Nitesh Estates Limited

Third Quarter FY2015
Earnings Conference Call

February 13, 2015

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 Q3 FY15 Results Conference call hosted by Axis Capital. As a reminder, all participant 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 that this conference is being recorded. I now hand the conference over to Mr. Nitin Idnani from Axis Capital, thank you and over to you sir.

Nitin Idnani: Good morning everyone, thank you for taking the time to be with us today. From Nitesh Estates, we have with us this morning Mr. Nitesh Shetty – Chairman and Managing Director, Mr. Vaidyanathan – Executive Director, Mr. Ashwini Kumar – Executive Director and Chief Operating Officer and Mr. Venkateshan – the CFO. I now invite Mr. Ashwini to start with their opening comments.

Ashwini Kumar: Good morning ladies and gentlemen, welcome to the Q3 FY2015 earnings call. I would like to thank all of you for taking time out for attending this call. I would like to give an overview of the business first and then handover to my colleague Mr. Venkateshan to take you through the Q3 numbers. Our portfolio has 20 projects, having a total developable area of 14.56 million square feet. In this, we have only one commercial project, which is the Mall in Indira Nagar, Bangalore. Apart from that, the balance 19 projects are residential in nature. Out of the 19 residential projects, there are 10 which are under construction and within this 10, in fact 4 of them are in fairly advanced stage of execution and we are about to begin the handing over of these projects. We have launched in the current year 4 projects and we are getting ready to launch yet another 5 projects and some of them will happen this year, in fact one of them has been launched only a few days ago called the Nitesh Rio. If I take you through this in terms of the values associated with the project portfolio of this 13.14 million square feet of residential projects, the total sales value potential is Rs. 4600 crore and out of this if I take our own economic interest that comes to about Rs. 4100 crores. Out of these Rs. 4600 crores, we have already booked Rs. 1270 crores and we have collected Rs. 860 crores. Further, out of our share of total booking of Rs. 1,100 crore, we have already recognized income worth Rs. 497 crores and therefore Rs. 604 crores worth of income is still left to be recognized.

In terms of the total expected project cost of our portfolio, what we have incurred so far is Rs. 498 crores, out of a total of Rs. 2,784 crores. We have recognized costs worth Rs. 342 crores, so the balance is still to be recognized.

So, the remaining sales potential from the ongoing project is roughly about Rs. 3,000 crores and the total income potential of the portfolio of projects that we have is Rs. 3,600 crores.

With this, I handover the call to my colleague Mr. Venkateshan and after he has communicated his part, then of course we will open ourselves to questions and answers.

Venkateshan: I will provide a brief overview of the consolidated results for Q3; We have achieved a total income of Rs. 50.99 crores, the gross profit is Rs. 20.60 crore, with an operating margin of over 40%. EBITDA for the quarter is Rs. 9.31 crore, at 18.3% of the total income. Profit After Tax is Rs. 1.44 crore, at around 3% of the total income, net profit after adjustment for our share in the associates AOP is Rs. (5.19) crore. The EPS for the quarter is (0.36) per share. For the 9 months period ending 31st December 2014, we have achieved total income of Rs. 191.51 crore, gross profit is Rs. 77.47 crore with an operating margin of 40%. EBITDA for the 9 months period is Rs. 40.56 crore, at 21% margin and Profit after Tax is Rs. 14.69, at 8% of total income. Net profit after adjustment of our share in AOP is Rs. (6.91) crore.

The standalone results for the quarter, total income is Rs. 21.08 crores, the gross profit is Rs 8.03 crores, with an operating margin of 38%. EBITDA for the quarter is Rs. 4.36 crore, 21% of total income. PAT is Rs. 0.83 crore positive at 4% of total income. For the 9 months ending 31st December 2014, total income is Rs. 74.14 crore, gross profit is Rs. 29.19 crore with an operating margin of 39%. EBITDA of Rs. 16.42 crores, at 22% of total income. Profit after tax we have achieved Rs. 6.11 crore, at 8% of total income.

Net debt as of 31st December 2014 is Rs. 343 crore, compared with Rs. 347 crore, as of end of September. The debt equity ratio is at 1.08, marginally up from 1.07 as of 30 September 2014. That is the brief overview on the financials for the quarter, 9 months period.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Abhishek Gupta from Bank of America, please go ahead.

Abhishek Gupta: So, two questions, one your perspective on; mid income versus high income. You could have fair mix of mid versus high and there is a good bit of difference between the pricing, as per your presentation there is one at 5000, the other one is at nearly 14,000. So, what is the general mid versus high income project sales velocity and outlook for the next one year in Bangalore city?

