Nitesh Estates Limited

Fourth Quarter and Full Year FY2014
Earnings Conference Call

May 29, 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 Q4 and Full Year FY2014 Earnings Conference Call of Nitesh Estates Limited, hosted by Axis Capital Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I would like to hand this conference over to Mr. Nitin Idnani of Axis Capital. Thank you and over to you Mr. Nitin.

Nitin Idnani: Thanks. Welcome to the Q4 and Full Year FY2014 Earnings Conference Call of Nitesh Estates Limited. Thanks for taking the time to be here. From the management, we have today Mr. Nitesh Shetty, Chairman and Managing Director; 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, Senior Vice President – Corporate Finance. I invite them to start with their opening comments, thank you.

Ashwini Kumar: Thank you very much Nitin. Good morning ladies and gentlemen present on the call. A warm welcome to you and thank you very much for taking interest in our company. We have announced our results yesterday and I am happy to share with you that we have significant optimism now and the company is moving towards scale and consistency. There is a significant improvement in the topline. We have crossed the Rs. 300 crores mark in Revenue for the year and also in terms of the profitability, we are almost at about 8% in terms of PAT margin. We see this as a significant milestone which gives the leverage to gain scale very significantly in the next fiscal year.

I would like to first give you an overview of our existing projects in terms of our progress and then I will hand over to my colleague, Mr. Venkateshan – the CFO, who will take you through the numbers of the year. We have 14 projects currently, 13 of them are residential and one project is the mall. As far as the residential projects are concerned, they are the ones which are actually contributing to the P&L right now. The total Developable Area of these projects is 9.59 million square feet. Out of this, the Saleable Area is 7.77 million square feet and we have 6.21 million square feet of area in our share. Regarding the 6.21 million square feet area, there are three projects, which are on revenue share basis, whose entire area gets counted as our share.

Out of the 6.21 million square feet, the area that we have sold so far is 2.4 million square feet and the total Sales Value potential is Rs. 3,300 crores. These values are as of March 31, 2014, however we have added few other projects after that. In fact, the sales potential of our portfolio today is almost Rs. 4,100 crores. We had a very successful launch of a project called Nitesh Melbourne Park, a few days ago. We started the soft launch sales and it is showing fairly strong response from the customers. Till March 31, 2014, the cumulative bookings in the existing projects total Rs. 1,057 crores, out of which we have collected Rs. 732.4 crores and we have recognized income worth Rs. 417 crores. Therefore, the income which is still not recognized is Rs. 498.3 crores. The total expected Project Cost of our portfolio is Rs. 1,994.5 crores and the cost that has been recognized is Rs. 301.7 crores.

So the remaining sales potential is Rs. 2,248 crores, as on March 31, 2014. With this, I hand over to my colleague, Mr. Venkateshan. He will take you through the financial numbers and after that we will be opening ourselves to questions and answers.

M. A. Venkateshan: Thank you Ashwini. I will present the brief overview of the consolidated results for the quarter. The company achieved a Total Income of Rs. 50.12 crores with a Gross Profit of Rs. 21.51 crores for the quarter. Therefore, the operating margin was 43%. EBITDA for the quarter was Rs. 8.42 crores at 17% margin. Profit before Tax was Rs. 0.21 crores while Profit after Tax was Rs. 0.02 crores. The Net Loss, after adjustments for our share in the associate company, was Rs. 7.7 crores. EPS for the quarter was Rs. (0.53) per share.

The Total Income for the full year FY2014 was Rs. 300.96 crores, a growth of 241% year-on-year. The Gross Profit was Rs. 112.84 crores, with an operating margin of 37%. EBITDA was Rs. 60.8 crores, at 20% of the Total Income. Profit before Tax was Rs. 29.37 crores and Profit after Tax was Rs. 23.56 crores, at 8% margin. The Net Profit, after considering the adjustments for our share in the associate company, was Rs. 5.26 crores. The EPS for the whole year is Rs. 0.36 per share.

The Standalone results for the quarter and full year stood as follows: Total Income was Rs. 28.93 crores for the quarter and Rs. 114.8 crores for the year. EBITDA was Rs. 4.86 crores for the quarter and Rs. 18.42 crores for the year. PAT was at Rs. 1.75 crores for the quarter and Rs. 7.72 crores for the year.

The consolidated Net Debt position, as of March 31, 2014, was Rs. 300 crores, as compared to Rs. 277 crores at the end of December 2013. Based on this, the Net Debt-Equity ratio was at 0.92x, as of end March 31, 2014, vis-à-vis 0.83x, as of December 31, 2013.

Ashwini Kumar: Thank you very much Venkat. This was a brief update from our side, we are now open to any questions that you may have.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from Mr. Ritwik Sheth of Span Capital. Please go ahead.

Ritwik Sheth: Good morning everyone. My first question is related to the debt levels. We have seen Rs. 20 to 25 crores of increases in the last couple of quarters and current Net Debt is Rs. 300 crores. So what is the targeted level of debt?

M. A. Venkateshan: Overall, we expect to be at D/E ratio of less than 1 only. The debt increase was mainly to redeem the outstanding debentures from HDFC. It has been fully repaid, as of March 31, 2014.

