Nitesh Estates Limited

Fourth Quarter and Full Year FY2013

Earnings Conference Call

June 3, 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: Good afternoon ladies and gentlemen, and welcome to the Q4 & Full Year FY2013 Earnings Conference Call of Nitesh Estates Limited. Please note that all participants' lines will be in the listen-only mode, and there will be an opportunity 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 '*' and 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, 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.

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 investor presentation on the Company's website. Nitesh Estates undertakes no obligation to publicly revise any forward-looking statements to reflect future, likely events or circumstances. I will now like to hand over the call to Mr. Ashwini Kumar. Over to you sir.

Ashwini Kumar: Good afternoon, ladies and gentlemen and welcome to the conference call today. I have here with myself, Mr. Vaidyanathan, who is the Executive Director of Nitesh Estates Limited. I also have Mr. Venkateshan – who is the CFO of the Company and Mr. Subramaniam – Vice President, Corporate Finance. I would like to take you through the portfolio of the Company and also very briefly discuss about the operations and then I will hand over to my colleague, Mr. Venkateshan who will take you through the financial numbers and then we will open ourselves to questions.

We have currently 16 ongoing projects, 14 of which are in the residential segment, 1 in the hospitality segment and 1 in the retail segment. Out of these 16 projects, in fact, 2 of the projects have been delivered and closed in the last quarter of fiscal year 2013. There are 8 residential projects which have crossed the threshold limit for income recognition, another 2 projects – Nitesh Cape Cod and Nitesh Napa Valley, are expected to cross the threshold limit for income recognition during the current fiscal year and the balance of the projects are right now under the pre-construction stage.

The unrecognized income from the projects is to the extent of Rs.476 crores as of March 31, 2013 and this comes in from a total booking value of Rs. 729.3 crores.

In terms of collections, 35% of the sales that have been booked are still to be collected. So 473 crores have been collected, the amount which still remains to be collected as and when they become due out of the current sales is 256 crores. Further income potential from the ongoing projects, from the sales of the residential projects is to the tune of 2,362 crores.

In addition to the residential portfolio, let me also talk about the Hotel. The Ritz Carlton Hotel is expected to become operational in the coming months. In fact, it is in the finishing stages and we are in the process of handing over to Ritz Carlton.

Our mall project in Indiranagar Bangalore, is going to become operational in FY2016. We are about to start the construction on this project.

In terms of values, let me summarize it once again. The total developable area is 9.33 million sq. ft. and that translates to a total saleable area of 7.44 million sq. ft. Our own economic interest in this is to the extent of 4.84 million sq. ft. And out of this what we have already sold is 1.74 million sq. ft. The total sales value potential of the 4.84 million sq. ft. which is our share, amounts to Rs. 3,092 crores and out of this, as I explained earlier, bookings have happened to the extent of Rs. 729 crores. The collection till March 31, 2013 out of this was Rs. 473 crores and the balance amount which is yet to be collected is Rs. 256 crores. The income that has been recognized out of these bookings of Rs. 729 crores is equivalent to Rs. 192 crores. The total expected project cost is Rs. 1,905 crores. We have recognized cost worth only Rs. 159 crores.

Coming to sales value, the sales value moved up very significantly in Q4 as compared to Q3. It increased by 115% in area terms and in value terms, it moved up by 68%.

As far as cash flows are concerned, from the residential projects, we had a total collection of Rs. 269 crores whereas our incurred expenditure on the projects was Rs. 207 crores. So out of the Residential projects we generated a surplus of Rs. 62 crores.

In terms of margins, across the projects if I look at the average margin, the gross margin is 38%. Particularly if I look at the last quarter, what we have seen is that the gross profit comes to roughly 23% from the residential projects.

With this I am handing over to my colleague, Mr. Venkateshan to take you through the numbers.