Ashwini Kumar: Well of course as far as the high income is concerned, there the potential is much lesser because of the fact that you do not have as much of land available in the central business district, in particular, where you have the high income projects located. There we do see that people like to wait for the touch and feel and therefore, unless the address is such, which is absolutely prime-prime then they do not want to lose the opportunity and they want to come in and book their home. Otherwise, there are several customers who have this mindset, no let us to get to a point where I can do a touch and feel and therefore when they see how the marble is laid, how the layout comes and what kind of space is there, then of course they come and sign up. So, there is certainly a lot more waiting for the booking which happens in the higher income kind of projects. As far as the mid income projects is concerned, there you will see a polarization at two points; one is in the early stages of the project, within the first or 4 or 5 months there are a lot of buyers who come in and who are prepared to wait for those 3 years or 4 years for the completion of the project. And there are some of those who have this mindset that, 'no I would like to buy only when there is a ready built unit', so they come in towards the end. And in the middle, you have basically a kind of a steady state, kind of a rate with which booking happens. Mid income, obviously is the larger volume as compared to the higher income.

Abhishek Gupta: The reason I was asking this was, we keep getting data from the likes of Knight Frank and Cushman and JLL and it is still showing that Bangalore is doing well. It is still the most affordable city amongst Bombay and Delhi but it is also showing recently, some unsold inventory is rising, launches still continue unabated, which leads me to believe that Bangalore probably is also, the market is getting a little tougher, it is not selling as fast as it sold last year. Would you agree and I was looking at your chart as well, I have the numbers, like last 5-6 quarters here, you had an increase and then suddenly you got a dip, so any particular reason why 2Q was so good and 3Q has been down, was it Diwali or what is the overall Bangalore. Would you agree with the numbers at JLL or a Cushman has thrown up, that it is looking tough in Bangalore?

Ashwini Kumar: If I look at the comparison of Q1, Q2 and Q3 numbers in the current fiscal year, you will find that yes Q3 numbers across the market has become lower but at the same time even the number of launches have become lower, so in Q1 the launch was probably the highest and the off take was also a bit higher but in Q3 the new launches have dipped. And also correspondingly the absorption has also dipped, so it is a matter of relationship with the new launches. Probably, if Q3 would have shown more launches then I think the absorption would have also shown a higher number.

Abhishek Gupta: No, so you are saying it is by design, you guys decided not to do launches or is that a Bangalore phenomenon?

Ashwini Kumar: It is right now a Bangalore phenomenon because there are some projects which had come under, the developers are wondering as to how to address the issue, there is one issue which has come about, 'What is the definition of high rise?', G+4 units versus G+3 units and then the corresponding fire requirements, so these are some of the issues which have come in as a result of which the approvals are getting delayed and therefore I expect that, that is one reason why the launches are also getting delayed. I do not think it is by design that we have stopped these new launches because the appetite has stopped. But going forward, I think some of these questions will get answered and then we will see that launches start happening.

Abhishek Gupta: And which part of Bangalore do you think because the Bellary up to Electronic City has been for the last 10 years, once the airport moved, everything was moving between Bellary and the Eastern side. Do you see Bangalore West growing, do you see Tumkur happening, do you see Mysore Road happening? Do you see the western side also picking up or is it going to be still Whitefiled and Bellary and Hennur and Sarjapur and what is your view for the next 5 years, I mean is Bangalore starting to grow towards the West or not really?

Ashwini Kumar: Yes it is beginning and we saw that, that area was practically not seeing any development but lately, right from the point where you have let us say the new mall which has been developed by Brigade along with the hotel, so that has certainly impacted some of that area and you see that Yeswantpur is seeing a lot of developments now and I do expect that, that area will also gradually start seeing more developments. It is the same thing along in Mysore Road also, for a very long time that was a dormant piece but there also we will see that expansion will happen. Otherwise, yes I agree otherwise most of the developments were in the Southern part of Bangalore and towards the Whitefiled area.

Abhishek Gupta: So, again is this a macro view or is Nitesh also looking at buying land or doing JVs and JDs in that side?

Ashwini Kumar: We are also actively looking at pursuing opportunities in both those micro markets.

Abhishek Gupta: And you think your EBITDAs and everything will be intact, given that the price over there is at least 25% discount to the more established developed areas?

Ashwini Kumar: I do expect that in market the price points will start rising in both areas, along the Tumkur side as well as on the way towards Mysore.

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

Ritwik Sheth: Sir firstly, you mentioned that 4 projects are in advanced stages, what is the inventory left in these 4 projects?

Ashwini Kumar: In all these 4 projects, the sales has been more than 90%, so ranging roughly between 7% to 10% or so the inventories are there.

