use a company like Anarock or in fact CBRE or Cushman and Wakefield all these JLL any of this IPCs to use the bare bandwidth. But that is an out sourcing that is not a problem. Definitely it's not the bandwidth. You can't keep doing the activation every quarter for same project again and again.

Kunal Lakhan

Second one on the collections run rate. Typically, your collection run rate starts mirroring your sales run rate. Or it starts getting closer to that run rate. I was just saying, typically your run rate starts catching up with your sales run rate over a period of time. And last 2 quarters we have seen great sales but not so much of collection is coming through. How and when can we expect the collection run rate to catch up and get in line with the sales run rate?

Kamal Khetan

Oh, if you see the sales run rate had gone up in this year by more than 200% presales and almost more than 200%. So definitely that will come over the period of other quarter. Also, if you see in this quarter, the collections have increased by 52%. Last quarter, YoY basis if you see, the collection was 100 crore vs 152 crores this year. It is a 52% jump. In Q2 of FY19 it was 140 crore vs 152 crores. And you will see substantial amount coming in the fourth quarter as well. Already there is already an increase of 52% in this quarter. Next quarter you may see a bigger jump. Because of the stronger presales and the execution.

Kunal Lakhan

My question is specific to BKC. Because BKC we have sold really well in the last 2 quarters and still the project is completed, one would expect the collections to be a little on the higher side in these 2 projects. But in last 2 quarters we haven't collected much over there?

- Kamal Khetan** So, sales obviously these are large ticket size units, so typically the buyers obviously take 2 to 3 months. Some people take loans for the loans to get sanctioned. This quarter we sold 3 units which is like more than 110 115 crores I believe, closer to that number, and which is in November and December last month. So that is the payment initially what we receive. It is 10% to 20% and the balance 75% to 80% payment in the current quarter. So, you will see that coming up.
- Kunal Lakhan** So in that case can we safely assume that, over the next 2 to 3 quarters we can see collections coming, ramping up primarily because of BKC collections coming through and plus the Westworld collection also started to kick in.
- Kamal Khetan** Kunal I can tell you, there will be a very strong collection numbers that you will see. So last year this quarter there is a growth of 52%. May be next quarter you will see a higher growth.
- Moderator** Thank you. The next question is from the line of Tanuj Makhija from Bank of America. Please go ahead.
- Tanuj Makhija** My first question is that clearly, we have seen a lot of stress in the Real-estate market right now. And given your strong balance sheet and fantastic sales, what is your growth pattern? Are you looking to acquire new projects from joint ventures? What is your strategy going forward?
- Kamal Khetan** Tanuj, definitely we see lot of good projects and there is a lot of distress, not only from the developer side, also from the NBFC side. We have seen this NBFC crisis debacle. They are worried about the NPAs and people want us take their projects and all. But we are cautious at the same time very aggressive. But we try to maintain our strategy the way we acquired our Naigaon project. Try to maintain for some time an asset light model and were we see we can create an infinite ROE to maximize the ROE. Those kind of project and larger projects we will be focusing on definitely.
- Tanuj Makhija** Second question is with the current good presales momentum we will probably see recognition of Westworld 3 years down the line. So, can you just paint the broad picture of how the financials and how big the company would be in 3 years down the line?
- Kamal Khetan** Tanuj, it's very difficult to say that, and quite a forward-looking statement. But definitely I can tell you. The way we are growing and the way the sales momentum we have been able to do sales, in spite of the bad market. And the sales have grown in last 9 months. We have almost by more than 100%. We are confident that in spite of this market, we will be able to grow minimum to double the company in 2.5 years to 3 years' time. I would like to make this cautious statement.
- Moderator** Thank you. The next question is from the line of Adhidev Chattopadhyay from ICICI Securities. Please go ahead.
- Adhidev Chattopadhyay** Sir my questions are on ODC. Avenue-1 Avenue-2 when do we expect the possession, because I am just referring to the scheme you have given, pay 5% and rest on possession? Whatever you

have had in the ad TOI today. That is one. Secondly what is the status on the approvals on the commercial part of ODC and 3rd when do you see the avenue 3 or avenue 4 getting launched?