M.A. Venkateshan: Thank you. Mr. Ashwini. Good afternoon to you all. The brief overview of the consolidated financials is as follows: The total income for the quarter is Rs. 95.4 million and the gross profit is Rs. (95.7) million. The EBITDA for the quarter is Rs. (245.8) million and profit after tax is at Rs. (494.6) million. This is after taking into consideration loss on exceptional items of Rs.150.4 million on account of reversal of a prior-period revenue item. For the financial year 2012-13, the total income is Rs. 881.7 million, and gross profit is Rs. 101.4 million, with an operating margin of 22% on residential projects excluding reversal done during the year. The EBITDA for the year is Rs. (426.9) million after considering the fixed expenses of Rs.528.3 million. The Profit after Tax for the year stood at Rs. (1,426.2) million. If I look at the debt scenario, the net debt as on 31st March 2013 is at Rs. 2,430.6 million with a Net Debt-equity ratio of 0.76x as against Rs. 1,042.9 million in the previous year with a Net Debt to Equity ratio at 0.23x level. The ratio is increasing mainly on account of drop in the Net Worth during the year. The net worth dropped to Rs. 3,209.1 million vis-à-vis Rs. 4,629.7 million in the last year. With this brief overview, I like to request Mr. Ashwini to take over.

Ashwini Kumar: Thank you Mr. Venkateshan. With this, we would like to open ourselves to questions.

Moderator: Thank you. We will now begin the question-and-answer session. Anyone who wishes to ask any questions please signal an operator by pressing '*' and then '0' on your touchtone telephone. If you wish to remove yourself from the question queue, you may press '*' and '2'. Participants are requested to use handsets to ask questions. The first question is from the line of Ajit Surana from Dimensional Securities. Please go ahead.

Ajit Surana: Hello, this is Ajit here. Mr. Venkateshan, the questions are related to the accounts and directed at you. Can you tell me how come the sales are lower than the land & construction cost?

M.A. Venkateshan: I think you are referring to the quarterly number, right?

Ajit Surana: Yes, quarterly number.

M.A. Venkateshan: As I explained earlier in the quarter there are certain reversals.

Ajit Surana: Okay, this is after the reversals wherein you have shown an exceptional loss of Rs. 15 crores?

M.A. Venkateshan: Yes, other than that also, during the current year, there were some reversals pertaining to the similar projects.

Ajit Surana: Is it possible to give us the numbers before the reversals as to what the figures were and the figure separately for reversals, so there is more clarity?

M.A. Venkateshan: Yes, we can send you the project-wise details.

Ajit Surana: And secondly, there is a sharp fall in finance cost compared to the previous quarter, from Rs. 67 crores to about Rs. 9 crores. Is it because of a change in the accounting policy or how do you explain this because the debt has gone up?

M.A. Venkateshan: If you look at the previous quarter, we had given an explanation that there is a one-off item because recognition was done on an accrual basis towards debenture redemption premium. It was originally a compulsorily convertible debenture, but the instrument was changed to redeemable debentures and then interest was accrued for the entire 3-year tenure during the last quarter.

Ajit Surana: What is the value of this interest on conversion so we know that this has to be knocked out from the actual interest liability?

M.A. Venkateshan: Are you looking at the premium rate?

Ajit Surana: No, the actual interest that was charged to the P&L because of this conversion.

M.A. Venkateshan: During the current quarter, it was Rs. 3.8 crores and up to December period it was Rs. 66.8 crores. We have given this in the notes also.

Ajit Surana: On this exceptional item of Rs. 15.04 crores, will you get a tax benefit? Is it adjustable against other profits?

M.A. Venkateshan: Yes, absolutely.

Ajit Surana: In terms of your debt, there is a sharp jump but most of the debt is short-term. Two questions – what is the rate of interest and how will you roll over these debts?

