



Kolte Patil Developers Limited

Investor/Analyst Conference Call Transcript

October 29, 2013

- Moderator** Ladies and gentlemen good day and welcome to the Q2 FY14 Earnings Conference Call of Kolte Patil Developers Limited. As a reminder all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the after the presentation concludes. Should you need any assistance during this conference call please signal an operator by pressing '*' followed by '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference to Mr. Varun Divadkar of CDR India. Thank you and over to you sir.
- Varun Divadkar** Good evening everyone and thank you for joining us on the Q2 FY14 results conference call of Kolte Patil Developers. We have with us today Mr. Sujay Kalele – the CEO and Mr. Mahesh Suluja – Vice President Sales. Before we begin I would like to state that some of the statements in today's discussion may be forward looking in nature and may involve certain risks and uncertainties. A detailed statement in this regard is available on the Q2 FY14 results presentation that has been sent to you earlier. I now invite Mr. Sujay Kalele to begin the proceedings of the call.
- Sujay Kalele** Good afternoon all. First of all a very warm welcome to everyone present and thank you for joining us today to discuss the operating and financial performance of our company for the second quarter and half year ended September, 2013.
- I will like to divide the address in three parts – first, I will touch upon the key operational highlights for the quarter. The second part would relate to our financial performance followed by the key business updates and outlook for remainder of FY14.
- I believe we have delivered yet another stable performance in an otherwise seasonally weak quarter. Maintaining the sales bookings we have recorded about 0.45 million sq. ft. of new sales taking our tally in the first half of the year to 0.9 million sq. ft. The sales momentum has been pretty stable especially in the backdrop of a challenging approval scenario where we saw some of our launches getting delayed to the last month of Q2. Average realizations were higher by about 19% quarter on quarter and over 40% year-on-year to Rs. 5,738/sft. including the stock that we sold in Bangalore. This can be mainly attributed to the change in product mix this quarter with higher proportion of sales from commercial sections at Downtown and Wakad. Average price realization for the residential portfolio



projects stood at about Rs. 5,200/sft. for the quarter while for commercial was Rs. 9,000/sft. Collections for the quarter remained healthy at Rs. 271 crore.

On a year-on-year basis revenues in Q2 were down by about 2% to Rs. 189 crore mainly on account of deferment in revenue recognition as the registration threshold was delayed in two of our sites namely Downtown and Tuscan in Pune. However, we are pleased that these registrations have now started taking place and we will see this reflecting in our numbers in Q3 and Q4. Further, in July specifically, the extended monsoon season did impact the pace of construction activity to some extent and we hope to catch up onto that in the remainder half of this financial year.

In Q2 FY14, the key revenue contribution came from the first phase of our township project, Life Republic, where construction continues to progress as per plan. Other key contributors were Margosa Heights and Corolla. EBITDA in Q2 FY14 has grown 70% YoY to Rs. 60 crore. PAT (post minority interest) grew over 64% to Rs. 32 crore. In Q2 FY14, we undertook divestment of a land parcel of 6.4 acres at Jambhe for Rs. 12 crore while the purchase cost of the said land parcel was Rs.5 crore. Adjusted for the land sale, total revenues stood at Rs. 177 crore, EBITDA at Rs. 53.3 crore at margins of about 30% while PAT (post minority interest) was at Rs. 27.5 crore.

For H1 FY14, revenues were up 39% to Rs. 405 crore, EBITDA expanded 99% to Rs. 124 crore while PAT (post minority interest) was up about 84% to Rs. 59 crore. Further in line with our commitment to shareholders the board has declared an interim dividend of Rs. 1.5 per share amounting to a dividend payout of nearly 20% of H1 FY14 PAT within the board approved range of 15% to 25% of dividends as PAT.