Ritwik Sheth: Can you just quantify like in terms of value what kind of inventory we will be having?

Ashwini Kumar: While if you look at our investor presentation on Page #11, you will have the percentage of units sold. So if you see Nitesh Caesar's Palace is getting towards closure and there we have 94% of the units sold and the total units sold is 334, so whatever units which are left is barely around 20 units are there. In Hyde Park, we have 92% of the units sold, total units sold is 496, there also barely about 25 units or so but in terms of size, now there are some of the larger units which are left. In Columbus Square, where 85% of the sales have happened and that is 204 units, so we have yet another about 40-45 units to be sold out there, so, yes these are about which are getting towards closure and then we also have Logos where the 50% of the units have got sold, this is in the higher-end. We had a discussion about the higher end area, there are very few units, there are only 8 units, out of which 4 are sold.

Ritwik Sheth: Sir second question was on the launch; launches for FY16, what kind of launches should we expect in FY16? You mentioned is, 5 are in the pipeline.

Ashwini Kumar: Yes, out of these 5, we should be able to launch at least 2 or 3 in this very quarter itself. So one is Hunter Valley and then we are also gearing up; Virgin Island has been very recently launched and then we are trying to also gear up Knightsbridge; another in a very prime area of Bangalore, residential area of Bangalore. So these two we hope that will certainly get launched and then of course we have Grand Canyon which is being worked on and also Nitesh Plaza which is being worked on towards launch.

Ritwik Sheth: So in FY16, do we have any more projects coming up?

Ashwini Kumar: Yes, very certainly. In fact, our lead time for tying up our projects and taking it to development is shorter relatively because of the fact that we do joint development agreements and we do not acquire the land and typically we get into joint development agreements where it is possible to get started much sooner. And the land titles are clear whereas conversions are not required to be done, so those are the kind of land parcels that we are tying up typically.

Ritwik Sheth: Sir my next question was on Ritz Carlton; currently what revenue did we clock in Q3?

Ashwini Kumar: Well in terms of, you know Ritz Carlton is an associate company, so the numbers are not consolidated with Nitesh Estates Limited. But in terms of occupancy, it has started going up to about 51%, earlier I think I had shared with you that is still in the 30s and 40s but off the last couple of months it has inched up and we clearly see that there is a trend and that trend is still pointing higher, we do expect that it will get to around 65%.

Ritwik Sheth: So I will put it in another way; what kind of occupancy ratio we need to touch till we break you in at EBITDA level?

Ashwini Kumar: We should get to around 65% to get to the breakeven point.

Ritwik Sheth: And Sir how has been the progress on the hotel, are you satisfied with the progress?

Ashwini Kumar: I think we are fairly fine with the progress that we have made with the Hotel. It is going to be up gradually that you have the occupancies moving up and the reason why it is gradual is; that a significant part of the revenue gets tied up with corporate and that is something which take almost about one year because different companies have different points at which they open up and close these decisions. So they have indeed tied up as in several of the corporates and we are seeing that resulting in its increased occupancy rates.

Ritwik Sheth: On the Indira Nagar Mall, what is the status, have we started work?

Ashwini Kumar: We have not yet started the construction there.

Ritwik Sheth: What is the update? Anything which is hindering us on starting the work?

Ashwini Kumar: In Indira Nagar Mall, in terms of the financial closure, though we have closed in one institution, we are still waiting the result once we will be able to start the work. We anticipate that work may start in the month of May, next quarter.

Ritwik Sheth: One final question; in previous calls we have mentioned that we are aiming for a top line of around Rs. 300 crores to Rs. 400 crores in FY15, so what else like hindrance on, in the last two or three quarters, you know is the sales momentum or the revenue is not. What kind of a road map do you keep for the next 3 years?

Ashwini Kumar: Firstly of course, we want to finish the year with a very strong quarter and this quarter is going well. I would not like to forecast it to where it will end up, that would not be appropriate but I think this certainly will be a strong quarter. And then in the subsequent quarters, we are expecting that within this quarter and the next quarter, we will have closed out some of those projects that I spoke of; the 4, 5 projects which are supposed to completion and handing over and then after that we will have to start focusing on getting the newer projects into the early revenue recognition, getting it over the threshold of revenue recognition, so that we can start seeing them all come through the P&L.

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: Thank you very much ladies and gentlemen for taking your time out to join us. And if you have any more questions, please do send an email or contact Mr. M A Venkateshan, my colleague, who is CFO of the company. Thank you very much and have a great day.

Moderator: Thank you. On behalf of Axis Capital Ltd., 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.