M.A. Venkateshan: I want to put it here very clearly why it is categorized as short-term. As per the new accounting policy, we actually tie up the construction debt for the project period of 3 years. So these debts are not short-term, i.e. they are not maturing during the current year but as per the accounting policy the project period is defined as a short-term. So even if it is falling due within 3 years, it is termed as short-term, that is why it is getting categorized as short term.

Ajit Surana: And what is the debt which is falling due within the next 1 year?

M.A. Venkateshan: It is about Rs. 4 crores of one redemption that is falling due in the last quarter. Otherwise there are certain prepayments of up to 20% of the collections have falling due in respect of certain loan.

Ajit Surana: What is the overall short-term loan, which matures in a year, can you give me approximate figures?

M.A. Venkateshan: Rs. 4 crores is for one of the projects. In another project there is 1 repayment which is arising in FY14, we will give you that number.

Ajit Surana: What is the policy being followed by the Company on capitalizing the interest and adding to inventories?

M.A. Venkateshan: All construction debt is capitalized and treated as work-in progress and amortized over the revenue recognition in the respective projects. Only one overdraft of Rs. 10 crores gets charged to the P&L directly. Apart from that, there is a debenture of Rs. 62 crores, which was originally taken in one of the subsidiaries, has come as an initial equity, as a structured transaction. So that is being charged in the P&L. This was shown as the exceptional item of Rs. 66.8 crores in the previous quarter.

Ajit Surana: Basically, on the P&L, you are charging Rs. 10 crores and Rs. 62 crores?

M.A. Venkateshan: Yes, this is the major portion.

Ajit Surana: And also there is a sharp jump in Current Liabilities. Is it because of the advances from customers or are there any other reasons?

M.A. Venkateshan: Advances from customers is the main item.

Ajit Surana: Can you give me the overview of the Bangalore market in terms of inventory, absorption, supply and price for the different clusters where Nitesh Estates is developing residential projects?

M.A. Venkateshan: That will be addressed by Mr. Vaidya and Mr. Ashwini. I would like to clarify on your last point, about the current liability. One is that advance from the customers has gone up from Rs. 89 crores to Rs. 100 crores. Apart from that, billing in excess of revenue went up for all ongoing projects, with the billing happening regularly but revenue recognition lags behind due to POC recognition. Apart from that, the auditors also have insisted on recognizing the land held under JDA, because most of our JDAs are on area-sharing basis, from last quarter which was explained earlier. So that got recognized in the balance sheet now, that itself has got Rs. 145 crores in there.

Ajit Surana: So is it possible to give the breakup of those three categories so we have the clarity?

M.A. Venkateshan: We will be able to give the breakup to you later.

L.S. Vaidyanathan: Regarding the question on the Bangalore market, we are seeing that it has been steady and over the period, the prices have gone up by around 23%. This has also been reflected in average realization. Earlier, we have been selling at an average of Rs. 3,400-3,500, and have now reached about Rs. 4,500. Going forward, we think it will almost touch Rs. 5,000. That is where the pricing will reach. We could explain this due to factors like commodity price increase and inflation and other factors. And as far as the absorption is concerned, in the mid-income segment, things are going extremely well i.e. in the rs. 50 lakhs to 1 crore segment, the momentum is extremely good. Once we breach Rs. 2 crores level, be it villas, be it a product like Napa Valley where the starting price is Rs. 3.5 crores and which goes up to 6 crores; Palo Alto, the project we launched very recently which has the minimum price of Rs. 2 crores; and other projects where the prices are in the region of around rs. 12 crores to 15 crores, we see the momentum is little slow. Whereas in the mid-income level, things are extremely good and looking at the projects between the South and North Bangalore, still that southeast and the south region is doing better than the north one, because north has mostly investors, whereas south and Whitefield and other regions are more of end-users.

Ajit Surana: In terms of inventory in the north cluster and the south cluster, can you give me the inventory of residential projects which is unsold may be for 2 years or 1 year? I do not know, in number of flats, some approximate ballpark figures may be?

