



# Nitesh Estates Limited Earnings Conference Call

February 13, 2013



**ANALYST:** MR RAVI DODHIA

**MANAGEMENT:** MR ASHWINI KUMAR  
MR VENKATESAN  
MR L.S. VAIDYANATHAN  
MR SUBRAMANIAN

**Moderator:** Ladies and gentlemen, good day and welcome to Q3 FY13 earnings conference call of Nitesh Estates Limited, hosted by CRISIL Equity Research. As a reminder, 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. 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. I would like to hand this conference over to Mr Ravi Dodhia, Manager, Equity Research at CRISIL Research. Thank you and over to you Mr Ravi.

**Ravi Dodhia:** Good morning everyone. On behalf of CRISIL Equity Research, I welcome you to the Q3 FY13 results conference call of Nitesh Estates. It is a pleasure to have with us the senior management of Nitesh Estates, represented by Mr L.S. Vaidyanathan, Executive Director, Mr Ashwini Kumar, Executive Director and Chief Operating Officer, Mr Venkatesan, Chief Financial Officer and Mr Subramanian, Senior Vice President, Corporate Finance. During the course of this call, the management will discuss the main factors that drove the operational and financial performance of the quarter and provide insights on the overall business scenario. This will be followed by the question and answer session. I will now like to hand over the call to Mr Ashwini Kumar, Executive Director and Chief Operating Officer. Over to you Sir.

**Ashwini Kumar:** Very warm welcome to today's call. First of all, I would like to thank all of you for taking the time out to join this call and to understand what the company is doing. I would like to give a brief overview of the business and thereafter I will hand over to my colleague, Mr Venkatesan who will take you through the numbers and thereafter we will be open to questions.

Right now we have 15 projects, which are ongoing in terms of developable area it comes to 10 mn square feet. Of these, the bulk is in the residential segment. In fact, 84% is in the residential segment, which consists 13 projects then apart from this we are building a hotel and also a mall. Before I get into the residential let me tell you about the hotel. This is the first Ritz-Carlton Hotel, which is expected to become operational in the first quarter of FY 2014.

As far as the mall is concerned, this will become operational in the year FY 2016 and we will have a rental income potential of Rs 55 crores per annum. As far as the residential projects are concerned, 10 projects have already been launched and are under sales. One of the projects called Palo Alto has been soft launched today and there are another two, which are getting ready for launch shortly.

Out of the 10 projects, which are under launch, nine are under construction and one is under the pre-construction stage. So, in order to link with the numbers that we are projecting, let me talk only about the residential segment right now. The total value of these 13 projects is 2,660 crores in terms of revenue potential. Again, if I have to continue with the value of the hotel, that is 675 crores and for the mall the project value is 500 crores. Now of the projects, which are under construction right now, the revenue potential is 1,154 crores. This will give us a margin of roughly about 275 crores.

Of this, we have already sold 683 crores worth of stock. We have collected 418 crores out of this and we have recognised sales worth 192 crores. What we are really trying to do is now push the sales recognition and the cost recognition to the maximum so that our P&L starts looking much larger. In terms of the expenditure that we have incurred, totally we have to incur 880 crores and out of that we have incurred 236 crores on the projects, which where we are recognising the revenue. Of course, there is expenditure which is happening also on the projects which are yet to start.

So, this is really a brief overview of our business in terms of our pipeline. I will hand over now to my colleague, Mr Venkatesan.

**Venkatesan:**

I will take you through the brief overview of the financials. The total income for the quarter is 158.6 mn. The gross profit is 36.9 mn with a margin of 23.3%. The PAT for the quarter is -741 mn, mainly on account of booking of debenture redemption premium of Rs 668 mn. For the nine months period of FY13 the total income is 786.3 mn. The gross profit for the nine months period is 197.1 mn with a margin of 25.1%.

The revenue for the nine-month period, if I look at, it is of 786.3 mn marginally up compared to corresponding period of nine months in the previous year. The net debt excluding debentures stood at 735.2 mn with a debt-equity ratio of 0.25 times. Thank you. This is the brief overview of the financial figures for the quarter and nine months.

**Ashwini Kumar:**

Ladies and gentlemen, we are now open to questions that you may have from your side.

**Moderator:**

Thank you Sir. We will now begin the question and answer session. We have the first question from the line of Nitin Idnani from Axis Capital. Please go ahead.