Kamal Khetan

Good evening Adhidev. So Adhidev, as far as ODC avenue 1, we are definitely looking at the project to be completed in almost less than 12 months. So, subvention scheme that we have given it is the 12 months interest that we collect upfront by discounting that. We calculate on the basis of 12 months. And we are looking to complete this project may be much earlier than 12 months. So that's where our target is for avenue 1 in completion. Where as in avenue 2 we are looking at 18 months. 12 to 18 months. That's the way we are designed the subvention scheme as well.

Adhidev Chattopadhyay

So as I can understand, we are bearing the interest cost till the possession. That is broadly the counter of the scheme.

Kamal Khetan

No. We are not bearing the interest cost. If someone wants to take the scheme avail that scheme, he is paying for that interest cost. So that is over and above the price. So, the company is not at loss. And once the agreement is stamp duty registered, the risk and reward are to the financier the banker and the customer. So, it's not with the company. On the commercial part, we are awaiting certain approvals. I think we should look towards the second quarter of the next financial year. If cautiously tell you, first or second quarter of the next financial year of '19-20.

Adhidev Chattopadhyay

Are we looking at any preleasing or we in discussions with corporates what sort of floor plate or what sort of specs they would want is that something we would look to do, or something you would like to only do may be a couple of years down the line?

Kamal Khetan

No. So we are already started looking at our RFPs which are getting floated in the market. And some of the large RFPs which are there. And we are already discussing with them. And maybe we will be happy to prelease all these. And not only at ODC in fact the 2 other projects which are coming at the junction of BKC. One is the Sunteck Icon and the other one is Sunteck BKC51. For both we have got good enquiries. Especially in that micro market for preleasing of the buildings.

Adhidev Chattopadhyay

Lastly on the Avenue 3 and 4, your launch plans for that?

Kamal Khetan

Its similar, Q1 or Q2 of next financial year. Because this quarter we are any how doing this activation launch which we have done for Avenue 1 and 2. So safely I should say Q2 of next financial year.

Moderator

Thank you. The next question is from the line of Mr. Vishnu Shankar from Allegro Capital. Please go ahead.

Vishnu Shankar

I am going to break up my questions into two. The first one is in relation to CRZ. What is the latest we have on the CRZ? Has everything been cleared to start redeveloping on the Mumbai coast or are they still some impediments that are being faced? What is the general scenario with the dynamics in the Mumbai market?

- Kamal Khetan** Vishnu, if I understand you, you are talking about CRZ?
- Vishnu Shankar** CRZ that's correct.
- Kamal Khetan** CRZ I think, there is a certain clarification and proper structuring of the norms like, how the approvals will be given and all. So, projects which required a CRZ clearance, now if the CRZ norms have some, they can directly may be take the approvals but anyhow Suntecks, most of their projects are not affected or anyhow positively or negatively by the CRZ new regulations.
- Vishnu Shankar** Are we not looking at developing something ourselves on the coast?
- Kamal Khetan** Definitely, when there is opportunity. Let the proper opportunity come. There is lot of distress anyhow in the market. So, we will evaluate that opportunity and definitely look at it.
- Vishnu Shankar** And, my second question are in relation to any major project or land acquisitions considering that there is a good amount of stress with other developers and everything. So, are we looking at anything big in the coming future?
- Kamal Khetan** Vishnu I just mentioned that definitely since there is so much of distress in the market and also the NBFCs which they want some projects to be taken over by the new developers, we are looking at some good potential projects which are available in the market. And maybe we will be happy to announce some good ones very soon hopefully.
- Moderator** Thank you. The next question is from the line of Anshul Mittal from CARE Portfolio Management. Please go ahead.
- Anshul Mittal** I wanted to ask one question. What is the IRR that we keep in mind for any project, be it residential or commercial? And the second question I wanted to ask was that, we are having a good cash position in our books. So, what was the reason for raising these 35 crores for 3 months commercial papers?
- Kamal Khetan** Good question. To answer your last question first. Obviously, commercial paper if you can get at 8.75% interest rate, why should I pay even 9% or 9.25%. You cannot definitely get a loan at 8.75%. So, if we can reduce our cost of borrowing, that is always an added thing to the company so that is a good thing I believe. So, what was your first question if you can repeat?
- Anshul Mittal** What is the IRR that we keep in mind for any project, be it residential or commercial?
- Kamal Khetan** You can't exactly say, it depends, obviously we will not look at any good project less than 25 to 30% IRR. But it depends on how the project is, what the project is, and what kind of investments we are getting. If you talk about few projects where our investment is very negligible, the IRR is crazy, it more than even 30%. We will definitely not look at anything which is less than 25%.