Now let me throw some light on the balance sheet numbers. As communicated in the previous earnings call, we are at the peak of our investment cycle and the gross debt increased by about Rs. 25 crores towards owning mainly premium payments of two of our projects. 14 crores was paid towards the premium of Downtown project in Kharadi and 6 crores was paid towards premium payments of our Kannur project in Bangalore while minor 5 crores was towards working capital. In addition out of the cash and cash equivalence we have made 20 crores payment towards the Wakad land parcel. In this quarter the Downtown project which has ILFS as the private equity partner returned capital of about Rs. 32 crore put together for both the partners. In that KPDL shares stands at about Rs. 17 crore which we have used to repay debt to the tune of Rs. 14 crore. After all of this at the end of Q2 our net debt to equity still continues to be within our comfort zone of 0.2x despite acquisition of land parcel and delay in approvals that deferred the new project launches. Going forward we expect expansion in operating cash flows from recently launched projects to continue with net debt to equity expected to remain in the current range for the remainder half.

This has been a milestone quarter for us as we marked our foray into the Mumbai market signing our first project on Khar-Linking Road in the redevelopment space. Hopefully in Q3 FY14, we should receive the necessary approvals and start work on the ground, although revenue contribution from this project is only expected in the next financial year. We are judicious and very cautious on our plans in Mumbai and hope to continue with the same approach.

The quarter further saw the launch of four new projects in Pune to the tune of 1.8 msf. which is significant considering the prevailing regulatory as well as economic environment. These included 3rd Avenue at Life Republic Phase I of 0.3 msf, 24K Glamore in NIBM of 0.4 msf., Downtown in Kharadi of 0.7 msf and Tuscan Phase-II in Kharadi of 0.4 msf. It has been just about a month or so but the initial response

has been very encouraging. We believe that these new launches along with subsequent new launches expected in Q3 will translate into an uptake in sales volume in the second half and enable us to maintain our annual run-rate of 2.5 msf.

Our performance in the first half is another milestone towards creating a strong and sustainable real estate business. Going forward, we are focused on consolidating our market leadership in Pune while judiciously expanding our presence in Bengaluru and Mumbai while maintaining our focus on quality, timely delivery and most importantly cash flows. For FY14 we believe that with the new launches that have happened and launches that are expected to happen we can sustain our sales velocity at an average realization upwards of Rs. 5000 a sq. ft.

Now I would like to hand the floor over to the moderator to begin the question and answer session.

Moderator Thank you very much sir. Participants we will now begin with the question and answer session. We have the first question from the line of Arjun Ashar, an individual investor. Please go ahead.

Arjun Ashar I wanted to know what will be your guidance for FY15 is considering that around this time last year you had given the outlook for FY14?

Sujay Kalele We are hoping that in Q3 we should receive some of our important approvals and post that we will be in a position to be able to give guidance for the next financial year.

Arjun Ashar Subject to you getting the requisite approvals, what are the projects that you expect which will drive the revenue recognition in FY15?

Sujay Kalele There are 3 to 4 more new projects. Wakad should reach the revenue recognition stage in FY15. I am only talking about the new projects. We should have revenue recognition from Tuscan. We should have from Downtown. We should also have R3 at Life Republic contributing to revenues. All the new projects that we launched in September and couple of more launches that are expected to happen in Q3, should contribute to revenues FY15 onwards.

Arjun Ashar Then on page 15 of your presentation, on the divestment of agricultural plots, I wanted to know what the rationale for purchasing these plots was or under what conditions these plots end up with us and then now why are we divesting them now and the timeline for this? What are the expected sales proceeds and cost of acquisition in totality for these plots?

Sujay Kalele So, for example the plots that are marked as Jambhe, these were acquired when we were acquiring the township land, so some of the land parcels that we acquired we could not establish contiguity as part of that 384 acre parcel that we acquire. As a result of which the Board decided six months back to divest it and obviously the price has also appreciated. So we feel that now is the right time to realize the real value of it. Similar goes for Phursungi land parcel as well. We started acquisition of Phursungi land parcel about 3-4 years back but over the last 3-4 years that particular area has not developed the way we thought it will develop. So as a result of which the Board has decided to divest the land parcels.

Arjun Ashar Okay. And the expected timeline for this divestment and the expected --

Sujay Kalele We should see about 60% of the divestment should happen in FY14 with a spillover of 30% to 40% in FY15.

