



“Nitesh Estates Limited
Earnings Conference Call”

August 8, 2012



ANALYST:

MR. NITIN IDNANI

MANAGEMENT:

MR. NITESH SHETTY

MR. VAIDYANATHAN

MR. ASHWINI KUMAR

MR. VENKATESAN

MR. SUBRAMANIAN



Nitesh Estates Limited
August 8, 2012

Moderator: Ladies and gentlemen good day and welcome to Q1 FY13 results conference call of Nitesh Estates hosted by Enam Securities Limited. As a reminder, for the duration of this conference all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference, please signal an operator by pressing * and then 0 on your touchtone phone. Please note that this conference is being recorded. I would like to hand this conference over to Mr. Nitin Idnani of Enam Securities Private Limited. Thank you and over to you Sir.

Nitin Idnani: Thanks Mohsin. Thank you all good morning. I would like to thank the management as well as all the participants for taking the time to make this call happen. From the company today we have the following: Mr. Nitesh Shetty, Chairman & Managing Director; Mr. Vaidyanathan, Executive Director; Mr. Ashwini Kumar, Executive Director and Chief Operating Officer; Mr. Venkatesan, Chief Finance Officer and Mr. Subramanian, Corporate Finance. Over to you gentlemen.

Ashwini Kumar: Good morning. Thank you, ladies and gentlemen for joining the call today. I would like to give an overview on the operations side and thereafter I will hand over to my colleague, Mr. Venkatesan who is the CFO of the company, thereafter we will open ourselves to questions. First, let me talk about the projects which are under construction. Today, we have ten residential projects and two annuity income yielding projects, The Ritz-Carlton Hotel and the shopping mall. All these projects are under execution right now. We added one residential project during the last quarter. It is a villa project that we call Nitesh Napa Valley having 0.6 million square feet of developable area. This will have revenue of about 400 Crores and has generated a lot of excitement and we already have fairly significant sales. The developable area now stands at 6.53 million square feet and includes 4.93 million square feet of residential, 0.5 million square feet of Ritz-Carlton Hotel project and 1.1 million square feet of the mall project. 75% of the area being developed is in the residential segment. The salable area of residential project is 3.92 million square feet and within this our own economic interest is 2.63 million square feet. Coming to sales, sales during the last quarter has remained flat at 43 Crores in terms of value. We sold 49 units, approximately 78000 square feet in terms of area, therefore cumulatively now 1026 units have been sold out of the 1841 units that we have in our stock which is in another words 56% of the units have sold out. The cumulative value of sales is Rs. 547 Crores. The average sales realization during the last quarter moved up by 10% to 5,529 rupees per square feet whereas cumulatively at the end of the Q4 in 2012 it was Rs. 5,027 per square feet. The leasing of the mall is also in progress, so far we have leased out 131,000 square feet in terms of carpet area. The lessees have been PVR, Blue O and HyperCity mall, the hypermarket. Last

quarter we collected 61 Crores from projects, 55 Crores were spent on the project construction and the cash surplus from the project was Rs. 6 Crores. In terms of collections cumulatively, 280 Crores has already been collected. In terms of the construction activity and the percentage of completion that we have recognized, Rs. 200.2 Crores has been incurred cumulatively which is 24.7% of the estimated cost of all the projects which are in construction. This excludes Napa Valley where we have not yet begun the construction. All projects except Nitesh Cape Cod have already crossed the revenue recognition threshold. The Hotel Ritz-Carlton is progressing very well. We had reported earlier that it is in the finishing stage and we are expecting that by October 2012 the project will be substantially complete. The mall is in the demolition stage. We have got L&T as the contractor and we will start excavation work very soon on this project. The current focus that we have is launching residential projects which are in fairly advanced stage of design and these will add 3.02 million square feet to our salable area. Among these is Nitesh Hunter Valley which will add 1.7 million square feet to our salable area, this is a mid income housing project in North Bangalore, again a happening area as far as the Bangalore micro market is concerned. The second project which is in advanced stage of design is Nitesh Park Avenue, again a prime city center project which has a salable area of 140,000 square feet. The total revenue potential of this project is 200 Crores. The third project which is under advanced stage again of design is Nitesh Palo Alto. We have announced yesterday that we have signed the joint development agreement which was registered and again here also the revenue potential is 400 Crores for this project and we will have a salable area of 750,000 square feet. In addition to this, the fourth project is Nitesh Malibu which is in North Bangalore in the Hennur area. This is going to be a villa house or a row housing project and it will add 430,000 square feet to the development. This will be towards the later part of this fiscal year. Again we are very excited about Palo Alto since this will add again significantly in terms of revenue potential. The micro market is the outer ring road which sees very high level software absorption typically. With this I hand over to Venkatesan my colleague and CFO of the company.