- Anshul Mittal** Okay great sir. And one more question I wanted to ask. And we are mainly concentrated to Mumbai only, except the joint ventures with Piramal. So, are we looking to expand in other cities as well or are we going to maintain in the same geography?
- Kamal Khetan** I think MMR is such a great market. In fact in MMR I think that is the market where you can sell a product from Rs. 5000 a sq. ft. to Rs. 150,000 a sq. ft. across the spectrum. Sunteck now being in all the segments I think it is better best that, we are best in MMR region and if there is so much of opportunity in MMR region, why should we try and explore going out. But nevertheless, if something very great comes we can always look at it. But very strictly following I would always maintain that 80% to 90% of the economic interests will continue to maintain in MMR regions. I think that answers your questions.
- Moderator** Thank you. The next question is from the line of Kunal Lakhan from Axis Capital. Please go ahead.
- Kunal Lakhan** Sir on Naigaon, what is the timeline for the launch of the next phase now and how will we look at this annually, in terms of adding or bringing in the inventory in this particular project?
- Kamal Khetan** So, Kunal if you look at it, we maintain that we will be able to develop this entire 6 million sq. ft., which converts into 10 million sq. ft. to 12 million sq. ft. of salable area. So, we will almost launch every year close to 1 million sq. ft. to 1.5 million sq. ft. and we have done that and we continue to maintain that and we see a strong cash flows coming from there.
- Kunal Lakhan** You mentioned in your comments, that you are seeing some great demand or interest for your BKC Junction projects. If you could give some color there in terms of what kind of rentals are you seeing the demand at and what kind of time line that you plan to get this preleased, and do we intent to have preleased this before the completion and what is the strategy here if you can give some color there?
- Kamal Khetan** Kunal, ideally obviously, we would like to prelease before the building is ready. So, we are looking at a time line of 12 months to 15 months for the completion of the building. And similar timeline because looking at the good demand in commercial market, and being on the Junction of BKC, I think first 12 months to 15 months when the building is ready, I think at least more than 50% to 60% of the building should be able to lease, ideally.
- Kunal Lakhan** And what will be your rental expectation sir?
- Kamal Khetan** Rental expectation I think anything upward of Rs. 200 a sq. ft. on a salable. So, on a carpet if you talk almost it should be close to Rs. 250 to Rs. 300.
- Kunal Lakhan** Is that where we are seeing interests from the corporates also?
- Kamal Khetan** Yes. Already in BKC if you look, today in a good commercial building, today upward of Rs. 300 sq. ft. on the salable which converts in almost more than Rs. 400 on the carpet area. It has

to be a Grade-A commercial building obviously. With Sunteck brand obviously, we will always do a Grade-A commercial building.

Moderator Thank you. The next question is from the line of Ruchi Parikh from Anand Rathi. Please go ahead.

Ruchi Parikh I wanted to ask what is our debt level currently or what would be the cost of funding currently on net-debt to equity, some light on debt if you can give?

Kamal Khetan Ruchi, to explain one thing you have to understand is, I think we are among one of the strongest balance sheet companies and one of lowest debt. And the debt-equity ratio is ratio is 0.17. And also, incrementally whatever borrowings we are doing, including for the corporate borrowing, including for any new acquisitions or anything which is less than 9.5% incrementally. So now if you look at net debt which is close to Rs. 450 crores.

Ruchi Parikh Sir this is as on H1. If you can give me as on December, has it been increased or decreased or where do we see this going ahead? It should be something similar.

Kamal Khetan It should be something similar, not much variation because there is no reason. We have positive cash flow. So, I think it should marginally decrease or it should be at the same level.