Ashwini Kumar: The inventory, typically in the Bangalore market I would say, across micro markets is roughly about equivalent of 5 quarters worth of sales. So that is the standard feature. It does vary from city to city. Now, I have been finding over the past few quarters that the absorption and the supply, both of them are practically matching each other and hence the inventory is also holding steady and the supply and the absorption is also roughly about 40,000 units per quarter.

Ajit Surana: Absorption is 40,000 and supply is 40,000 for quarter?

Ashwini Kumar: Roughly I would say that.

Ajit Surana: Are you seeing any slowdown in the IT industry which will impact prices or do you think Bangalore market will remain more or less okay over the next 2-3 years?

Ashwini Kumar: No, I am not seeing any impact in the real estate demand. We have quite a few mid-income projects and I do see that significant number of buyers are there from the IT/ITeS segment. I am not seeing that there is any concern.

Ajit Surana: And if you have to divide your development in various clusters. How much would you put in north and south? How would you define the total area being developed into different clusters in terms of percentages?

Ashwini Kumar: If I look at our portfolio, in fact, we have got only 2 projects right now which are in the northern side. 1 is Napa Valley which, by the fact that it is a very unique project in that area and unique in terms of features, is seeing a lot of traction. Then the other one that we have is Columbus Square, in terms of developable area, it is 0.73 million sq. ft. So these are the two projects that we have. Another project which we had in the north has already got completed. That has an area of 0.28 million sq. ft. and is called “Central Park”. So these are the ones which are there in the north. Otherwise, apart from these, we have a few in the central business district – one is a project called Nitesh Logos and another is a project called Nitesh Park Avenue. So in terms of area, of course these are lesser, although in terms of revenue potential, they are significant. But apart from that, all of them are in the east and south of Bangalore.

L.S. Vaidyanathan: But going forward, yes, we will have more projects which will be coming in the north because the cyclic projects like Malibu or Hunter Valley, which are close to around 4 million, we will have a share of about 2.81 million in the north region. North means, the Hennur market and the Bellary Road market. This is what we call as North at the moment.

Ashwini Kumar: To explain that further, there were two pockets where office areas were coming up. One was in the Hosur area and the other is the Whitefield. So, bulk of the developments was happening in the areas connecting these two. So this finally got developed, interlinked to the Outer Ring Road. And now, as I look at the Outer Ring Road area, the demand is now moving northwards, when I speak with respect to the Sarjapur point of reference. So earlier it was really the Sarjapur-Marathahalli Outer Ring Road segment which was seeing a lot of demand but it is now gradually moving even northwards towards the Hennur side.

Ajit Surana: Can you give me the reasons for delays in your various projects? These are regulatory or are there obstacles or hurdles, because that is one of the major concerns with Nitesh Estates?

Ashwini Kumar: As far as the projects under construction are concerned, right now, we have only 1 project which is located in the Whitefield area which is seeing a delay. Otherwise, in terms of all the customer commitments that we have made, those are intact. Let us say for example, Hyde Park, Caesar's Palace, Columbus Square etc

Ajit Surana: So you do not see any further delays? You will be able to meet your deadlines?

Ashwini Kumar: No, these are in line with the customer commitments that we have made. There is only one where we have a concern and this is the project which is in Whitefield and we are trying to fix that.

Ajit Surana: In terms of Indiranagar Mall, you say in your announcement that you will have to renegotiate because there have been delays. Is it possible for you to share as to what are the issues being discussed and what is being proposed?

L.S. Vaidyanathan: Basically, the matter relates to the market and we had the issue related to the delayed completion, for which we will have to pay little compensation to the land owner. So we already got about Rs. 300 crores of consortium funding.

Earlier, our right was only a development right, one which we can create a charge. Subsequently, bankers were insisting on the primary security to be brought at the market. So the negotiations took a little long time because they are typically land owners who have been averse to risk of exposing their property. For convincing, it took some time, and that is why there is a delay. Now that we have already got the consent, it is a question of just going forward, it will get concluded in a matter of 2 weeks.

