Nitesh Estates Limited

Second Quarter FY2014
Earnings Conference Call

November 13, 2013

Management: Mr. L. S. Vaidyanathan, Executive Director
Mr. Ashwini Kumar, Executive Director and COO
Mr. M. A. Venkateshan, CFO
Mr. G. Subramaniam, Vice President, Corporate Finance

Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY2014 Earnings Conference Call of Nitesh Estates Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's call. Should you need assistance during the conference call or if you wish to ask any questions, please signal an operator by pressing * then 0 on your touchtone telephone. Please note that this conference is being recorded. Joining us on the call today is the senior management of Nitesh Estates Limited, represented by Mr. L. S. Vaidyanathan, Executive Director; Mr. Ashwini Kumar, Executive Director and Chief Operating Officer; Mr. M. A. Venkateshan, Chief Finance Officer and Mr. G. Subramaniam, Vice President, Corporate Finance. The call is divided into two sections, introductory remarks by the management and the Q&A session. Before we begin, I would like to mention that some of the statements made in today's call may be forward-looking in nature and may involve risks and uncertainties. For a list of such considerations, please refer to the Earnings Presentation. Nitesh Estates undertakes no obligation to publicly revise any forward-looking statements to reflect future, likely events or circumstances. I would now like to hand the conference over to Mr. Ashwini Kumar. Thank you and over to you Mr. Kumar.

Ashwini Kumar: Good morning Ladies and gentlemen, I welcome you to the investor call and also would like to thank you for joining in. I would like to present a brief overview of the business and then hand over to my colleague Mr. M.A. Venkateshan, who will walk you through the numbers. Thereafter, we will be opening ourselves to the question and answer session.

As we speak, we have got 15 projects in our project portfolio. Of these, 13 are residential and two of them are non-residential projects. One of them is the mall and the other is the hotel. I am very happy to share with you that the Ritz Carlton Hotel has become operational and it opened its doors to customers on October 31 of this year. Out of the 13 residential projects that we have, there are 6 which have already got into a stage where revenue recognition has started. If I speak in terms of the area, the total Developable Area of the residential projects is 9.66 million square feet which translates to a total Saleable Area of 7.77 million square feet. Of this, the Company's share is 6.21 million square feet. Out of this, we have sold 2.17 million square feet till September 2013. In terms of the total Sales Value potential of the residential projects, the value now is Rs. 3,305 crores. Of these, the Sales Booked till the end of the last quarter that is September 30, 2013 was Rs. 927.6 crores and of this, we had collected Rs. 599.2 crores. We have already recognized income worth Rs. 304 crores and therefore the income which remains unrecognized is about Rs. 499.2 crores. We have recognized cost to the extent of Rs. 234 crores. Gradually, we are getting to a point where a significant number of projects are getting into revenue recognition. The sales percentage as well as the cost percentage crossed actually 58% in four of the projects and that is now going to enable us to recognize the revenue going forward at a faster rate. With this, I would like to hand over to my colleague Mr. Venkateshan.

M.A. Venkateshan: Thank you Ashwini. Welcome to all of you and thank you for joining today's earnings call. I will briefly run through the numbers for the quarter and half year. With regard to the consolidated results for the quarter, the total income was Rs. 84.4 crores, up 180% from the corresponding quarter of previous year. Gross Profit was Rs. 38.1 crores with a margin of 45%. EBITDA for the quarter was Rs. 25.5 crores, up 69% sequentially. Profit after Tax (PAT) was Rs. 15.2 crores, i.e. about 18% of the total income. The Earnings per Share for the quarter was Rs. 0.90 per share. For the half year, the total income was Rs. 184.4 crores; EBITDA was Rs. 40.5 crores, at 22% of total income; PAT was Rs. 20.8 crores, 11% of the total income and Earnings per Share for the half year was Rs. 1.21. Regarding the standalone results for the quarter and half year, total income was Rs. 30.3 crores for the quarter and Rs. 69.4 crores for the half year. EBITDA was Rs. 10.7 crores for the quarter and Rs. 15.1 crores for the half year. PAT was Rs. 7.5 crores for the quarter and Rs. 9.3 crores for the half year. The Net Debt position as at end of September 30, 2013 was Rs. 246 crores, around the same level as compared to Rs. 240 crores as of end June. The Debt-Equity ratio was flat at 0.73x as at end of September. Thank you and with this, we will open up for questions and answers.

