



“Nitesh Estates Q2 FY13 Results conference call”

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MODERATOR: MR. NITIN IDNANI – ANALYST, AXIS CAPITAL.

Moderator

Ladies and gentlemen good day and welcome to the Nitesh Estates Q2 FY13 Results Conference Call hosted by Axis Capital. As a reminder for the duration of the conference, all participants' line will be in the listen only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call you may signal for an Operator by pressing * and then 0 on your touch tone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Nitin Idnani of Axis Capital. Thank you and over to you, Sir.

Nitin Idnani

Thank you, Lavina. Good afternoon all and a very happy Diwali in advance. Today from the Management, we have, joining us Mr. Vaidyanathan – Executive Director; Mr. Ashwini Kumar – Executive Director and Chief Operating Officer; Mr. Venkateshan – Chief Financial Officer; and Mr. Subramaniam – Senior Vice-President, Corporate Finance. Over to you gentlemen.

Ashwini Kumar

Thank you very much Nitin for introducing us. This is Ashwini Kumar. I extend a very warm welcome to all of you on the call and also a very happy Diwali to all of you in advance. I begin the call by telling you the brief overview of our project pipeline and also what we have done and where we are currently and then I will hand over to my colleague, Mr. Venkatesh, who will take you through the numbers.

The current number of projects that we have in the pipeline is 15. This includes 3 projects which are yet to be launched, 10 residential projects which are in the various stages of construction, one hotel project and one mall project. All of these totally constitute 10.08 million square feet of developable area.

The total sale value potential of these residential projects is 2660 crores of which we have booked 608 crores till September of 2012. Out of these we have had collections of 357 crores and the income that has been recognized is hardly 181.4 crores. So, of the projects which are under construction right now 427.4 crores is still not recognized. The total expected project cost is 1979 crores and the cost that we have recognized till date it is only 141.7 crores.

In the last quarter one major issue we certainly had is that we have been able to increase the sales realization and if I look at it from year to year it has grown almost by 20% and the quarter to quarter sequentially, in fact it has gone up by 5%. Now I hand over to my colleague, Mr. Venkatesh.

MA Venkateshan

Thank you, Mr. Ashwini. Good afternoon to you all and happy Diwali in advance. I will just briefly take you through the financial highlight. The total income for the quarter is 30.19 crores. This has growth of about 8.8% for the corresponding quarter in the previous year. The gross profit was 6.74 crores for the quarter which is an operating margin of 22.3%. EBITDA of a negative 4.4 after considering 11.28 crores for staff cost advertisements and overheads.

The profit after tax due to some tax reversal there is at negative 12.4 crores. For the half year, the total income is 62.8 crores and the gross profit of 16 crores. Operating margins stood at 25.5%. EBITDA is negative 8.9 and PAT level it is negative 16.5 crores for the end of the half year 30th September, 2012. As far as the net debt position is concerned as of 30th September, 2012, we are at 56.84 crores. It is after excluding the convertible debentures. This has a debt equity ratio of 0.2 as of 30th September, 2012. These are the financial highlights for the quarter and half year. Thank you.

Moderator Thank you, Sir. Participants we will begin the question and answer session. Our first question from the line of Mr. Ravi Dodhia from Crisil, please go ahead.

Ravi Dodhia Just want to understand, why is there no activity in the Nitesh Logos and Fisher Island since past two quarters.

Ashwini Kumar In Logos and Fisher Island, we have not had sales. In fact there are only five which are left now in logos to be sold and in Fischer Island we have some 20 odd villas which need to be sold. So, in the past quarter in fact there was no sale for these two projects.

Ravi Dodhia Yes, so what was the reason since last two quarters there has been no bookings.

Ashwini Kumar In the luxury segment, people like to see the product unlike in the mid segment where the demand is always there. For luxury projects, people will like to see certain finish. Okay, so the trend is there not only for our project, most of the luxury projects in South, it's taking a little time that's why we are focusing, trying to bring that structure up and trying to do one knock up then our sales will be definitely improve. So lot of inquiries have come, people will like to come and revisit our project after the progress and we expect in the month of January once we have reached an optimum level of construction from Logo, we expect at least two to three bookings would likely happen in the last quarter.

Same is the case with Goa, most of them being a luxury product, it's being a second home so they will like to feel the product.

