Nitesh Estates Limited

Second Quarter FY2015
Earnings Conference Call

November 12, 2014

Management: Mr. Nitesh Shetty, Chairman and Managing Director
Mr. L. S. Vaidyanathan, Executive Director
Mr. Ashwini Kumar, Executive Director and COO
Mr. M. A. Venkateshan, CFO
Mr. G. Subramaniam, SVP – Corporate Finance

Moderator: Ladies and gentlemen, good day and welcome to the Nitesh Estates Q2 FY15 Earnings Conference call. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity 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 that this conference is being recorded. Joining us on the call today are the Senior Management of Nitesh Estates Ltd. represented by Mr. Nitesh Shetty – Chairman and Managing Director, Mr. L S Vaidhyanathan – Executive Director, Mr. Ashwini Kumar – Executive Director and Chief Operating Officer, Mr. M A Venkateshan – Chief Financial Officer and Mr. G Subramaniam – Senior 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 risk and uncertainties. For a list of such considerations, please refer the Q2 FY2015 Investor Presentation. Nitesh Estates undertakes no obligation to publicly revise any forward looking statements to reflect future likely events or circumstances. I now hand the conference over to Mr. Ashwini Kumar, thank you and over to you Sir.

Ashwini Kumar: Thank you. I extend a very warm welcome to all the participants on the call and would like to thank all of you for taking interest in our Company. As was explained earlier, I will give a brief overview of our business and then I will hand over to my colleague, Mr. Venkateshan – the CFO of our Company to take you through the Q2 FY2015 numbers and thereafter we will open ourselves to questions.

Currently, we have an area of 14.6 million square feet under our portfolio of projects. There are 20 projects, out of which one is in the retail segment, and the remaining 19 are in the residential segment. In addition to these 20 projects, there is one operational hotel which we have developed. Now, out of these 19 residential projects, there are 13 which are under sales and within that, a few of them are undergoing revenue recognition and 6 of them are still to achieve revenue recognition. In terms of square feet, the total developable area of the residential segment is 13.14 million square feet and the total salable area is 10.6 million square feet. We have already sold so far is 2.53 million square feet. The total sales potential of these 19 residential projects is Rs. 4,600 crores and the Company's share is Rs. 4,100 crores. Within this, bookings have happened already to the extent of Rs. 1,028 crores and income has been recognized to the extent of Rs. 455 crores. And therefore, Rs. 573 crores worth of income still needs to be recognized out of the sales of Rs. 1,028 crores. We have recognized costs worth Rs. 317 crores as of now. The total expected project cost is Rs. 2,780 crores and therefore, the remaining sales potential from the ongoing projects is Rs. 3,070 crores and the total income potential from the ongoing projects is Rs. 3,640 crores. There are 19 residential projects, out of those 13 are under sales, 6 are not yet launched but they are in fairly advanced stage of design. We are hoping at least 5 of them will get launched within this fiscal year. With this, I would hand over to my colleague Mr. Venkateshan to take you through the Q2 FY2015 numbers.

MA Venkateshan: The Company achieved a total income of Rs. 83.41 crores, gross profit is Rs. 31.07 crores, with operating margin of 37%. EBITDA is Rs. 17.13 crores at margin of 21% of the total income. Profit after Tax is Rs. 7.96 crores at margin around 10% of the total income. Net Profits after adjustments of our share in the associate is Rs. 1.66 crores. EPS for the quarter is Re. 0.11 per share. For the half year ended 30th September 2014, the Company achieved a total income of Rs. 140.52 crores, gross profit is Rs. 56.87 crores, with margin of 40%. EBITDA is Rs. 31.25 crores at 22% of total income. Profit after Tax is Rs. 13.25 crores at 9% of total income, net profit after adjustment of share in AOP is minus Rs. 1.72 crores. The standalone financial results for the quarter are as follows. The total income is Rs. 31.61 crores for the quarter. Gross Profit is Rs. 10.64 crores with margin of 34%. EBITDA is Rs. 4.94 crores at a margin of 16% of the total income. PAT is Rs. 1.90 crores at margin of 6% of the total income. For the half year ending 30th of September

2014, the total income is Rs. 53.06 crores. Gross profit is Rs. 21.16 crores, with margin of 40%. EBITDA is Rs. 12.06 crores at margin of 23% of the total income. PAT is Rs. 5.28 crores at margin of 10% of the total income. The net debt position as of 30th of September 2014, the net debt is Rs. 347 crores as against Rs. 328 crores as of June. And, the debt equity ratio is at 1.07x, marginally up from 1.02x as on 30th June 2014. This is the brief overview of the financial numbers.

Ashwini Kumar: Ladies and gentlemen, with this we would like to open ourselves to questions.

Moderator: Thank you very much. We will now begin the question and answer session. Anyone who wishes to ask a question, may press * and 1 on their touchtone telephone. The first question is from the line of Ritwik Sheth from Span Capital, please go ahead.