Venkatesan:

Thank you Ashwini. I will take you through the consolidated financial highlights for the quarter. The total income for the quarter is 32.58 Crores and based on corresponding quarter there has been a growth of 128%, The cost of sales is 23.30 Crores with an operating profit of 9.38 Crores, operating profit as a percentage of total income works out to about 28.5% and the total expenditure for the quarter is 13.57 Crores with an EBITDA of -2.29 Crores. The profit after tax is 4.01 Crores negative. The debt as of end June is 68.86 Crores, these are for the construction purpose. We have a debt to equity ratio of 0.15 and the cash and bank balance as at end of quarter 52.62 Crores. These are the consolidated financial highlights for the quarter.

- Ashwini Kumar:** Thank you Venkat. With this we would like to open the lines for questions.
- Moderator:** Thank you very much sir. We will now begin the question and answer session. The first question is from the line of Ravi Dodhia from Crisil; please go ahead.
- Ravi Dodhia:** Good morning sir. If we look at booking levels across different projects in past two quarters the trend has been continuously declining despite Nitesh being launching this project, Napa Valley. In the first quarter booking levels are only 0.078 million square feet, just wanted to get a sense on what is happening exactly in the Bengaluru real estate market?
- Ashwini Kumar:** Firstly, as far as our company is concerned, cumulatively we have sold out 56% units. Within each of these projects of course there are different dynamics Let us talk of Napa Valley, we had launched the project on May 31, so it had seen about 30 days of sales but this quarter we are seeing very strong expansion and this quarter we will be able to expand and report very significantly higher number in terms of Napa Valley. As far as Cape Cod is concerned, once again a project which has done extremely well, there are only about 30 units which still remain to be sold and in terms of the total value the sales out there has already been 120 Crores. As far as the larger broader market of Bangalore is concerned what we are seeing is that there is a very slight decline in terms of the absorption rates. The absorption rates are roughly varying between about 9500 to 8000 units per quarter. We have also seen that the supply rate has declined over the last four or five quarters, the inventory levels still remain at around five to six quarters worth of absorption, so that is where the situation is. What we are looking at and hearing from some of the housing finance institutions is that they are very happy with the progress that they have been making with their customers. I would say that while we would all love the market to have been much better but I think it is about holding right now.
- Ravi Dodhia:** But even if you look at some of the good projects like even Cape Cod, quarter-on-quarter booking levels have been actually declining?
- Ashwini Kumar:** Well as you can understand there are only about 30 units which are now left to be sold, so what we have been doing is increasing the sales price so that the realization is higher and we don't want necessarily the sales velocity to go up very, very significantly at the cost of margin.
- Ravi Dodhia:** Total units which are being sold till date is 46%, right?