Ravi Dodhia So, construction in these two projects are going on and there is no issue on the construction?

L.S. Vaidyanathan Yes, there is no issue on the construction on both the project sites and work is on.

Ravi Dodhia Okay, see overall if you look at the booking level, it has kind of picked. I will not say improved much but still compared to last quarter booking levels have increased slightly. But, still if we look at revenue recognition that has not picked up which is mainly because as you highlighted that the threshold has not been achieved. So, can you throw some light on Cape Cod where you have reached 10%?

- Ashwini Kumar** No, the threshold level is 25%. Cape Cod has not attained the 25% level and therefore it is not yet reached the recognition stage. We expect that this will happen sometime during this fiscal year.
- Ravi Dodhia** So, you expect revenues to be recognized in say either third or fourth quarter for Cape Cod?
- Ashwini Kumar** Yes, towards the end of the year.
- Ravi Dodhia** Okay. But, so overall I just want to understand what was the customer advances during the quarter and of that what amount has been spent on construction?
- Ashwini Kumar** I think it is 76 crores...
- Ravi Dodhia** During the quarter?
- Ashwini Kumar** Yes, during the quarter 76.19 and the project payments are around 54.11.
- Ravi Dodhia** And that is what is spent on the construction. How much it is?
- Ashwini Kumar** 54.1 crores.
- Ravi Dodhia** Okay, Yes just last question from. This deferred tax adjustment which was done during the quarter and that was for what purpose.
- MA Venkateshan** Yes, this deferred tax reversal was because of the accounting standard where revenue recognition is likely to happen in the ensuing quarters and as per the accounting standards we can get the tax advantage only when the profits flow in. So, we will not be able to recognize in advance. So, there is a and that is why this reversal has happened in the current quarter.
- Nitin Idnani** I will take a question in the meantime, Lavina. I was just going through your notes to accounts and there seem to be 3 transactions which have been highlighted, if you can just run us through them. I think those are points 4, 5 and 6 in the result.
- MA Venkateshan** The transaction in item number 4 is a reference to a property advance where the documentation process is just getting completed The valuation report and things which have to be produced to Auditors, will take place in the next quarter. That is why they are highlighted. As far as the item #5 and 6 is concern, 5 is a property advance pertaining to properties where there has been some progress made by the company with reference to procuring this asset. \ Item number 6 is on mall property for which we have development agreement. There some land owner advance related commitment had to be met. But now there is an extension of time which has been agreed upon with the land owner. The auditors have just highlighted this notice with reference to the extension of site. Now that we have made the financial closure for this mall and we are starting the construction in coming quarter, this will get addressed in the following quarter.

- Nitin Idnani** Sure. Just again, your net debt number you said was 56 crores, I believe.
- MA Venkateshan** Yes, same.
- Moderator** Thank you. Our next question is from the line of Mr. Prem Khurana from B&K Securities. Please go ahead.
- Prem Khurana** If I heard you correctly, you said that you said during the year you received on Rs. 76 odd crores from your customers and spent some about Rs. 54 odd crores only our projects. But, if I look in these two numbers you have generated positive cash flows but your debt has gone up during the quarter by some Rs. 40 odd crore. So, have you put in any money for land acquisition or if you could clarify why we have seen this increase in the net debt despite we having done pretty well in terms of cash flow generation?
- MA Venkateshan** Yes, because of mainly cash balance itself from 52 crores, it has reduced to 33 crores. We have signed off one land deal and for that about 14 crores were spent. That is why you are seeing that reduction in net debt position.
- Moderator** Thank you. Next question from the line of Mr. Amish Kanani from JM Financial, please go ahead.
- Amish Kanani** I just wanted to understand the Bangalore property market. What are the trends and how do you see it in terms of first half versus second half. Is there any increased traction both in terms of volume and price?
- L.S. Vaidyanathan** I think we have definitely seen an increased traction. The number of leads has increased and even this current festive season also seems to be positive. In terms of price points, we have been able to raise the price points as I was saying by about 5% and I think some of our other competitors have also been able to successfully increase the price points. So the price points continue to increase and I expect that as some of the home finance companies they have started reducing their interest rate, that is something which obviously has a big positive impact on buyers. I do expect that this positive sense will continue at least for another couple of quarters and at that point of time, we will have to see how things go.
- Amish Kanani** Okay and coming to margins level and slightly medium-term outlook if you can share. Both EBITDA margins and return on capital employed are very less. So one, is this the legacy issue or two, is this the issue of markets being at a relatively subdued levels and the volumes not picking up to the level at which you all would have expected. So how do you see this kind of two-three year, how do you see the EBITDA margin progressing at this point of time? Second, is it depressed more because of the legacy projects or it is a more scale issue?
- L.S. Vaidyanathan** Leaving the past project what the current projects which have been in there at pipeline for EBITDA margins in the region of anything between 21-24 and some of the villa projects and