Moderator: Ladies and gentlemen, we will now begin the question and answer session. First question is from the line of Mr. Niraj Somaiya from Span Capital. Please go ahead.

Niraj Somaiya: Hi, thank you for a good set of numbers. My first question is on your hotel where you are supposed to invest Rs. 132 crores. You already invested Rs. 122 crores, have you done the final Rs. 10 crores? And because this is a significant part of your Net Worth i.e. one-third, how would you realize value for investors and yourself out of this hotel? Because what will be the gestation period and how would you get returns from this, could you just throw some light on the Ritz Carlton hotel?

L. S. Vaidyanathan: In terms of the balance Rs. 10 crores equity, the investment will be happening shortly because we are also getting that kind of money i.e. key money from Ritz Carlton, that will be put back, there will not be any additional outflow from the Company. And as far as hotel is concerned, the decision was taken in the year 2006, when the scenario was completely different from what we are looking at today. It may not have any great impact in terms of immediate earnings till the hotel stabilizes. May be in a long-term plan, if we have a lot of other long-term assets, the hotel bundled with them can be listed and we may bring back the equity into the main Company. By means of the Ritz Carlton Hotel, we have definitely put the brand into a higher position i.e. we have lot of intangible benefits coming out of it. In near-term, we don't see anything immediately impacting our financial numbers positively i.e. numbers may not flow in the next six months.

Niraj Somaiya: But sir if you get a chance to sell, would you sell your stake and bring this significant push in the Net Worth?

L. S. Vaidyanathan: I would say it would be premature to say anything on that. We have other partners also in this venture, so we will wait and watch how the hotel takes shape in the next six months and how is the economy. Based on that and the opening up of reach, i.e. how things look in the international markets, a decision will be taken. But at the moment, we don't have any definite plans to exit.

Niraj Somaiya: Second question, last time you explained that your gross is about 9 million square feet, could you explain the same way this time? Your gross area is about 9.3 million square feet and how much will you execute in the next one to two years? Like last time you explained in very detail, could you just once again throw some more light that in next two to three years, how much will we secure? And if you could remove your two high-end projects, what will be your Average Realization? Because your Average Realization may be Rs. 4,800, on which you might have EBITDA or Net of 14-15%, could you show us some more light that removing those two high-end projects, what was your Average Realization?

Ashwini Kumar: By the high-end projects, I think you mean Nitesh Park Avenue and the Nitesh Fisher Island projects. Of course, as far as Nitesh Fisher Island is concerned, there is nothing which is getting sold. If I look at the Average Realization, yes indeed the Nitesh Park Avenue does have an impact but if I look at the area of the project, the impact is not very significant. So if I knock off Nitesh Long Island, which is a plotted development, then right now our Average Realization is Rs. 6,018 per square feet.

Niraj Somaiya: And do you think you will hold your last call's view that you will make anywhere from 10-15% in the Net margin and your revenue recognition of Rs. 3,300 crores of which already Rs. 900 crores has been booked? Do you hold the same guidance in terms of next three to five years?

Ashwini Kumar: If I look at the project portfolio, I think it is indeed going to allow us to end up with PAT of around 15-18%.

Niraj Somaiya: Sir, just I wanted to add because in the 9 million square feet, you have two projects which are in Kochi and Chennai, regarding which you were saying last time that you had deferred them, those add to almost 2 million, so do you think in the next one to one-and-a-half years, you would be ready to get them back in action? Or what is the concern there and why have you delayed Kochi and Chennai? Because that is included in the Rs. 3,000 crores and in the gross area of 9 million square feet.