Ajit Surana: What will be the additional cost?

L.S. Vaidyanathan: We have been talking anything between about Rs. 9 crores to 12 crores, it is under negotiation. There is no delay from our side, we did not really delay but based on the advice from their lawyers, they want some amount of compensation which we feel, will be in the region of about Rs. 10 to 15 crores. We will have to settle and it is payable only at the completion of the project, not now.

Ajit Surana: And in terms of your Ritz Carlton Hotel property, can you explain me the situation in the real estate hotel market in terms of occupancy, the ARRs, new supply coming in, and what are the current occupancy rate?

L.S. Vaidyanathan: You know the hotel industry, it cannot be different for Nitesh Estates.

Ajit Surana: Yes, has been very tough.

L.S. Vaidyanathan: In terms of that, only one point is that, in terms of Ritz Carlton being very quality-conscious. The kind of products which are being created, will be something unique and high-up in standards. Apart from that, to make the hotel successful, apart from dependence on the rooms, a lot of banquets, other restaurants and a lot of other features have been added over a period of time. If you balance the initial occupancy, i.e. if it is low because of the economy and other aspects are taken care of, then maybe in 6-9 months stability will come, and automatically the occupancy level will come to the standards of Ritz Carlton which we feel could be in the region of 60 to 65%.

Ajit Surana: Given the current market situation, that looks tough, because ideally 70% is the maximum occupancy that a hotel can achieve. I am talking over an extended period.

L.S. Vaidyanathan: I will explain in terms of competition, the true competition is coming from ITC Gardenia, which started about 3 years back and stabilized over a period of time. Looking at numbers, we get an indication that achieving 60-65% should not be difficult. With the kind of marketing and the various networks the Ritz Carlton promises to bring to the table, I am sure that we will be able to do 60-65%, should not be a challenge.

Ajit Surana: How long will it take to reach that occupancy?

Ashwini Kumar: It can take at least about 9 to 12 months.

Ajit Surana: That early? That soon?

Ashwini Kumar: We do expect that the brand pull to be there. The other important thing when it comes to occupancy is also the location of the project. This is in the heart of the city and the central business district. The Bangalore market has changed a little. Earlier, let us say, 4-5 years ago, the airport was located in a certain area and therefore, it was seeing a demand in certain pockets. Now that it has moved northward, we see that our hotel will certainly have an advantage. If you look at the supply side of hotel rooms, that has also increased in Bangalore but a lot of it is really in the Whitefield area, which is not going to compete with us. So the new hotels which are coming up in Whitefield may not see the same kind of absorption levels which we expect that our hotel which is located in the central business district will see.

Ajit Surana: And what are the ARRs that you are expecting?

L.S. Vaidyanathan: At the moment it will be in the region of Rs. 13,000 to 14,000 and hopefully down the line, they will achieve $350, that is the assurance we are getting from the operator.

M.A. Venkateshan: On the repayment schedule, there are a couple of other projects which I need to add to that. 4 crores for 1 project which I told, the repayment will fall in the last quarter, for another project, 6 crores in the first quarter which is already going on a monthly basis. There is another project, for which another 6 crores will fall due during the last quarter of the year FY14. So 6+6+4, apart from these 3, there are no other loans falling due in this financial year. However, the debenture balance portion of 22 crores, we may plan to redeem may be midway through the year.

Ajit Surana: Thank you very much.

Moderator: Thank you. I would like to ask the management if there are any comments.

Ashwini Kumar: I would like to thank everyone who has joined the call today. Thank you for taking interest in our company. If there are any more questions that you wish to ask us, do contact Mr. M.A. Venkateshan, our CFO and that will be responded to you. Thank you once again and have a good day. Bye.

Moderator: Thank you. On behalf of Nitesh Estates, 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.