Kolte-Patil Developers

Q1 FY16 Earnings Conference Call Transcript
July 27, 2015

Moderator Ladies and gentlemen, good day and welcome to the Q1 FY16 Earnings Conference Call of Kolte-Patil Developers. As a reminder all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing * then 0 on your touchtone phone. Please note this conference is being recorded. I would now like to hand the conference over to Mr. Varun Divadkar of CDR India. Thank you and over to you.

Varun Divadkar Good morning everyone and thank you for joining us on the Q1 FY16 Results Conference Call of Kolte-Patil Developers. We have with us today Sujay Kalele, the CEO and Mrs. Shraddha Jain, the CFO. 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 Q1 FY16 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 morning everyone. 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 first quarter ended 30th June, 2015.

Following last quarter's successful home buying festival "Nest Fest" that generated strong demand for our projects across Pune, I am happy to report that we started the new financial year on a steady note, recording pre-sales of half a million square feet during Q1. This we believe is steady as the volumes were achieved in the backdrop of a sluggish on ground scenario impacted by weakness in demand and increasing unsold inventory across various markets with developers.

Even as consumer sentiment continues to be subdued, our well designed product portfolio has differentiated KPDL's proposition in the market. Being focused on the MIG segment, almost 80% of our inventory in ongoing projects is lower than Rs. 1 crore ticket size. In addition almost 80% of the area to be launched in the near future is in this space as well. This segment currently is what is moving in the Pune market and continues to find better visibility with buyers. As a consequence we continue to move up the customer preference.

We sold around 420 apartments during the quarter with an aggregate sales value of about Rs. 300 crores. Our sales volumes have been achieved at strong average price realization. During Q1, the APR was Rs. 6,057 per square feet, up 8% year-on-year, despite a significant sales contribution from launch of Phase-II of our Ivy Estate

Project targeted towards the MIG segment. We also take positive in the strong collections of Rs. 266 crore achieved during Q1 which was the highest in the last six quarters.

During Q1, we increased our stake in Corolla Realty Limited from 37% to 46.25% largely through internal accruals. This is part of our core strategy of remaining relevant to the home buyers by maintaining a significant part of our inventory in the under Rs. 1 crore ticket size.

Recently we launched our second DMA Project, KP Towers, an 18 acre development in Kothrud Pune with Phase-I saleable area of 0.55 million square feet. This provides another opportunity to leverage the strength of our brand in the Pune real estate market.

Coming to the financial performance, in Q1 FY16 revenues at Rs. 176 crore were higher by 12% year-on-year. EBITDA came in at Rs. 48 crore largely unchanged since Q1 last year as we incurred higher sales and marketing expenditure on the launch of Ivy Estate Phase-II this quarter. Profit After Tax stood at Rs. 14.5 crore. I would like to highlight here that we have made additional provisions in Q1 to align our reporting in advance of the new accounting standards which will be applicable from the next financial year. There was an impact of about Rs. 3 crore in the reported PAT as a consequence of this change. We expect revenue and profitability to expand in the second half of the current financial year as a greater proportion of 100% owned projects and higher margin projects hit the revenue recognition threshold. Some of these projects are Three Jewels, Rutu Bavdhan, Giga Residency, Jazz, and Ivy Estate Phase-2. Currently KPDL has gross unrecognised revenues of Rs. 1,847 crore as on 30th June 2015.

Another thing I would like to highlight is that our gross debt includes Rs. 25 crore loan taken in Downtown project in which KPDL has 51% economic interest, however, the reported debt as per accounting standards gets added at 100% value. Even so the net debt to equity remained low at 0.19 times net worth.

We believe that we are on a strong footing with a portfolio that has over 20 million square feet of projects with key approvals in place. We expect our sales trajectory to be buoyed with the large line-up of projects, aggregating to 9.23 million square feet of area to be launched net of pre-sales in the remainder of FY16. As I mentioned earlier, 80% of this inventory is in the MIG segment that affords stronger visibility. Based on this visibility we remain confident of being able to execute on our strategic vision of achieving our FY15-17 sales guidance of 12 million square feet.

With that I thank you for your participation in this earnings call and your continued interest in Kolte-Patil. I would like to now ask the moderator to open the line for questions for further discussion.

Moderator Thank you very much sir. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Adhidev Chattopadhyay from Elara Capital. Please go ahead.

Adhidev C. Firstly, if you could just touch up on how the approval scenario now looks now both in Pune and in Mumbai and how does it translate to visibility for the launch of our projects in the coming few months?