Ashwini Kumar: Those two projects are not included in these Rs. 3,000 crores since we do not have any immediate plans of launching the projects. We are not right now working on the plans and therefore these are not included.

M.A. Venkateshan: This Rs. 3,300 crores revenue potential is out of 13 residential projects which are already currently under construction. These projects are already launched and pre-sales have happened in most of these projects.

Niraj Somaiya: These two are excluding that, so what would be your total Land Bank in terms of your invested value as on today or some market value? Could you throw some colour just to provide some picture and idea? There is so much value but people are not able to understand, could you just throw some more light on what is the Land Bank which is remaining other than this and what is the value? How much you have invested? Some idea to get an NAV, the Debt is about Rs. 250 crores right?

L. S. Vaidyanathan: As you all know, we have been focusing more on joint development. In terms of the project which are already certain and running, the numbers are there in our presentation, if it is required we would be able to share them. Apart from that, major investment is in the Indira Nagar Mall which is another about Rs. 150 crores. Apart from these 13 projects and the mall, we have another Rs. 150 crores at the consolidated level. We have investments in various things in and around Bangalore. Regarding the future Land Bank and the potential to convert it into joint development or buy some of them to the extent of about Rs. 150 crores, it may turn into an economic benefit to the Company in the next 15 to 18 months.

Niraj Somaiya: Seeing you are going to have significant growth in your numbers, as discussed last time, what would you do once you grow so much cash because you don't have much debt i.e. Rs. 250 crores? If we assume just this Rs.3,000 crores number, at 15%, it would be Rs. 500 crores of pure profit, would you use it to repay debt? Would you use to increase payout or would you use it to increase Land Bank? Where would you take this Company, as existing it is fine, but how will you learn from the past and how will you take this Company forward with the cash flow you would generate in the next three to five years?

L. S. Vaidyanathan: As and when the surplus cash flows are there, our first objective is to bring down the high-cost Debt i.e. exit some of the old investors like HDFC and may be also repay another small amount with two other institutions. Next step will be to put it on the residential portfolio and take the total square feet development in next two to three years to close to around 30 million square feet. Out of which, potentially we will be able to get benefit of about one-third getting recognized every year. So going forward, we will be thinking of getting into 10 million square feet of development in terms of real execution and recognition happening year by year. The base has to be something in the region of 30 million square feet, wherein we will be able to recognize about 30% every year.

Niraj Somaiya: So you think you will grow from a current 2 million square feet per year to 10 million square feet per year? That is the aim - from current 2 million square feet executions to grow 10 million square feet a year ability, have I got it right?

Ashwini Kumar: Yes, in terms of the execution capability and the staffing to a large extent except for, let us say, very project-specific staff. Those are the ones that will have to be added but otherwise organization-wise, we are geared up to scale up to that level.

Niraj Somaiya: Sir, what has gone wrong in the last three years - I was not a follower of this stock earlier but what has gone wrong, everything was great, is it the delay or is there any concern that the management has? How do you, as management, see this and how do you take the Company forward? Could you throw some light on what has happened?

Ashwini Kumar: If I go back three years, 2010 is the time that we had the IPO and we really started bringing the projects on only after that. Therefore, the initial days saw a period where the execution had not happened and with time we have seen that the threshold of the revenue recognition is getting crossed for various projects and it is showing up in the P&L. That is what is making the organization look better now and therefore I would say that there was initial time which was required for the Company to get the projects off the ground and to a level where the recognition could have happened.

Niraj Somaiya: Sir, one book-keeping question, in terms of your Goa project, which is 26 units, how many units have you sold and what is the average selling price?

Ashwini Kumar: In Goa, right now what has happened is that we had sold certain units but there were certain changes that we were doing on the design i.e. there was some resizing of the villas that had happened. The customers who had come in had indicated that they would not like to continue with the booking and would like to come back at a point when we are ready with the design. So right now, we are not showing any booking as far as Nitesh Fisher Island is concerned.

Niraj Somaiya: So all the 26 units are available? And at Rs. 4 crores, it is about Rs. 120 crores project, would that be right to assume?