Ritwik Sheth: My next question is regarding the Ritz Carlton Hotel. We had provided guidance for a breakeven in a couple of quarters. Are we on track for that?

Ashwini Kumar: As far as the hotel is concerned, it is still at an occupancy level of 25%. We expect the occupancy levels to increase in another few months. The number of contracts with the corporates is increasing gradually and will enable us to increase the occupancy. Therefore, we do expect to break even in the next three to four months.

Ritwik Sheth: We have seen losses of Rs. 7 to 8 crores in the last two quarters. Do we expect to stay at these levels for the next two to three quarters or an improvement is expected as the occupancy improves?

Ashwini Kumar: Can you repeat your question?

Ritwik Sheth: The Minority Interest loss is completely from the hotel, right?

Ashwini Kumar: Yes, that is right. By the end of the year, we expect a positive cash flow to start happening.

Ritwik Sheth: Do we foresee Rs. 7 to 8 crores of losses for another couple of quarters?

Ashwini Kumar: It is difficult to predict.

Ritwik Sheth: A couple of crores here and there?

Ashwini Kumar: Yes.

Ritwik Sheth: We have not seen any launches in the last two quarters. So what is the outlook regarding that?

Ashwini Kumar: We plan to launch five projects this year. Out of those, the first one was launched on April 30th in the Hennur area. That is exactly one month ago and we have got very good response from customers, as I was saying in my opening remarks. This will be followed by another four launches in the year.

Ritwik Sheth: How many million square feet do we expect to launch among these five projects?

Ashwini Kumar: It will be close to 5.8 million square feet.

Ritwik Sheth: What will be the approximate Revenue Potential of these projects?

Ashwini Kumar: It will be around Rs. 2,500 crores.

Ritwik Sheth: We currently have 13 ongoing projects and 9 are under the revenue recognition, is that right?

Ashwini Kumar: That is right.

Ritwik Sheth: When do we expect the balance four projects to cross the revenue recognition threshold level?

Ashwini Kumar: I expect at least two projects to cross the threshold in the next couple of quarters.

Ritwik Sheth: Should we expect all the projects to come under revenue recognition in FY2015?

Ashwini Kumar: Threshold for some of these might get crossed in the next fiscal year. Also, we have split two of these projects into two phases. We are recognizing only the first part and two projects will go into revenue recognition in the coming periods.

Ritwik Sheth: Next fiscal year, okay. Where do you expect the company to reach over the next three to five years? Currently we are selling less than a million square feet per year, should we expect to cross around 2 million square feet over the next three to five years?

Ashwini Kumar: In terms of the revenue, we are still at fairly low levels and can expect almost doubling of the topline over the next few years.

Ritwik Sheth: If I consider the inventory and the nine projects, which we have under revenue recognition, you have Rs. 200 to 300 crores of revenue which can be recognized in FY2015. So are you confident of selling everything?

Ashwini Kumar: Yes, there are a few projects. There are four projects which are about 70% sold, so the plan is to liquidate their entire inventory. Thereafter, we will be left with few other projects, which will get fully sold only in the next and the subsequent fiscal years. So we will have significantly completed the bookings for those projects also. Further, for the new launches, we expect about 30% of the sales to happen in this fiscal year itself.

Ritwik Sheth: We have experienced quite a lot of volatility in the EBITDA margins. What is the expectation on the average margin in FY2015? It fluctuates quite a bit, so can you give a ballpark figure?

Ashwini Kumar: We believe it would be better to view it from a year-to-year perspective. However, we do expect to record over 21% EBITDA margin, since we are engaged in a JDA model.

Ritwik Sheth: Around 21%?

Ashwini Kumar: More than 21% margin will be a sustainable level. That should allow us to achieve a PAT margin of 11% to 13% finally.

Ritwik Sheth: Just a follow-up on that – do we expect to surpass the current year's revenue in FY2015? You have an inventory of around Rs. 300 crores for the projects completed over 70%.

Ashwini Kumar: I was saying it will be doubling in terms of revenue.

Ritwik Sheth: That sounds great. I wanted to get a fair idea on the Revenue Potential. Currently, it is around Rs. 3,300 crores, right?

Ashwini Kumar: Yes.

Ritwik Sheth: And are we adding around 6 million square feet from five projects to be launched in FY2015?

Ashwini Kumar: Yes.

Ritwik Sheth: What will be the Revenue Potential for the next three to five years and over what period would you like to sell these projects? We have been selling less than a million square feet per year, so what is your outlook on sales, with that run-rate?

Ashwini Kumar: We said Rs. 3,100 crores and we expect to add another Rs. 2,500 crores by the end of the year. However, a few projects will get fully sold from the existing projects, revenue potential for which will roughly be Rs. 1,000 to 1,500 crores.

Ashwini Kumar: In terms of the sales, we would have got to around 2 million square feet per year.

Ritwik Sheth: Do we have the internal resources and the management in place to grow at a CAGR of 50%? This is because, with such numbers, we need to grow exponentially over the next three to five years to sell of all these projects. So what are your thoughts on that?