**Nitin Idnani:**

Two quick questions from my side. One is on slide #6; the total expected project cost of 1,980-odd crores - what percentage of this or what amount of this has actually been incurred till date?

- Ashwini Kumar:** Out of the 1,980 crores, this corresponding to a revenue potential of 2,660 crores, now as I was saying, out of that what we have under construction value in terms of revenue potential is 1,154 crores. The margin is 274, so we get to roughly around 880 crores worth of cost. Out of this, we have incurred 236 crores; **Nitin Idnani:** My second question was with regards to the debt. The convertibles, I believe there has been some redemption of, I think, it would have been the HDFC debt and that would have happened with fresh sort of convertibles raised. If you can just give us details of cash outflow and inflow and the terms of the new debt that has been raised?
- Venkatesan:** As of December, the redemption has been done out of the project cash flows. We have redeemed about 5 crores plus debentures. This is based on the accrual concept the booking has taken place, but the redemption will take place during the current quarter out of these, because in this portfolio most of the projects are well sold, so we have got collections also and we have also raised a construction debt for these projects. So out of the overall cash flows, we are trying to redeem the debentures which are falling due before March 2013.
- Nitin Idnani:** So, the convertible debentures as they stand in the presentation at 94 crores - this does not have any fresh debentures that were raised recently?
- Venkatesan:** No.
- Nitin Idnani:** This still would be the HDFC debenture itself?
- Venkatesan:** Yes we will be redeeming it. Now it is a year of exit. We will do it in this quarter. That is why we had gone back to the original structure of redeemable debentures and the redemption is going on now.
- Nitin Idnani:** The 668 mn of premium that was paid on the debentures was on what principal amount?
- Venkatesan:** This is on the 62 crores of principal value of debentures for the period accrued up to the period of December 31, 2012.
- Nitin Idnani:** In order to redeem this entirely, this 62 crores, how much more do we have to pay?
- Venkatesan:** 66 plus up to the date of redemption whatever additional premium that accrues.
- Nitin Idnani:** My confusion emanates from - if this 66 has already been paid, then the convertible debentures of 94 crores as they stand on the balance sheet what does that relate to?

- Venkatesan:** The redemption has not taken. The redemption has taken place only to the extent of 5 crores. Balance redemption is falling due in this quarter but accrual has taken place in the books for the entire premium.
- Nitin Idnani:** You have reflected it in the accounts, but the cash outflow has not happened?
- Venkatesan:** Cash outflow has not happened. It will happen in this quarter.
- Moderator:** Thank you. We have the next question from the line of Ranjeet Dighe, an individual investor. Please go ahead.
- Ranjeet Dighe:** What would be the EPS expected out of the Ritz-Carlton Hotel next year?
- Ashwini Kumar:** I think this is something, which would be very predictive and very hypothetical and we can discuss this maybe separately.
- Venkatesan:** Because of the 100% occupancy the potential will be around 11 to 12 crores for our share but it will take time. In the initial year maybe the occupancy levels may be around 70%.
- Ranjeet Dighe:** That would roughly be about half a rupee per share? Would I be right in estimating it like that?
- Venkatesan:** Are you looking at the capital structure of Ritz-Carlton, what is the total project cost?
- Ranjeet Dighe:** I am just looking at earnings per share for Nitesh Estates?
- Ashwini Kumar:** This is out of the overall equity of Ritz-Carlton and we hold only around 22% or 21.56%. Ritz-Carlton, when it goes into operation with an expected estimated operating income of 70 crores, we will have a 20% share which is subject to meeting other debt requirements. If you look at it in the first year, it is too difficult because we are also in the mode of restructuring the debt. The cost of debt is being worked out from a little high cost after the hotel becomes operational, it may become reduced cost of interest. So these numbers require a little calculation from our side after finalising which will be the real debt structure after completion. So, it is too early to predict in terms of what number of EPS for Nitesh.
- Ranjeet Dighe:** A follow-up question to that is when is it actually getting operational?
- Ashwini Kumar:** As far as the construction is concerned, it is by and large complete. Right now we are in the handing-over stage, so the operator has come in, Ritz-Carlton team is already out here and

they are in the process of taking over. We hope that by May 30, we should be at a point where we have handed it over.