Ashwini Kumar: There are 36 villas. Out of that, 23 belong to us and the total revenue potential is roughly about Rs. 137 crores.

Niraj Somaiya: Sir, second book-keeping question, you have revenue visibility of almost of Rs. 900 crores, how much of that is actually completed and due from the clients? And how much money has actually come in from the clients? Could you throw some more light, not in the gross, Rs. 900 crores is what you have sold, how much is due and how much you have received and how much are your advances? Is your business self-funded? What I wanted to know is more on that sense, if you could throw some more light?

Ashwini Kumar: The collections have happened to an extent of about Rs. 600 crores and typically the overdue amount is not significant. In fact, we have a fairly aggressive provisioning policy whereby we will start providing for payments as Receivables if two sequential payments don't come in. We don't see that we have to actually provision much. The answer to the question that whether there are monies which are due from customers and which are not coming in is that the amounts are practically insignificant.

Niraj Somaiya: That is why you are basically realizing almost everything to yourself?

Ashwini Kumar: Yes.

Ashwini Kumar: And you see that forward as well i.e. in the next one year, in terms of your projects?

Ashwini Kumar: As far as residential projects are concerned, that is what we think will happen. It really isdependent on the sales and as far as Bangalore market is concerned, the sales is still holding up. We are always very careful in determining what kind of projects we want to launch and so far we have seen good attraction for all of our projects. So we expect that we will be successful in building the projects out of the cash flows which come in from the customers.

Niraj Somaiya: Such a big order book, such a big growth, what management team have you built in the last one to two years to not let this growth cripple or not to have a cost overrun? It is a significant growth from what you have done historically to what you plan to, could you throw some more light on management capability in addition to people?

Ashwini Kumar: In terms of the way that we are dealing with the projects, it is like this: Internally we have kept only very key functions, so the contracts and procurement is an internal capability. Obviously the Finance and HRD shared services are internal capabilities. When it comes to project design, we are hiring external architects, external structural consultants, external quantities of weighing firms, at times occasionally also external project management firms. What we have internally is a set of people who are engaged with planning and design, who are basically coordinating with these external vendors, reviewing the inputs which come in from them and then pass them on to construction. Now as far as construction is concerned, again each of the projects has got an independent team for managing the construction based on the information which comes to them i.e. based on the design information and based on the drawings which comes to them. Again, in terms of the actual activity at the sites, we are engaging typically the big contractors - right now the people who are engaged with us are people like Simplex, L&T and Ahluwalia. We also have NCCCL as our contractor, so these are the kind of contractors that we deal with. So this is the way we managing it and as we add projects, the core team which is there centrally does not really require to be expanded significantly. The expansion has to happen at the project level where we get in the Project Manager, the Project Engineer and the Quantity Surveyors to the individual sites. In terms of process of management, we have got SAP as our ERP system, so all our project sites are connected. It is an integrated module including FICO, MM, sales and distribution, CRM and so all the modules that are relevant have been configured.

Niraj Somaiya: That's really nice. I would love to catch up with you some time in Bangalore and wish you all the best. Thank you.

Ashwini Kumar: Thank you very much.

Moderator: Next question is from the line of Mr. Puneet Gulati from HSBC Securities, please go ahead.

Puneet Gulati: Thanks for taking my question. Firstly, I just wanted to understand - when you say your sales value potential is about Rs. 3,300 crores, what is the cost that you are building in for the entire project portfolio?

Ashwini Kumar: Corresponding to the sales potential, the expected Project Cost is Rs. 1,995 crores.

Puneet Gulati: How much have we actually spent?

Ashwini Kumar: The actual expenditure has been to the extent of Rs. 384 crores. That is the incurred cost, what we have recognized as cost is Rs. 234 crores.

Puneet Gulati: Secondly, what are your thoughts on the Bangalore real estate market, are you seeing any signs of stress there?