Nitesh Estates Limited
August 8, 2012

- Ashwini Kumar:** Actually, there are a few blocks which we have not opened out as yet, there are blocks A to H in Cape Cod and we have opened out only A to E as of now. As for as F, G, H is concerned that we will be opening up only later.
- Ravi Dodhia:** This project has not reached the revenue recognition threshold.
- Ashwini Kumar:** Yes, it has not reached the revenue recognition threshold. It will do so only by the last quarter of this fiscal year.
- Ravi Dodhia:** If you look at the total sales value of the project till March 2012 and till June 2012, there has been increase of close to 35 Crores but in terms of revenue recognition there has been limited revenue recognition, just wanted to understand from your side. first of the total revenues of 30.6 Crores, what is the break up between real estate projects and the contracting income which the company had and also why the revenue recognition is lower because as soon as you ramp up construction across the projects revenue will be recognized, so just wanted to get a sense?
- Ashwini Kumar:** Actually now what is happening is that bulk of the contractual revenues is getting depleted. If you compare with the year ago results even two or three quarters earlier there was significant amount of contractual revenue and that is now coming down very significantly. To give the precise number, out of 32.58 Crores the contractual income and other income is only to the extent of 6 Crores now. Otherwise it is all real estate development expense.
- Ravi Dodhia:** Then why is the EBITDA margin negative?
- Ashwini Kumar:** Well I would still look at it from this point of view and you have hit the nail on the head that in terms of the revenue recognition that number has to start going up and you will see that happening in the next two quarters. right now as I see it that although in terms of the margin we are generating about 28% from the projects but when we look at the admin expenses, especially marketing expenses particularly last quarter on account of the fact that we had the Napa Valley launch, there was a significant marketing expense and therefore we have not been able to cover all these expenses and that is indeed the reason why you are seeing a negative. This picture will significantly change in the next quarter.
- Ravi Dodhia:** What was the marketing spend for Napa Valley?
- Ashwini Kumar:** The marketing spend was almost about 4 Crores on Napa Valley out of a total of 6.5 Crores which was marketing and administrative expense.

Ravi Dodhia: Another thing is there are three auditor qualifications which has been going on since the last three four quarters. one was on the deferred tax assets and the remaining was on advance given to group entities of 94.4 Crores and the last one was advance against property of 21.5 Crores, can you throw some light on this thing?

Venkatesan: On the deferred tax assets the qualification is basically because of the accounting standard, otherwise from the projects whatever we had the auditors are very much convinced that lot of revenue recognition will take place in the forthcoming quarter which will throw us eventually a profitability based on which we will be able to resolve the deferred tax asset but it is because of the accounting standard norms the qualification remains a purely technical thing and second thing is on the land related advance the documentation was to be completed. We have already done a major part of it, registration has already been done. This has already been told to the auditors which will get eventually corrected in the next quarter. These are the only two qualifications. The other matter of emphasis is because of one land parcel where there is a pending litigation. Once the litigation gets cleared this matter of emphasis will go.

Ravi Dodhia: Last time when we had discussion, advance given to group entities was close to 82.8 Crores which has now increased to 94.4 Crores, so when we had discussion at that time management highlighted that whatever advance given to this group entities that company is getting back and this amount will slowly reduce over a period of time but we have seen actually increase in this particular amount so why was this and what is the interest that company is getting on this 94 Crores.

Ashwini Kumar: Actually, there has been no change except for the fact that interest has been charged to the parties and therefore that has also got added, that is how the amount has changed from 82 to 94 Crores but apart from the interest, there have been no other fresh transactions. As far as this 94 Crores is concerned, this will get reduced. in fact by the time the audit got completed we were not able to complete all the documentation related with almost about 45 Crores. The JV has actually been signed but we were not able to get the documents out from the sub registrar's office to be able to present it to the auditors, so in real terms if I look at it on date the whole thing has already reduced by 45 Crores and within the current quarter again, there will be a significant reduction.

Ravi Dodhia: What are the interest rates that company is getting on these advances?

Venkatesan: That is about 15%; the weighted cost of borrowing was 7%.