Moderator Thank you. The next question is from the line of Raj Rishi an individual investor. Please go ahead.

Raj Rishi I just want to ask you, the new projects which you are talking about, something that you can announce pretty soon, that will be on a JV model or outright purchase?

Kamal Khetan We are looking at good projects. I said we continue to look at some very attractive projects, there are too many projects in the market. We are being definitely aggressive, but at the same time I maintain that we will follow an asset-light model, so Naigaon where return on equity for us is infinite. I would rather put it that way.

Raj Rishi And sir, this would be focused on affordable housing or something else, your new project?

Kamal Khetan It's too early to mention that very frankly. But at the same time, we are looking across all the segments. So, if you see Raj, our sales also across the segments has been good and strong and we are confident for us which location and what project and what kind of product to launch in that location Sunteck has been one of best in the industry, I think. If you look at BKC how we have created, similarly how we created the ODC and now there the Naigaon was like a virgin market, not a single big developer was there. We could go and just bang it and get a great response out of it. So, we will come up with that strategy of looking at the location and right product has to be launched in that location.

Raj Rishi And sir this price trajectory over the last one year, what's your comment? And what is your assessment about the coming one year, based on the assessment of the markets that you are operating in?

Kamal Khetan Obviously, we all know that the market is not too good. So we cannot expect for the next one year that the prices will go up. But we as any good developer in fact I would say, at the same level we will be able to sell. I don't see the price movement either going northward or southward from here.

Raj Rishi And for the price that you are presently experiencing that is similar last year? It has gone up, down or it has remained the same?

Kamal Khetan It is almost same or marginally higher. In fact, we have not gone down if you can see our sales QoQ including our BKC, ODC and Naigaon. So, in fact we have increased the prices in Naigaon at least 3 times since the last launch. Whatever we are selling is more than what we have sold in last quarter. Not only there, in fact, ODC is also what we have launched today is higher than the last year's price.

Raj Rishi And sir, in the coming one year you don't see any demand slow down for your projects?

Kamal Khetan At the starting of the call I mentioned very clearly that we are seeing a strong sales what we have done. We have grown our presales by almost more than 100% and we are confident of maintaining this sales momentum.

Raj Rishi And sir, the clients which you have, are they not experiencing any NBFC issue as such? In accessing funds?

Kamal Khetan I don't think the clients have a problem, because there are so many options. There are obviously not many NBFCs which are in problem. Those are mainly the NBFCs which were focused on developer funding. I don't see the NBFCs which were clearly focused and banks and financial institutions which were focused on housing finance, those are not into problems. If a developer is good and the client eligibility is there, there is no shortage of loans to those clients or a developer.

Moderator Thank you. The next question is from the line of Akshay Shah an individual investor. Please go ahead.

Akshay Shah Sir my question is a little broader and is similar to one of the first questions asked, with regard to Goregaon and ODC. I just wanted to get your view on what you see from the demand and supply in the Goregaon and ODC belt, with both the Sunteck projects coming up but as well as news of NESCO and Oberoi developments also in the immediate vicinity?

Kamal Khetan Akshay, if you see, NESCO is not a residential. So, I don't see there is a problem of residential. And as far as Oberoi, the ticket size is totally different than our ticket size. And that is the

Goregaon East and this is the Goregaon West. So, people who prefer to stay in Goregaon West, would definitely not like to go to East, and some people who definitely like Goregaon East would definitely not come to West. So, the target audience are different, the ticket size are different. And I don't see there is too much of supply in our ticket size in fact, that is why we are very confident of what launch we have done today, we will get a very great response.

Moderator

Thank you. As there are no further questions from the participants, I now hand the conference over to Mr. Khetan for closing comments.

Kamal Khetan

Thank you all for taking out the time from your busy schedules today. In case if you have any queries which are left unanswered, you can get in touch with me or my team. We look forward to your continued support. Thank you once again for joining us today and have a pleasant evening. Thank you.

Moderator

Thank you very much. Ladies and gentlemen, on behalf of Sunteck Realty that concludes this conference call for today. Thank you for joining us today and you may now disconnect your lines.