Ashwini Kumar: It is not increasing. It is not growing but we see that if there is a project that we launch in the right micro market, there are people who are coming in to buy. From the last two projects, if I am to give you as an example, one was Nitesh Long Island, which was a plotted development and saw a very good response from customers. We have already had close to more than 50% of the sales already done there.

Puneet Gulati: What is the ticket size of the project?

Ashwini Kumar: These are plots, so roughly the starting point is somewhere round about Rs. 50 lakhs. Then there is another project that we launched. This is called Nitesh British Columbia, which I would say was launched in the mid-income segment and relatively speaking, lower end of the mid-income segment. And although we have just launched it about a month ago, we have already had about 45 units sold, so that also has seen pretty good traction.

Puneet Gulati: What about your higher-end projects like Nitesh Park Avenue, Nitesh Napa Valley?

Ashwini Kumar: In Nitesh Park Avenue, again we have already had 3 units sold. In Nitesh Napa Valley, initially of course the response was pretty good, it has plateaued off a little and we expect that as we start showing progress on the construction side, more customers will come in.

Puneet Gulati: Any update on Nitesh Hunter Valley project?

Ashwini Kumar: We have not launched Nitesh Hunter Valley as yet, it is still in pre-construction stage. The design work is all done, we are waiting for certain statutory approvals. Once those come in, we will be ready to launch.

Puneet Gulati: If I were to understand, what would be the profile of your customers? Would you be able to distinguish between an end-user and an investor? What will be the split?

Ashwini Kumar: The Bangalore market is end-user driven. And again, when we talk very specifically of our customers, it is largely end-user driven. There are no investors, but yes there are certain people who are salaried but who want to own a second home. These kind of customers are there but largely it is end-user driven.

Puneet Gulati: Ok, that’s all from my side. Thank you.

Ashwini Kumar: Thank you very much.

Moderator: Thank you. Next question is from the line of Mr. Ritwik Sheth from Span Capital, please go ahead.

Ritwik Sheth: Hello Sir. Sir, I had a couple of questions. Can you throw some light on the revenue model of the Ritz Carlton Hotel?

Ashwini Kumar: We have got an operator in place. As far as Nitesh Estates is concerned, it is the developer of the project and the owner of the project. The Ritz Carlton Hotel Company is the operator, they have come in and they have now taken over the operations. So they are the ones who source the customers, who get business in and who spend the money. And at the end of every financial period i.e. every month, they have to actually transfer the surpluses to us as per the agreement with them.

Ritwik Sheth: And my second question was on the Private Equity investment which you had mentioned, any updates on that?

L. S. Vaidyanathan: If you can be little more specific in the sense that are you referring to any additional private inflow into the Company?

Ritwik Sheth: No, in the last call, you had mentioned about the $50 million, which you were looking at, any updates on that?

L. S. Vaidyanathan: As of now, not much progress has happened on that and we are also trying to consolidate more and trying to bring more projects into the pipeline before we seriously take it to the next level.

Ritwik Sheth: Ok, that's it from my side. Thank you.

Moderator: Thank you, next question is from the line of Mr. Samar Sarda from Kotak Securities Limited, please go ahead.

Samar Sarda: Good morning, I have three questions. First, with regards to the mall, could you help us with the estimated budget from a cost point of view? And based on today's rentals, what is your expectation on the rentals?

L. S. Vaidyanathan: The total cost of the project, as appraised by our lenders, is close to Rs. 580 crores including the cost of mechanized car parking which has accounted for more than about Rs. 35 crores. This is about 1.1 million square feet of development, of which leasable will be about 750,000 square feet. The current expectation of leasing is in upwards of Rs. 110 to 120 per square feet on an average. So when the whole mall is operational, it will likely get over Rs. 100 crores of annual rentals. About 50% belongs to us, so anything around Rs. 50 crores will be the Nitesh Estates' share.

Samar Sarda: Right. Mr. Kumar, it is a joint development project, so we are spending most of the money. So from the earnings perspective, the yields which it will be earning is less than the LRD rate, so how would we justify such amount of construction on the mall?