- Ravi Dodhia:** In the current quarter you have other income of close to 2 Crores, is that mainly because of interest rate that you are charging or is it something else?
- Venkatesan:** It is interest income. In the note this is very clearly mentioned as including interest. In the note if you read 94 is inclusive of interest.
- Ravi Dodhia:** If you look at booking levels in the Fisher Island since last quarter there has been no booking in this particular project, so just wanted to understand why?
- Ashwini Kumar:** There are two things that we are trying to do. There is a slight design modification which is happening as a result of which there has been a little slowdown in the project. We are wanting first to create a complete villa so that we can enhance the customer experience at the site when they visit it. Once this is done then we will actually once again go and relaunch the sales and this is going to happen so that we catch the next tourist arrival season in Goa. That is the time when typically people come, it is after mid November that people start coming to Goa and that is the time that they take advantage of also looking at this project.
- Moderator:** The next question is from the line of Meghna Kawle from Span Capital Services; please go ahead.
- K.C. Suri:** Hi, this is K.C. Suri. Could you just tell us how much are the proposed collections for FY 2013 and the corresponding spend on construction for FY 2013?
- Ashwini Kumar:** If you look at in terms of the projects that we are handling, the total revenue potential is 1251 Crores and having added Napa Valley our share there will be an increase and the total value comes to around 1590 Crores in terms of revenue potential. Now this value by the end of the year will have actually gone to 2800 Crores when we launch the new projects. Corresponding to the 1251 Crores I am excluding Napa Valley out of it, the total cost that we should be incurring is 811 Crores and out of that what we have actually spent is 200 Crores. In terms of sales value out of the 1251 Crores we have sold 547 Crores cumulatively and the collection is 280 Crores.
- K.C. Suri:** You have collected 280 Crores till date right? How much you propose to spend on construction for this year for these projects and as per the advancement on the construction how much cash collection do you see during the year?
- Ashwini Kumar:** I expect total in terms of our plan to be roughly about 180-190 Crores in the balance three quarters in terms of the construction expenditure.

- K.C. Suri:** What kind of collections are we looking at?
- Ashwini Kumar:** Collections will practically match this amount.
- K.C. Suri:** How much was the spend on the collection in the first quarter, I missed that number when you gave them initially?
- Ashwini Kumar:** The total collection was 61 Crores and the actual amount that we spent on the project is 55 Crores.
- Moderator:** The next question is from the line of Ravi Dodhia from Crisil; please go ahead.
- Ravi Dodhia:** Sir even if we exclude marketing expense of 4 Crores for Napa Valley still if you look at performance at the EBITDA level pretty much negative, when are you expecting positive EBITDA margins?
- Venkatesan:** As explained by Mr. Ashwini it is based on the expenditure of 13 Crores including this 4 Crores on marketing. We are trying to broad base the difference by revenue recognition, that will eventually happen in the following quarters, then there is eventually a turnaround and profitability will kick in.
- Ravi Dodhia:** In the near term you will be again launching three new projects Hunter Valley, Park Avenue and Palo Alto, so company will be again spending some amount on marketing of these projects, so revenue recognition might increase from the ongoing projects there will be some amount of higher expenditure on the marketing side, so by what time do you foresee EBITDA margin to turn positive?
- Vaidyanathan:** Just to answer your question now, marketing strategy wise we are now trying to bring in more broker network, actual collections and actual sales happening unlike the marketing effort which has so far been taking place by means of media advertisement so direct marketing approach will bring down the cost, it will be more ROI based marketing spend. Because Napa Valley was a different project, it has to create that kind of million value home that is why the spend was little higher. In mid income homes, it has got to be a different approach. It will not have much impact of advertisement as we had in this first quarter. Apart from this as Venkatesan had explained earlier, we are now trying to have the middle level of most of the projects and from here on the completion will be much faster because various scope of work available for completion, the percentage of completion will be in this next quarter, we expect it will go to 60 to 70 Crores on construction spend and about collection of close to around 80, so this will definitely make the EBITDA margins positive in the coming quarter.

Ravi Dodhia: For the balance nine months of FY 2013 what is the proposed advertising spend that the company has intended to spend?

Vaidyanathan: Overall level and annual budget what you are looking at it will be around 14 Crores. As a result, for the other projects you will see anything between 2.5 and 3 Crores per quarter and the next three quarters will not see more than 10 to 12 Crores though launches are more.

Ravi Dodhia: Even if I look at performance in the last five to six quarters EBITDA margins is still negative apart from one quarter, in the third quarter where margins were slightly positive.