high end for giving up to around 30-32. Effectively we are looking at in the EBITDA margin of around 21-26 taking high end. If you look at the PBT level, we will be close to around 18 and at the PAT level we will be at 12. That is we are singing the new projects. So going forward, most of our projects will be in the region of giving a PAT of 11-12 and EBITDA of around 21-26.

Ashwini Kumar

As far as the existing projects are concerned, you are referring to legacy issues. As you know, the revenue recognition is at fairly lower levels. As the price point keeps on increasing, the EBITDA margins will also keep on increasing. As far as the budget is concerned, we had adequately factored the unknowns in terms of escalation that would happen in the cost of inputs and also contingencies which we cannot forecast as of now.

Amish Kamani

And coming to the commercials, do you see both hotel and mall as they are integral part of the operation or you might review it from time to time in the sense this is more question of leasing the capital employed for better margins residential projects. How do you see that this thing?

L.S. Vaidyanathan

As far as hotel and the mall is concerned, definitely we have a focus on seeing that the hotel gets operationalized in the last quarter of the year. As far the mall is concerned, the focus is to go and complete the mall because we have seen that Indranagar is giving a great potential of rental earnings. If we do everything well, our average rental for mall could be 120 crores where we can get about 60 crores for our own share. It is all the question of just how quickly we are able to put the things in place in the next two years. So just to answer your question in the short term, we don't think of anything. The focus is to go and complete it and bring them to steady state and then we will think of whether capital avenues are available then we will think to bring capital back.

Amish Kanani

Okay, then how much is already spent in the mall and how much is left.

L.S. Vaidyanathan

We have already put 160 crores and we have already got a 300 crores of debt with three institutions. We have a little bit of balance with the advance which is going to come out of that with which we will be able to complete the mall as of today that is the plan.

Moderator

Thank you. We have a follow up question from the line of Mr. Ravi from CRISIL, please go ahead.

Ravi

Yes, just want to understand about Ritz Carlton which was earlier scheduled to be completed by June but now we are seeing by FY13. So, just want to understand reason for delay?

L.S. Vaidyanathan

See, one of the major reasons is delay in supply of the elevators due to some calamity that happened in Japan. Finally we arranged alternate source which delayed for quite some time. Apart from that, the Karnataka High Court is recently not allowing people to work beyond 7 o'clock and that is posing a little problem and this being in a finishing stage, the quality control in terms of focus is a little more. So, everybody is taking their own time to achieve the kind of

quality. Some of the suppliers also being dependent on certain things, have delayed the things particularly like the glass and other finishing items. So, it got stood at their end. Once the sequence is broken then the rest of the events which was planned also got little disturbed as a result the impact is around 3 to 4 months of delay.

Ravi Okay and we are expecting by March 2013.

L.S. Vaidyanathan Yes, definite plan in there. In fact though we have been telling March, there is an endeavor to put the things in place by the end of January so the guests can start staying at the end of March.

Ravi And, inventory has increased from around 110 crores to 285 crores from March to September. So, just need to understand what was the main reason for that?

MA Venkateshan No, this is basically the land held under JDA and there is a requirement to capture that also as a part of the inventory. As and when we keep building it progressively, it will get reduced from the CWIP.

Moderator Thank you. As there are no further questions, would you like to add any closing comments here.

Ashwini Kumar Well, I would like to thank everyone for having taken the time off and taken the interest to join the call. If there are any other questions that one would have, that should be addressed to Mr. Venkateshan, our CFO, and we will see that we reply as soon as possible. Thank you very much once again and Happy Diwali.

Moderator Thank you, Sir. On behalf of Axis Capital that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.