Ashwini Kumar: Can you just repeat the question?

Ritwik Sheth: Sir, currently we are selling around 0.6-0.7 million square feet per year and have a lot in the pipeline over the next five years. My question is regarding the internal resources and how we plan to handle such high growth. So will you outsource some of the projects? How is it going to work?

Ashwini Kumar: As far as the organization structure is concerned, that is being enhanced at all levels i.e. at senior as well as at the lowest levels. So, that expansion is happening. The way that we work is that for each of the projects, there is an independent sales team. As soon as there is a project to be launched, we create a separate team and train them so that they understand our processes. That is how we go to the market.

We are also working very closely with the channel partners. This is an area on which we had not been focusing on and were largely relying on own direct sales. However, this is another initiative that we are taking now and this will also help us to increase the sales. This is not specific to the city of Bangalore but is happening across the cities and also internationally. So those are the things which will allow us to expand the sales. On the project side also, whenever we launch a project, there is a separate team for that. The central core team is already in place at the Head Office. It supports all these projects in terms of sales, customer service, project management and design management. The projects offices as well as the sales offices are independent and run typically from the sites.

Ritwik Sheth: What about the Indira Nagar mall project? Have we started construction activity for that?

Ashwini Kumar: We have got the contractor on board and that is L&T. It is going to start shortly. It is at a level wherein we are ready to go ahead and it is just a matter of time.

Ritwik Sheth: When do you expect the construction to start? Would it be in this quarter or will it extend to Q2 of FY2015?

Ashwini Kumar: I think this quarter.

Ritwik Sheth: We spent around Rs. 170 crores and our share is 50% of the mall, is my understanding right?

Ashwini Kumar: Our share is 50% of the mall.

Ritwik Sheth: What would be the total project cost?

Ashwini Kumar: The total project cost will be Rs. 600 crores.

Ritwik Sheth: We should expect to get completed by FY2016 or will it be pushed to FY2017? This is because, we are already delayed by a couple of quarters. Or will you be able to expedite in between and be on target?

Ashwini Kumar: The target is to complete it within 30 months.

Ritwik Sheth: 30 months from the start of construction activity?

Ashwini Kumar: Yes, from the start date which is expected in a couple of months.

Ritwik Sheth: You have given advance of around Rs. 250 crores for land purchase. When do you expect to receive it and how do you intend to use it?

Ashwini Kumar: Let me have my colleague, Mr. L. S. Vaidyanathan to tell you about that.

L. S. Vaidyanathan: There are two land parcels – one in the central part of Bangalore, which represents about Rs. 44 crores and another one is in Kochi. After excluding these two parcels, we will be left with around Rs. 160 crores. Out of Rs. 250 crores, for land parcels worth Rs. 90 crores, we are already doing certain planning and have started cleaning up their repossession. Most of these land parcels are in the outskirts of Bangalore. Depending on the new comprehensive development plan, these lands have to be classified into various zones. From our experience earlier in 2015 CDP, we know where cities have grown. These lands are mostly in the nature of residential parcels of land, which require government approval for the new CDP, these all will be classified under. These lands will come into the Balance Sheet by the 2016 March.

Ritwik Sheth: By 2016 March. Will that take a couple of years?

L. S. Vaidyanathan: Yes definitely.

Ritwik Sheth: So we would not be able to recognize till then?

L. S. Vaidyanathan: Based on the draft plan released by the BDA, which is the agency taking care of the CDP, we will be able to do our internal planning in terms of the class of assets. We can also be better with planning in terms of kind of assets and design. Once this is released, the projects can be brought in to an economic benefit immediately. The benefit from this will be around the year FY2018. From our earlier experience, we feel that these kind of parcels need to be developed as getting the right land parcels is extremely difficult in Bangalore today. This process will help us to add to the Developable Area to meet our target of about Rs. 1,000-1,500 crores in the four-five years to come.

Ritwik Sheth: One final question on the Bangalore market – what is your outlook on the market? This is because, we are seeing a lot of launches coming up from top five companies in Bangalore including Prestige, Brigade and Nitesh Estates is also coming with 6 million square feet of launches. So what is your view – will there be an oversupply or absorption rate will increase as the sentiment has increased because of the election results?

Ashwini Kumar: Yes, we are seeing a slight improvement in the sentiment. This is going by our experience from a recent launch, which showed quite good response. While I do see that there have been several launches in the city, however the Bangalore market has practically been stable in terms of absorption. With the positivity coming up in the sentiment, I hope the absorption will increase.

Ritwik Sheth: Okay, that is it from my side. Thanks a lot for answering all the questions and all the best for the coming year.

Ashwini Kumar: Thank you very much.

Moderator: As there are no further questions from the participants, I now hand the floor back to the management for closing comments.

Ashwini Kumar: I would like to thank you all for joining the call. If there are any further questions, please do contact our CFO – Mr. Venkateshan and we will be happy to respond back. Thank you very much and have a good day.

Moderator: Thank you members of the management. Ladies and gentlemen, on behalf of Axis Capital 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.

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