Sujay Kalele Q1 of this financial year with respect to approvals was a complete washout with no meetings of the Environmental Clearance Committee, either committee or authority taking place. That impacted the launch of three key projects, one Wakad which we were expected to launch in Q1 and the second Jay Vijay Project in Mumbai which has now been pushed to Q3. In addition, the Pune Metropolitan Regional Development Authority, PMRDA, was formed on 1st April, 2015 and the transfer of powers from Collector and Town Planning Department which earlier used to sanction outside of city limit projects, has happened to PMRDA. But this again took about 2-2.5 months for formation. The Environment Committee meetings have finally started taking place in July. The Jay Vijay Project has been appraised by the Committee and it has been recommended to the Authority already as we speak, so that is good news for us and we are expecting to launch that in the next quarter or so.

So with that I think we would launch Wakad, we are expecting to launch in this Q2 of this financial year. After these two the only two major approvals that remain are the Master Plan approval for Sanjivani Township Phase-I and Life Republic Township Phase-II which got impacted because of PMRDA formation. Earlier the Master Plans were approved by Collector now they have to be approved by PMRDA, so that we are expecting to get by the next quarter Q3.

Adhidev C Sanjivani you said when is the approval?

Sujay Kalele Q3. For both projects we are expecting the Master Plan to be approved by next quarter, Q3.

Adhidev C Secondly my question on revenues I got Rs. 1,800 crore of unrecognized revenues, so of that assuming we do not sell, I mean no incremental sales, so how much should roughly hit the P&L this year out of this Rs. 1,800 crore?

Sujay Kalele About 50-60%.

Adhidev C Say around another Rs. 900-1,000 crore?

Sujay Kalele Yes.

Adhidev C In addition to the first quarter?

Sujay Kalele Yes if you go to Slide 19, so except for the incremental that lies in Life Republic Phase-1, certain percentage of every other project should start hitting the P&L in this particular financial year.

Adhidev C You have mentioned in the presentation you have taken a hit of Rs. 3 crore on account of the new accounting standards which will come in, could you explain what is that exactly?

Sujay Kalele I'll just give a split of the Rs. 3 crore. So the Rs. 3 crore mainly is on account of Rs. 2.23 crore of HR expenses and Rs. 73 lakh of brokerage expenses. In the earlier accounting standards we were booking these expenses when we paid but as per the new, what is going to be rolled out from next financial year, the moment you do a deal through a broker, whether the apartment is registered or not you still have to provide for the brokerage. Similarly on the HR side, all the bonuses or performance linked incentives that got booked in the quarter when they were paid out, now we have to give an estimate of how much we are likely to pay over a year and start expensing it out as a provision every quarter, so that's the break-up of the two.

Adhidev C So this year I am seeing if we keep on launching new projects these provisions will keep on coming in and the reported margins may seem lower, is it how we should read it?

Sujay Kalele I would say that you would have lesser profit variability. If you see in the last 8 quarters, the PAT percentage varied depending upon when these expenses got booked. This is more of smoothing up of PAT and it wouldn't mean lower margins but it would mean smoother margins actually.

Adhidev C Lastly on this Corolla, now the stake acquisition which you have done are you disclosing the amount and is it just a partial acquisition or can we see more? Are there more legs to this transaction in this year?

Sujay Kalele Yes, there are more legs to this transaction. We are not yet disclosing the full amount because it is dependent on certain conditions in precedence of the transaction getting fulfilled so we will announce as it transcends and we are able to close out the transaction in entirety.

Adhidev C But the payout whatever has happened during the quarter it's reflected on the balance sheet or it has happened after Q1?

Sujay Kalele That is fully reflected on the balance sheet. Just to clarify, whatever payout has happened is reflected on the balance sheet already for this particular quarter.

Moderator Next question is from the line of Parikshit Kandpal from HDFC Securities. Please go ahead.

Parikshit Kandpal Just wanted to understand the current sense in the real estate market in Pune pertaining to your key markets, so one of your project which is Corolla and then in Hinjewadi, then Wakad and Kondhwa, so how is the macro market behaving there and where are you seeing the health still being robust and where are you seeing slowdown within these pockets?

Sujay Kalele A very pertinent question. If I have to breakdown the Q1, I would say that it started on a very challenging note but it ended on a very promising note. So typically we are seeing that anything that is priced between Rs.4,000-5,000 per square foot is seeing good off-take. Anything which is priced between Rs.5,000-6,000 per square foot we are seeing a good to average kind of an uptick. The moment the APR crosses Rs.7,000-8,000 per square foot and overall ticket size crosses Rs. 1.5 crore, the sales in that particular price bracket are slow. That is why we are trying to push several launches to the first half of this financial year and more and more inventory that we are putting in the market is priced at sub Rs. 80 80 lakh to Rs. 1 core kind of a category.