Arjun Ashar With Phase-II of Life Republic what is the expected launch date subject to approval being received as per our expectation?

Amit Dahanukar So if we received the approval in Q3 we should be able to launch the project in Q1-Q2 of next financial year. That is obviously subject to approvals.

Arjun Ashar And can you please throw some light on the Sanjeevani township timeline for launch?

Sujay Kalele No, I think Sanjivani Township should happen by end of FY15 and I do not see in FY15 any revenue recognition from it even if we are able to launch the project in FY15 it should spillover to the next financial year.

Arjun Ashar And lastly I wanted to know what was the cost of acquisition to the entire 384 acres at Life Republic?

Sujay Kalele About Rs. 365 crore would be the total cost.

Moderator We will take the next question from the line of Daniel Savla from Athena Investment Services. Please go ahead.

Daniel Savla Sir just a couple of questions. One is regarding the debt. Your net debt increased from Rs. 89 crore in March 2013 to say Rs. 218 crore, so you explained recently about Rs. 20 odd crore increase in the debt, I do understand. But why there is a drastic increase in the debt?

Sujay Kalele No, this was the incremental change we had already explained in the first quarter earnings call. It was towards bridge capital funding of the Wakad land acquisition that we did. So the incremental debt is only about Rs. 20-25 crore.

Daniel Savla And sir if you consider your current new launches of 1.8 msf. and if I look at your sales till date is 0.89 msf. so for just achieving your guidance you require around 1.6 msf. more and of course the one which you have launched there would be part sales as well. So you expect the whole thing to be sold off or there are some new launches in the pipeline or probably you can throw some light on that.

Sujay Kalele So as I mentioned earlier there are new launches that are planned in Q3 to the tune of anywhere between 0.8 to 1 msf. So those will add up and then in Q4 also there will be subsequent phases of the projects. So the guidance is obviously on the average rate as well as the sales velocity. So we are confident that on both the fronts we should be able to hit up.

Daniel Savla So you do not expect any delays from these projects? Delay in the sense like the 1.8 msf. which you are supposed to be launching at the starting of Q2 or probably Q1 started off taking off at September. So could we expect similar delays?

Sujay Kalele No whatever numbers we are giving those are almost approved ones. We are not counting say Wakad launch for where we are dependent on the environment committee to get established and all of that. These are approvals in hand that we have received in Q2 and in the process of getting launched. So when I say about 0.8 to 1 msf. of new launches in Q3 it does not include any of the yet to be approved ones.

Daniel Savla And what was your cost of acquisition of Wakad land once again, your share?

Sujay Kalele This is 100% owned by us and the cost of acquisition was about Rs. 310 crore.

Daniel Savla So that was through your internal accrual and partly through the bridge loan?

Sujay Kalele Yes.

Moderator We have the next question from the line of Abhishek Bhandari from Macquarie Securities. Please go ahead.

Abhishek Bhandari Sir I just had one question regarding this approval scenario, you said that there has been some delay in getting the approvals. Now do you think that the process would speed up given that general elections and state elections in Maharashtra are going to come through very soon?

Sujay Kalele You just put a smile on my face here. I am expecting that and that is where at the start of my call I clearly said that Q3 I expect some amount of approval fast-tracking to happen because generally also the feeling on the ground that we are getting is things are getting fast-tracked. So I hope that Q3 the scenario should be substantially different than the first half of this financial year.

Abhishek Bhandari And sir second question is on dividend. Given that now our business is on much better footing, are you looking at increasing dividend and rewarding shareholders in a better way?

Sujay Kalele We have a dividend policy of 15% to 25% of PAT every year, so as an interim dividend the Board felt that 20% should be good. So we do not see any change in the range per se but within 15% to 25% what to give really is the call of the Board and at the end of the second half of this financial year depending how things are and what the Board decides, we will honor that.

Moderator We have the next question from the line of Parikshit Kandpal from Karvy Stock Broking. Please go ahead.