Ashwini Kumar: We understand that the only thing to accelerate the construction is to spend more. now that we are putting various process in place and most of the projects have achieved reasonable level of sales and the collections are available to meet the construction expenses, we are now trying to speed up from that 20 to 22 Crores of construction spend which was there earlier now will be scaled up to about 70-75 Crores in every quarter which will ensure margins in the next two quarters. To reiterate as the percentage of sales and percentage of the completion go up on each of the project, any incremental sale which is there or any incremental construction which is there that has a much larger impact on the recognition of the revenue and the cost, therefore we expect that we have crossed very significant break-even level and we would have moved to a positive. The important thing to really see is that we bring these projects in to the market and probably I am reiterating it once again but what we are really focusing on now is getting this 1251 Crores which has already moved up to 1600 Crores and taking this up to 2800 Crores in terms of revenue potential by the end of this fiscal year.

Ravi Dodhia: Can you share construction levels across the projects apart from Napa Valley?

Ashwini Kumar: Can I request you to go to our operational update that has a mention of each of the projects.

Ravi Dodhia: On the Ritz-Carlton earlier it was supposed to come on stream by June 2012, why is there a delay of three to four months?

Ashok: The operator being Ritz-Carlton during the course of construction have been changing certain specifications of equipment. We need to source this equipment primarily from foreign market and we have been sourcing those latest gadgets and equipment for the hotel. We have now almost ordered everything and the procurement is in the final stages, so currently we are in to finishing mode and we expect the completion by October and to take it forward along with operators based on their comfort levels.



Nitesh Estates Limited
August 8, 2012

Ravi Dodhia: Post which you will be doing soft launch by the time it actually commences operation will it be March 30?

Ashwini Kumar: Yes, by the time that we open it up it will be December 31.

Ravi Dodhia: I was going through your earnings release, there construction across the project has not been mentioned, if you can specify?

Ashwini Kumar: Can we separately send it across to you. Operations update is another file which we upload on to your website; there will be more details on the realization.

Moderator: The next question is from the line of Joy Bhaskar from Steadview Capital; please go ahead.

Joy Bhaskar: Good afternoon everyone. Sir, in one of our previous call you had mentioned that you are targeting 100 Crores of rental income over the next three to five years, this includes the mall of course, could you just give an update on that. With some other projects like Richmond Town in the pipeline, what is the status and progress on the rental income side?

Ashwini Kumar: We have actually made pretty good progress, one of course is the mall itself, which will give us revenue opportunity per year which will exceed 50 Crores and then apart from that what we are coming up with is a project called Nitesh Plaza. This is a residential plus commercial building in the heart of the town in the central business district on Ali Ashgar Road and this is something which will significantly again act to our revenue potential, so from 50 Crores this will take it up to 70 Crores. Apart from this we have also another project which is located on Commissariat Road. Again this is also a project which is in the heart of the central business district, this is going to add 18 Crores at the project level and then we also have some other opportunities, there is a 70,000 square feet opportunity which is there in Indira Nagar itself, so this will add another 3 Crores so we have already signed up to the extent of totally about 80 Crores. what we are able to see on our radar screen is roughly about 107 Crores. so in terms of rental income the plan that we had shared is on track.

Joy Bhaskar: When do you expect to launch Nitesh Plaza and the other projects you mentioned?

Ashwini Kumar: Nitesh Plaza we should be able to launch in about March 2013.

Joy Bhaskar: Does it specifically take three years for completion?

Ashwini Kumar: Yes, absolutely it is going to take three years for completion of the project.



Nitesh Estates Limited
August 8, 2012

Moderator: As there are no further questions I would now like to hand over the floor back to the management for closing comments.

Ashwini Kumar: I would like to thank you all gentleman for having joined the call and having taken interest in the company. I think we are taking the company right now through a very critical phase: trying to push the sales up, trying to also push the project activity so that we start crossing the break-even levels which we expect will happen in the next couple of quarters. Again in terms of future growth what we are trying to do is add to our pipeline. right now in terms of revenue potential we have 1250 Crores worth of projects which are under construction. By addition of the Napa Valley Project, it gets 1600 and by the end of the fiscal year we will have taken this amount to Rs. 2800 Crores. Thank you very much once again.

Moderator: Thank you on behalf of Enam Securities Private Limited. That concludes this conference. Thank you for joining us and you may now disconnect your lines.