The second big change that we are seeing in the market is also the fact that wherever projects have started construction, buyers are more confident of buying those. So for example, we launched Ivy Estate Phase-II on 24th April 2015 and in this quarter we have sold about 1.5 lakh square feet, so that translates into about 50,000 square feet a month primarily because the building in Phase-II we had started far earlier and customers would actually see substantial work under progress. Same feedback we are getting, we had launched Three Jewels Project on 17th July, about a week back, again the buildings had started construction long back, so customers when they came on the site they saw actual flat and flat under construction so that was a big boost, so that's a big change that we are seeing that customers are not willing to buy off paper. If there is substantial work that has happened they are still willing to buy from the particular product.

Parikshit Kandpal If I go to your launch pipeline, leaving aside Corolla which was launched probably around Rs. 4,000 per square foot, so rest of all your projects like Wakad, Life Republic R1 Sector, Sanjivani Township, Life Republic Phase-II, which are the big launches out of this 9 million square feet, they are all in upwards of Rs. 5,000 per square foot. So what gives you so much of confidence that the second half will be far better? What are you seeing on the ground that gives you so much of confidence that these high ticket projects will see good feedback from the market?

Sujay Kalele Relatively, if you have to see the average price realization for Ivy Estate in the first quarter for all the stocks sold is closer to Rs. 4,800 a square foot. It's reported already. It all depends upon, for example, if you look at Wakad, within Corporation limit projects which cannot be compared with outside Corporation limit projects like a destination like a Wagholi. What is also pertinent as I mentioned is the total ticket size, so while definitely the Wakad project will be closer to Rs. 6,000 per square foot, the two bed room configuration that we have proposed in Wakad is also 950 square feet, so that gives an all-inclusive price of a two bedroom sub Rs. 70 lakh which is a very sweet spot as compared to what is prevalent in the local market there. So if you look at combination of location of a particular project with the price per square feet and the unit sizes, I think there has to be a mean median of all the three put together for the buyer to buy. So even at Rs. 5,500 per square foot if we come up with a 2,000 square feet three bed, it won't find buyers in Wakad, but at Rs. 6,000 per square foot and a 950 square feet apartment two bed, will definitely find buyers in Wakad, so that's an analogy actually.

Parikshit Kandpal Pune we are going to launch 9 million, so what will be the kind of inventory, or competition will be bringing in during this year?

Sujay Kalele Very difficult to answer, I mean if you look at the first quarter comparison Pune hasn't seen any large major launches in the first four months actually of this particular financial year, so very difficult to say how the competition will respond.

Parikshit Kandpal How much correction do you anticipate? I think we have already seen some 10% correction in property prices in Pune, Rs. 4,400 per square foot is selling is at close to Rs. 4,100 per square foot or Rs. 4,100 is selling for Rs. 3,800 per square foot, so do you see any further room for downside or do you see pricing uptick in the second half of this financial year?

Sujay Kalele Frankly, we do not see a substantial price reduction in at least approved projects. There have been instances as you rightly mentioned of projects which have not yet received approvals or their locations are compromised because of infrastructure developments where people have to correct prices. But even today where the work is full stream, where the deliveries of project inventories have been on time, we haven't seen substantial price correction in the first four months actually. It's anybody's guess how it will pan out into the future. At our level we are taking every project month-by-month actually, evaluating what the competition is doing, how it has responded to whatever launches we have done and might take any corrective actions going forward. But as I mentioned in the first four months of this financial year we haven't seen large launches by competition yet.

Moderator Our next question is from the line of Aashiesh Agarwal from Edelweiss. Please go ahead.

Aashiesh Agarwal Two quick questions, one on the 20 million square feet launch pipeline where you mentioned you have key approvals in place. Could you help us go through which are those approvals again?

Sujay Kalele Sure, of the 20 million square feet, almost 10 million square feet we have already given details of on Slide #16 and quarter-by-quarter planned launches of when it is. If you see, for example, on that slide we have mentioned just one project of Mumbai where we have already received the Environment Committee Clearance and its pending authority. There are four more projects from Mumbai which are in the evaluative stage of Environmental Clearance, so those will be taken up in the next year. In addition we have taken half a million square feet of pre-launch, although we are expecting Sanjivani Township to be fully approved, so for example, in Township there are four pre-clearances required, Location Clearance, Letter of Intent, Master Plan and Sale Permission. So we have received Location Clearance and Letter of Intent and Environment Clearance obviously. We are awaiting Master Plan clearance, so moment Master Plan clearance comes in the Sale Permission is a one month affair. So while we are getting 6 million square feet of approval, we are assuming only half a million square feet of pre-launch and the formal launch of project will happen next year in the first quarter. Similarly Life Republic Phase-II, the total approval that we are expecting is about 6.9 million square feet we have taken only 2 million square feet of launch in this particular year. And if you compare it, if you add up these two projects with the four Pune launches, Mumbai projects that are awaiting Environmental Clearance that makes the launch pipeline for next year.