Parikshit Kandpal Just wanted to talk on some of your recent land acquisitions, I mean if we look over next 2-3 years Life Republic is one thing, like Phase-II still we are awaiting the approval and it will take at least a year before you move into launch. So that leaves us with only Wakad, it being a sizeable chunk of new launch which can happen over like six months. So at what stage are we in terms of environmental clearance over there and how soon can we launch this project?

Sujay Kalele So Wakad is there and I will answer to your questions into two parts. One on the recent acquisition of Wakad and what timelines to expect? Second, given the approval scenario what new projects we are expecting to launch? So as far as Wakad goes we were told that the committee would be formed in October but it has not been formed. The new timeline that has been given is immediately post Diwali and if that gets formed we should be on track to launch this particular project by Q4 of this financial year subject to the committee getting formed in November because everything else has been done. The plans have been sanctioned, so all of those back end things have been done already. Now given that as far as the new launches goes in Q3, we are launching Jazz, then we are launching our Bavdhan project for which we have already received all the approvals including environmental clearance that was received in July before the environment committee got dissolved. So just these 2-3 projects put together is about 0.82 msf. So that way for Q3 and then obviously we will have some spillover into Q4 and so this strengthens the pipeline, immediate pipeline, clear pipeline for the remaining two quarters and if there is a positive upside it is welcome.

Parikshit Kandpal Second question is if we see on the newer projects which are getting launched at a higher realizations and the average pricing here is around Rs.6,000/sft. plus, so what kind of challenges do you face in selling this since traditionally our portfolio has been averaging around Rs. 2,500-5,000/sft and Life Republic R3 Sector it has gone up to almost Rs. 5,500/sft., so now we are going to have Rs. 6,000/sft. plus so which becomes a challenging market basically to sell in Pune?

Sujay Kalele Again giving the first hand experience of the projects, Downtown and R3 that were launched in September, both have received phenomenal response. In R3, we have already sold out 50% of the stock, Downtown again we have crossed about 1 lakh sq. ft. of stock in just one odd month, more than that actually now. By now I think we have sold 1.2 lakh sq. ft. in just about a month. 24K Glamore is also coming around really nicely. So really the first hand feeling is not that bad. It is very encouraging.

Parikshit Kandpal So out of this 1.8 msf. we launched in September what could be the number which has translated into sales?

Sujay Kalele We would have sold about 3-3.5 lakh sq. ft. by now.

Parikshit Kandpal How has been the festive season till now because a lot of developers would do betting out and we had seen these exhibitions, MHCI in Mumbai and Navi Mumbai, so has been the response in the festive season? I mean since we are approaching Diwali now so this will be the peak season, so how do you see this holiday season as far as it goes for you?

Sujay Kalele For us September was better than October basically. So from a month on month basis for the last three months including, so August, September, October monthly sales were pretty similar 20,000-30,000 sq. ft. here and there. So we have not seen any spike in demand per se owing to festivities or anything of that sort. It is stable demand actually.

Parikshit Kandpal But then what gives you so much confidence then I mean you did 0.45 million in Q2 and then you are getting around if we have to do 1.5 million or 1.6 million for the rest of the second half, that means we have to hit a run rate of almost like 0.6 to 0.7 in this quarter and then probably taking to 0.9 in the fourth quarter. And then in October if the sales have not been encouraging, what makes you so much of confidence about November and December?

Sujay Kalele No, if I just look at the kind of sales pipeline that we have across all the newly launched projects I think we should be around that 0.6-0.7 million in Q3. I do not see that as a big challenge actually.

Parikshit Kandpal Sir how has been Pune impacted by this overall slowdown which we are witnessing in Mumbai? So have you seen footfalls coming off in your future projects like how is it panning out?

Sujay Kalele The only impact that I have seen is that the buyers are taking longer to decide. We have not actually seen any drop in footfalls per se, at least not if I compare month on month, but definitely as compared to Q1 people took more time in Q2. So earlier if customer used to typically decide that in second or third visit whether to buy or not buy, now he wants to do couple of more visits before he is actually willing to cut the cheque. But that is where I think the kind of product you have the kind of location makes world of a difference to the buying decision.