Ritwik Sheth: Firstly on The Ritz Carlton, we were at one year of operations. How has been the progress and has it met your internal target and what would you like to comment on it?

Ashwini Kumar: We can certainly see that the trend of occupancy is going up. It has now gradually reached up to 40% and we do expect this to reach around 70% by March. Over the last 2-3 months, the operating profit has been positive. This is a very healthy sign but we are still not able to fully cover the amortization and the interest. Therefore, there is a charge which is coming to the Nitesh Estates P&L from Nitesh Residency Hotels Pvt. Ltd., the entity which has the hotel in it.

Ritwik Sheth: Should we expect that the loss which has been coming should gradually start decreasing in the next 2 quarter or by start of first quarter of FY16? It has been around Rs. 6-7 crores for the quarter. Should we expect it to gradually come down by FY16?

Ashwini Kumar: We are expecting that in the early part of the next fiscal year there should not be any negative from Nitesh Residency Hotels Pvt. Ltd.

Ritwik Sheth: Will there be no minority loss from the second half of FY16?

Ashwini Kumar: Right.

Ritwik Sheth: We have launched Nitesh Chelsea, how has been the response so far?

Ashwini Kumar: Response has been extremely good. The location is great. It is located on Hosur Road, close to the Silk Board junction. The connectivity is extremely good. It is actually showing a very good response from the customers.

Ritwik Sheth: And what is the price we are selling at?

Ashwini Kumar: We are selling this at around Rs. 5,200 plus. Rs. 5,200 is the basic price and plus other additional charges.

Ritwik Sheth: Have we made any progress on 'The Indira Nagar Mall'?

Ashwini Kumar: In case of 'The Indira Nagar Mall', there are still some issues which we need to close before we are able to start the construction of the mall as we had explained earlier. We have already signed a contract with L&T for the construction. We are hoping that these issues will get resolved in a couple of months and thereafter, we would be in a position to commence with the construction.

Moderator: Thank you. The next question is from the line of Ajit Surana from Dimensional Securities.

Ajit Surana: What is the interest that is capitalized every year, i.e in the first 6 months and the last year?

MA Venkateshan: The interest which is debited every quarter is around Rs. 7 crores. The monthly interest is around Rs. 4.5 crores, which is the total interest.

Ajit Surana: And the difference is capitalized?

MA Venkateshan: Yes, about Rs. 13 crores minus Rs. 7 crores; about Rs. 6 crores is the project related which get amortized into the projects.

Ajit Surana: Why is the marketing expenses so high?

Ashwini Kumar: There are two projects which we have recently launched; one is 'Melbourne Park' and another is 'Chelsea'. Initially when you launch a project you do a significant burst of advertising and that is the reason why the marketing cost has been so high.

Ajit Surana: Most of the marketing is related to the specific projects and not at the corporate level.

Ashwini Kumar: Typically our marketing is project focused.

Ajit Surana: And in terms of fixed cost at the headquarters, what is the run rate every month? Fixed costs in terms of manpower and other incidental expenses at the Head office. Just trying to get a figure as to the scale of operation can support that kind of expenditure.

MA Venkateshan: Monthly around Rs. 3.5 crores; means about Rs. 10 crores in a quarter, excluding the advertisement and marketing.

Ajit Surana: In terms of 'Ritz Carlton', is there any thought process to exit the property even when the occupancy level reaches an optimum level? Maybe next year when the occupancy reaches 70%?

Ashwini Kumar: One would of course like to keep the options open but as of now, there is no definite plan to exit.

Ajit Surana: If you look at your balance sheet and if you take away the investments in the hotel project along with the money invested for the Mall, most of your debt would get paid off and the balance sheet will become much healthier. Most of the money is stuck in these two rental yielding projects, which may not give the returns that the shareholders expect or vis-à-vis the cost of capital.

Ashwini Kumar: The decision of investment with the hotel was taken quite a few years ago, so this is something which cannot be reversed right now. As far as the mall is concerned, we are also progressing ahead. There is a need that there has to be diversity. It cannot be only residential projects but also the kind of projects which can yield us an annuity kind of an income which needs to be there in the project portfolio.

Ajit Surana: What is the average rate of interest?

MA Venkateshan: It is 15.5%.

Ajit Surana: In terms of land, how much is the land held by the Company itself and, not under JDU or the land which is held by others?

Ashwini Kumar: Practically, there is insignificant amount of land that we own. We have always stated typically that our model is of joint development.

Ajit Surana: Yes, I am aware of that, no land is held by the Company. How is this Indira Nagar mall going to be financed, is it going to be through debt?

MA Venkateshan: We have tied up Rs. 300 crores of syndicated finance through a construction debt from PSU bank.

Moderator: Thank you. The next question is from the line of Chintan Sheth from SKS Capital and Research.

Chintan Sheth: Is the total project cost of Rs. 2,780 crores?

Ashwini Kumar: Yes, when we look at the entire portfolio of our projects, the entire cost of the project is Rs. 2780 crores.