**Moderator:** Thank you. We will take the next question from the line of Mr Ravi Dodhia. Sir, you may go ahead.

**Ravi Dodhia:** Just want to get a sense on the construction progress in each of the projects; because while booking levels are healthy across the projects, what we are seeing is incrementally revenue recognition is not happening, if you can just throw some light on that?

**Ashwini Kumar:** In fact as far as the last quarter is concerned, when you look at the sales, the sales have also been in the projects where the PAT recognition has not yet started and then if you look at the construction side, yes, relatively on each of the projects where the POC is getting affected they were on the lower side and, therefore, we have taken corrective actions on both the sales side as well as the construction side to improve that significantly in the current quarter.

**Ravi Dodhia:** In which of the projects are you trying to ramp up the construction, as in a couple of projects? What is Nitesh's focus going forward?

**Ashwini Kumar:** Since you have got the sheet in front of you, the first one is complete called Nitesh Camp David. The ones that we are focusing on right now are really major projects really. Three major projects which are the major contributors: One is Columbus Square, second is Hyde Park and third is Ceaser's Palace.

**Ravi Dodhia:** What is the stage of construction for the Indiranagar Mall?

**Ashwini Kumar:** In the Indiranagar Mall it is still in the pre-construction stage, and we will be able to start construction in full swing within maybe late end of this quarter or definitely next quarter.

**Ravi Dodhia:** The average room rent is expected from Ritz-Carlton will be?

**Ashwini Kumar:** Average rentals that we expect is Rs14,000 per room night.

**Ravi Dodhia:** There has been some amount of delay in commencement of Ritz-Carlton, so any cost escalation that has happened in that project?

**Ashwini Kumar:** As of now what we are seeing is 675 crores. Whatever cost escalations have happened they have already been factored.

- Ravi Dodhia:** No further escalation is expected?
- Ashwini Kumar:** As of now there is nothing, which has emerged.
- Moderator:** Thank you. We have the next question from the line of Sumit Kothari, an individual investor. Please go ahead.
- Sumit Kothari:** What is the equity contribution of Nitesh Estates in the Indiranagar Mall and how much is due?
- Venkatesan:** For the mall, the overall project cost will be around 500-odd crores, 300 crores is the debt tied up for the project. We have already put in about close to 160 crores of equity.
- Sumit Kothari:** How much is due?
- Venkatesan:** More or less equity is done. Now the loan is also tied up. The construction will start with probably the debt draw down which will take care of the construction and the balance equity will be completed over the next period of two years.
- Sumit Kothari:** But why is it that most of the projects of the company are getting delayed. The Ritz-Carlton was supposed to start in January and the mall project also was supposed to start the construction in January probably, so now it has delayed by one quarter. What is the reason? Is it the cash flows the main problem for the delay in the start of the projects or what?
- Venkatesan:** As far as the mall is concerned, the main concern was on getting the mortgage. Initially there is no mortgage and subsequently when we got the 300 crores loans sanctioned, the banks have insisted getting the primary property as a security. It took some time to negotiate with the landowners to convince them. So they are going to bring their security of the land at stage after we spend the first 50 crores. So now that we have already got the whole thing done it will kick start and go. The main reason for the delay in mall is only on account of the mortgage. Whereas the hotel is concerned, it is in the finishing stage and a lot of other operational issues and coordination between various contractors and some import of certain items have caused little delay and the working hours being in a prime location and beyond 8 o'clock we are not able to work and finishing. Certain issues all compounded which has caused this delay of three to four months.
- Ashwini Kumar:** In addition, we had the operators also who had certain requirements. They had been also a little fuzzy about the way that the construction has taken place in terms of rectification, in terms of meeting very specific requirements and a combination of issues really.



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**Moderator:** Thank you. As there are no further questions I would now like to hand over the floor back to Mr Ravi Dodhia for closing comments. Over to you Sir.

**Ravi Dodhia:** Thank you for attending this conference call. On behalf of CRISIL Equity Research, I thank the management of Nitesh Estates for the conference call. Thanks once again and a very good afternoon to all of you.

**Ashwini Kumar:** Thank you ladies and gentlemen.

**Moderator:** Thank you Sir. Ladies and gentlemen on behalf of CRISIL Equity Research that concludes this conference. Thank you for joining us.

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