L. S. Vaidyanathan: If you are looking in terms of the returns that would be, as you rightly said, it will be anything between 10 to 11% - that is the yield with which we will be working on. We feel that retail, after being opened, the kind of response which we are getting from JLL who have been exclusively retained by us for leasing the space, we hope that with the kind of connectivity, location and with metro, things are likely to only improve from where we have actually conceived the project. By the time when we go, it is likely to be in an early 10% plus kind of return that we are likely to get. That is the reason, it is 50:50 Debt-Equity. From that angle, we will be able to cover our repayment obligations of the mall which we have taken i.e. Rs. 300 crores, cash flows will be good enough available to service them. We are also only looking at the capital value going up in the future, that is an important factor with which we went into retail. So it is not primarily only looking at 10-11%. We will have to look at the overall thing including the capital appreciation and what Retail, as a business, can do in the future. We have to look at this project from that angle, not necessarily only from the 10-11% yield which we are getting.

Ashwini Kumar: To add to that, the important attraction for this project is also its location, which is Indira Nagar and this is actually becoming a very important destination from the point of view of shoppers. The 100-Feet Road, in particular, has become an important high street in Bangalore. Since this mall is located in this area, we do expect that it will see lot of attraction. Now, I do expect that in the times to come, there would be an increase so what Mr. Vaidyanathan said about the rental - that was really the projection for the first year. But going forward, we do expect that at least for the first few years, there would be an increase of about 5% per year.

Samar Sarda: Just to continue on that, by when do we expect to complete the construction for this project and the mall being operational?

L. S. Vaidyanathan: December 2016 is the plan we have. We are likely to commence in the next month, so within three years, it will become operational.

Samar Sarda: If I am right, the contribution of Rs. 580 crores will be 50% Debt-Equity?

L. S. Vaidyanathan: We have about close to Rs. 200 plus crores of our Equity; we are pre-leasing, so advances to the extent of another about Rs. 60-70 crores and Rs. 300 crores will be the Debt in the project.

Samar Sarda: Sir, with regards to your revenue guidance of Rs. 3,300 crores, from the current set of 13 projects, what will be the Nitesh's share?

L. S. Vaidyanathan: Most of our projects are in the region of around 30-35% land owner's share. I think, you can take about two-thirds or may be about 63% to be our share.

Ashwini Kumar: For Rs. 3,300 crores we have arrived at, we have included only our portion of the revenue wherever there is an area sharing. Wherever there is revenue sharing, we have included the entire revenue for the project. Since mostly it is on area share basis only, out of this Rs. 3,300 crores, Rs. 2,770 crores will be our share.

Samar Sarda: Out of the 13 projects, how many are on revenue-sharing basis?

Ashwini Kumar: There are right now 4 projects which are under revenue-sharing.

Samar Sarda: One last question, on the cash flows, what is the budgeted expenditure for residential projects in FY2014 and FY2015?

M. A. Venkateshan: We don't have the numbers for that. All these projects will get completed anywhere between two to three years.

Samar Sarda: From a Collection point of view, from the sales we have done i.e. roughly Rs. 11 billion, what is the amount of cash, absolute or in percentage terms, expected in FY2014?

M. A. Venkateshan: Actual Collections in FY2014 for the first six months is Rs. 175 crores.

Samar Sarda: Can we expect similar amount of collections or a little increase in second half?

M. A. Venkateshan: Yes, it should be more than that.

Samar Sarda: Ok great, thanks a lot.

Moderator: Thank you. At the moment, there are no questions from the participants; would you like to add something more to your presentation?

Ashwini Kumar: No, we have nothing to add to the presentation but I would certainly like to request anyone who has more questions to contact Mr. M. A. Venkateshan. His contact details are given in the Investor Presentation, or alternatively Churchgate Partners could also be contacted. The presentation is also available on the website. We would be very happy to talk to you and explain anything more that may be requested. With this, we would like to close the call and I would like to thank you very much for joining in and wish you have a great day.

Moderator: Thank you. On behalf of Nitesh Estates Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

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Note: This document has been edited to improve readability.