Ashish Agarwal So this 20 million square feet, 10 million square feet would be launched this year and 10 million square feet would be launched next year?

Sujay Kalele Yes, that's right.

Ashish Agarwal Overall on a blended basis what would you attribute your economic interest out of this 20 million square feet, ballpark?

Sujay Kalele Currently it stands at about 70%.

Ashish Agarwal One last question on the debt part of it, obviously the debt has gone up somewhat in the quarter. If you could help us understand what would be key attributed to, because I see your cash collections have obviously gone up and it's at about Rs. 265 crore which is like quite healthy. So your expenditure on construction would have been identical to what's been seen in the previous quarters?

Sujay Kalele Absolutely. This loan increase has happened only because of one project Downtown where we had to draw down Rs. 25 crore of loan for payment of certain premiums. If you see in the launch pipeline slide, we are expecting half a million square feet of Phase-III launch, 0.51 million square feet of Downtown project, so it's towards payment of certain approval related charges and construction.

Ashish Agarwal And your internal accruals would have obviously gone towards meeting expenses for Corolla.

Sujay Kalele Meeting expenses for Corolla and construction, you are absolutely right.

Moderator Next question is from the line of Ritwik Seth from Span Capital. Please go ahead.

Ritwik Seth I had a question on Mumbai projects, can you give the details and the status of all the projects please?

Sujay Kalele We have six projects which we have announced. The first project on Linking Road is already at an advanced stage. We have reached the plinth level and construction is going on. The second project, Jay-Vijay, as I mentioned earlier, recently it has got all the Municipal concessional approvals that were required. It has been approved by the Environment Committee and now awaiting final grant by EC at the authority level. Then the third project is Jumbo Darshan which is in Andheri West. It is under Municipal concessional approval category right now and awaiting Environmental Clearance. The fourth project is Sunder Milan in Malad. Again the plans have been finalised between the society and us as developers and we are preparing for submission to BMC and Environmental Committee and the same goes with the project that we have in Bangur Nagar where the plans have been frozen and are preparing for submission to BMC and Environment Committee.

Ritwik Seth So out of these five, first three are in advance stage and the other two, as you mentioned, will come after a couple of quarters?

Sujay Kalele Yes. So this year we are assuming only one launch on a conservative basis. We have assumed launch of only Jay Vijay in the Q3 of this year. If the Environment Committee is fast enough then we can also see launch of Jumbo Darshan. For our internal calculations we have not yet assumed that.

Ritwik Seth Just to clarify, first three projects I remember in the previous quarter you mentioned that around 45-50% is our share and we are going to expense the entire thing, so it applies for the other two projects as well?

Sujay Kalele Yes, broadly.

Ritwik Seth Moving on, my next question is regarding Life Republic and Sanjivani. What will be our economic interest in both these projects?

Sujay Kalele About 50%.

Moderator Next question is from the line of Shekhar Singh from Excelsior Capital. Please go ahead.

Shekhar Singh Just wanted to know in Pune what will be your cost per square feet and in Mumbai how much will that be?

Sujay Kalele In Pune, depending upon what height of buildings you are constructing your cost varies, so typically if you are looking at a 12 storey structure, we have all inclusive costings in the range of Rs. 2,500 a square foot plus minus Rs. 200. If you are constructing a 70 meter structure it can be at around Rs. 3500 a square foot and if you are constructing a 50 meter structure it can be closer to Rs. 3,000 a square foot. For Mumbai, currently we are looking at around Rs. 3,000 a square feet and Rs. 1,500 for the under basement parking, the basic difference in the saleable costs is because of the different loadings that the markets charge. For example, in Pune the loading hovers between 30-35% for residential whereas in Mumbai it hovers in the range of 60-65% for residential.

Shekhar Singh Have you see any increase in this cost per square feet over the last one year or has it been more stable?

Sujay Kalele No, it has remained stable. There has been certain increase on account of labour but some part of that increase has been kind of arrested because of lower commodity prices.

Shekhar Singh The Sanjivani Project is it a joint development or you own the land?

Sujay Kalele We have bought a 51% stake in the SPV that was owning the land. The land belonged to a pharma company.

Moderator Next question is from the line of Parikshit Kandpal from HDFC Securities. Please go ahead.

Parikshit Kandpal Is there any update on conversion of agri townships FSI from 0.5 to 1? The GR was awaited.

Sujay Kalele Not yet. The formal notification is not yet out.

Moderator As there are no further questions from the participants I would now like to hand over the conference back to the management for their closing comments. Over to you sir.

Sujay Kalele I would like to thank all of you for attending the Q1 analyst call and wish all of you all the best. Thank you so much.

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