Parikshit Kandpal For the last three quarters the debt has gone up significantly. So what is the comfortable level now? I mean is it going to stabilize here at these levels or are we still exploring some more acquisition opportunities on the land side?

Sujay Kalele No, we are not exploring any new acquisition opportunities. Whatever has been given has been accounted for and at the end of Q1 even in this call also we have guided that on the gross debt level there might be around Rs. 50 crore increase that might happen, so this is about Rs. 25 crore and we have already repaid some amount of debt. So I think we should stabilize near these levels and with the new cash flows that are getting generated we should be in a comfortable zone.

Moderator We have the next question from the line of Harshal Pandya from Morgan Stanley. Please go ahead.

Harshal Pandya Just wanted to understand how do you envisage the new passed Land Acquisition Bill to impact your land acquisitions going forward?

Sujay Kalele The mid-term impact has definitely increased the land prices. Though I am not sure how land acquisition bill will impact the prices of lands within municipality limits like Bombay MMRD limits or Poona Municipal Corporation limits or Bangalore Development Authority (BDA) limits. But definitely outside of city limits there will be an impact. And we are very comfortably placed because we are not looking at any new township kind of land acquisition for the next five years at least. So we are very well placed to that extent having already acquired and fully paid both the land parcels that we have. So from a new perspective, my sense is that the land prices should increase outside of city limits. Within city limits any which ways they were much higher than the formula prescribed by the government.

Harshal Pandya But most of your land acquisition are through private negotiations as I understand as it is for majority of the developers. But my reading says that there would be the R&R clause which would be applicable in case of private negotiations as well if the land quantum is more than the threshold which would be obviously described or mentioned by the state government. So this could actually impact, even your acquisition within the city or on the outskirts of city if it is beyond the threshold limit.

Sujay Kalele As far as our reading of the act goes and what have our solicitors have advised us that they are very clear that only if you use the act to acquire land parcel will the provisions of the act be applicable. If you are acquiring it privately then they may not be applicable, so really that is the understanding that we have been given by our solicitor firms and if you take example like Kharadi where today the going rate is about Rs. 2,500/sft. whereas the ready remunerate is only about Rs.1,000/sft. So it is already over the two times value that has been prescribed in the land acquisition bills. So I do not know how it will apply within the city limit lands.

Moderator We have the next question from the line of Manish Khemani from Middleton Capital. Please go ahead.

Manish Khemani Do we have any other agricultural lands apart from the ones that are mentioned?

Sujay Kalele No, whatever agricultural lands we have, we have already mentioned in the presentations.

Moderator We have the next follow up question from the line of Arjun Ashar, an individual investor. Please go ahead.

Arjun Ashar I just wanted to know what is the timeline for giving the possession of the first phase of Life Republic?

Sujay Kalele So the bungalows we are starting immediately after Diwali.

Arjun Ashar And till how long will that continue, how many months?

Sujay Kalele Two months. And the towers are expected to be delivered starting September next year till December because there are about 12 towers that we have to deliver.

Arjun Ashar So the next two months whatever possession we are getting, how many sq. ft. of possession we will be giving in the next two months?

Sujay Kalele About 2.7 msf. for all the projects put together across group level.

Arjun Ashar I just wanted to know that on page 13 of your presentation you have set with a sales value with Rs. 1,051 crore for Life Republic Phase I. Out of that I think that your share being 45% would be around Rs. 472 crore. So I just wanted to know out of that Rs. 472 crore till the September quarter how much revenue we have recognized?

Sujay Kalele We will have to get back to you on that one.

Moderator Participants that was the last question. I now hand the floor back to the management of Kolte Patil Developers. Thank you and over to you.

Sujay Kalele Thank you everyone for attending this call and wish you all a Happy Diwali. Thank you.

Moderator Thank you sir. Ladies and gentlemen on behalf of Kolte Patil Developers that concludes this conference call. Thank you for joining us. You may now disconnect your lines.