Chintan Sheth: I do understand that you account as and when the cost incurred by the project but any estimate, what will be the project cost incurred in the first half and Q2 and the budgeted for the full year and the next year?

Ashwini Kumar: In Q2, we incurred to the extent of Rs. 39.4 crores.

Chintan Sheth: That excludes interest and depreciation or it includes both?

Ashwini Kumar: Direct cost.

Chintan Sheth: And for first half?

MA Venkateshan: The total project outflow is Rs. 117 crores.

Chintan Sheth: For the second quarter it is Rs. 39 crores, right?

MA Venkateshan: The number is Rs. 62 crores.

Chintan Sheth: So, Rs. 62 crores for the quarter 2 and Rs. 117 crores for the first half. What will be the budgeted for full year FY15 and FY16?

Ashwini Kumar: We are not providing actually the forecast for the year right now.

Chintan Sheth: You mentioned that the unrecognized income for the four projects stands at Rs. 573 crores, of which Rs. 450 crores is nearly recognized as income, right?

Ashwini Kumar: That is right.

Chintan Sheth: And there is no land bank as you have clarified.

Ashwini Kumar: There is a very insignificant amount of land that we own.

Chintan Sheth: On Ritz Mall, what is the business model? Is it an annuity or monthly rental model wherein we get the monthly incomes from or is it a JV where the operator is Carlton. I just wanted to understand as I am new to the Company.

Ashwini Kumar: As far as the hotel is concerned, it is in an entity which is called Nitesh Residency Hotels Pvt. Ltd. and the Company Nitesh Estates Limited along with the promoter owns roughly about 26%. The flow that has to happen from the Nitesh Residency Hotels Pvt. Ltd to Nitesh Estates Limited is by way of dividends.

Chintan Sheth: On net level at the 26%, as you mentioned, you will be net positive in the second half of FY16.

Ashwini Kumar: Yes, that is right. We are expecting that by the end of the year, we should get to a point. We are already cash positive but we have not been able to recover the interest and the depreciation. This is something which will start happening from the next fiscal year.

Chintan Sheth: And the current run rate of the hotel, what is the monthly revenue income or on an average, what are you looking at?

Ashwini Kumar: Or rather let me put it this way, that the charge that we are seeing right now is to the extent of Rs. 6.3 crores on the balance sheet of Nitesh Estates Limited per quarter. In the last quarter it was Rs. 6.3 crores.

Chintan Sheth: Any funding plan or CAPEX plan, what will the funds required in the next one or two years and how you will be going to fund that out?

Ashwini Kumar: As of now, there is no additional capitalization from our side that is planned.

Chintan Sheth: It is all revenue stream coming in and we can expect a better cash flows from FY15 onwards.

Ashwini Kumar: Yes.

Moderator: Thank you. The next question is from the line of Sehul Bhatt from CRISIL.

Sehul Bhatt: My question is regarding the residential projects. We actually wanted to understand that how has been the experience in terms of sales, velocity, and flexibility of price increase when you compare mid-income projects v/s our portfolio of high income projects in Bengaluru?

Ashwini Kumar: Well, if I look at our own projects, of course there has been an increase. We had sales of Rs. 104 crores in the quarter 1 and that has gone up to Rs. 142 crores. This is as far as our position is concerned. In terms of pricing, we have been able to only change it insignificantly from the past quarter to the current quarter. When I look at it across projects, I look at the product mix, there has been a change in the product mix, and therefore our average price of realization is showing a very minor dip.

Sehul Bhatt: How is the differentiation between high and mid-income segment or which was better in terms of sales velocity compared to last year?

Ashwini Kumar: The mid-income segment obviously has a much large number of buyers. Their potential customer is higher and therefore certainly the velocity is much higher. When it comes to projects of Rs. 2 crores, Rs. 3 crores, and Rs. 5 crores etc, there the velocity is lesser.

Sehul Bhatt: And in terms of the responses to your recent launches, was it at par with your expectation or was it below, if you compare overall macro situation in Bangalore and other cities?

Ashwini Kumar: The last two projects that we launched, one was 'Melbourne Park', we launched in Q1 of this fiscal year and the other one that we launched was 'Chelsea' which was in the last quarter. Both of them have done extremely well and we are very happy with the performance. Both the projects are located extremely well; they have been conceptualized extremely well. One is the project which is a low rise, it is G+4 and the other one is high rise. Both of them are fairly different in different micro markets and both of them have seen very good response from customers.

Sehul Bhatt: And last question from my side would be, at least in next one or two quarters till the economy goes to the better level, the focus would be to improve the sales velocity or price appreciation?

Ashwini Kumar: We are going to be absolutely looking at increasing the velocity of sales.

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

Ashwini Kumar: I would like to thank all of you once again for having taken the time off to join this conference call. Have a great day and look forward to connecting with you once again. If there are additional questions that you have, do get in touch with us and Mr. Venkateshan would be happy to respond to you. Thank you very much.

Moderator On behalf of Nitesh Estates Limited that concludes this conference. 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.