



Date: February 14, 2024

To, The Deputy Manager Department of Corporate Services BSE Limited PJ Towers, Dalal Street Mumbai – 400 001 Scrip Code: 532784	To, The Manager The National Stock Exchange of India Limited Exchange Plaza, Plot No C/1, G Block Bandra Kurla Complex Mumbai – 400 051 Scrip Code: SOBHA
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Dear Sir / Madam,

Sub: Transcript of Meeting with Analysts/ Institutional Investors

In continuation of our letter dated February 03, 2024, please find enclosed herewith the transcript of the conference call held on Thursday, the 08th day of February 2024 with the Analysts/ Institutional Investors to brief the Operational and Financial performance of the Company for the quarter ended December 31, 2023.

We request you to take the aforesaid information on record in terms of Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and the same is available on the website of the Company.

Yours sincerely,

FOR SOBHA LIMITED


Bijan Kumar Dash
Company Secretary & Compliance Officer
Membership No. ACS 17222



SOBHA LIMITED



“Sobha Limited
Q3 FY ‘24 Earnings Conference Call”
February 08, 2024



MANAGEMENT: **MR. JAGADISH NANGINENI – MANAGING DIRECTOR –
SOBHA LIMITED**
**MR. YOGESH BANSAL –CHIEF FINANCIAL OFFICER –
SOBHA LIMITED**

MODERATOR: **MR. ADHIDEV CHATTOPADHYAY – ICICI SECURITIES.**



Moderator:

Ladies and gentlemen, good day, and welcome to Sobha Limited Q3 FY '24 Earnings Conference Call hosted by ICICI Securities 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 after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero on your touch-tone telephone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Adhidev Chattopadhyay. Thank you, and over to you, sir.

Adhidev Chattopadhyay:

Good evening, everyone. On behalf of ICICI Securities, I'd like to welcome everyone to the Sobha Limited call today. From the management, we have with us, Mr. Jagadish Nangineni, the Managing Director; and Mr. Yogesh Bansal, the Chief Financial Officer. I'd now like to hand over the call to the management for their opening remarks. Over to you. Thank you.

Jagadish Nangineni:

Thank you, Adhidev. Good evening, everyone. Sobha team and I are happy to interact with you for financial results of quarter 3 for this financial year '23, '24. As most of you would know, the investor presentation can be accessed from our website, sobha.com. In this call, we will briefly touch upon our last quarter and 9-month performance and provide an outlook for the last quarter as well.

Firstly, on real estate sales, the first 9 months of this financial year was the best ever for us in terms of real estate sale value with an achievement of about INR5,140 crores and 4.74 million square feet. In this quarter, we again achieved the highest ever quarterly sale value of INR1,951 crores and 1.66 million square feet. This is the tenth straight quarter where the pre-sales have been better than the previous quarter. Our average price realization has also been the best ever at 11,732 square feet. Thanks to the increasing contribution of super luxury priced projects across all our operating fees.

About 77% of the sales in this quarter has come from Bangalore due to the new launch. Also, 70% of this quarter sales have been contributed by INR2 crores less ticket price due to the mix of the projects that are ongoing. We are optimistic that good sales numbers in this quarter too will contribute in the -- from the ongoing projects and new launches if they come in and will add to the momentum.

Overall, for the year, we expect to go over 20% of the previous financial year value of INR 5,198 crores. Secondly, on the project launches. We launched two projects in Q3 of this year. Sobha Neopolis in Bangalore and Sobha Metropolis Phase 3 in Thrissur, both put together about 3.84 million square feet. We have a project pipeline of 3.77 million square feet in residential, we launched, majority of which we are aiming to do by the end of next financial year.

For quarter 4 of this financial year, we hope to do another 3 million square feet of launches. Since they are back ended towards the end of March, there is high chance of radiation as well. Apart from minor delays, most of the remaining activities and timeline towards launches are intact.

Sobha share in these forthcoming projects would be about 80%. In addition to this 16.77 million square feet, we are working on our next 20 million square feet tranches as well, which we will start including in the forthcoming projects during the next financial year.

Thirdly, on our cash flow. With the help of our best ever sales milestone achievements in projects, collections from long-standing contractual customers, our operational cash inflow has also been the best in this quarter at INR14.93 crores. We have generated positive cash flow for the 13th straight quarter and reduced our net debt. We will continue to aim to generate positive cash flow during the growth phase as well. And directionally, we would like to continue to reduce debt.

However, with more focus towards increasing the scale of our real estate operations, going forward, the net cash flow generation might be lower due to higher spend towards ongoing and new project opportunities. With this, I request our CFO, Mr. Yogesh Bansal, to take you through the financials and open the floor for questions.

Yogesh Bansal:

Good afternoon, everyone. Our strong presale numbers with improved realization demonstrate not only the resilience of our brand, but also puts us in a strong position for the business. These robust pre-sales will play a pivotal role in generating even higher cash flows, enabling us to allocate resources for a sustained growth. Once they come for recognition, these sales will boost our EBITDA margin in future. Our constant focus on cash flow management has resulted in 13th consecutive quarter of positive net cash flow. We continue to generate improved operational cash flow quarter on quarter.

During Q3, 2024, focus on collection resulted in overall in-cash inflow of INR14.93 billion with real-estate contribution amounting to INR12.93 billion, the highest ever in Sobha's history. We achieved a positive net cash flow of INR97 crores during the quarter. Similarly, for the first nine months of FY24, cash inflow was Rs.42.98 billion with real-estate contribution being INR37 billion, again the highest ever nine-month comparative period.

To strengthen our future pipeline, we invested INR1.72 billion in the first nine months in land payment and achieved a positive net cash flow of INR2.96 billion in the first nine months. I would like to highlight that we have good visibility of margin cash flow of INR120.68 billion from our residential portfolio with INR64.70 billion from ongoing projects and INR [65.98] billion from forthcoming projects.

Realisation of these amounts over coming years shall facilitate deploying more capital towards growth opportunities. Our net debt to equity is reduced from peak of INR1.32 to about 2 years back INR2.54 now. On the P&L side, for the quarter we recognised INR5.21 billion of revenue in real-estate with total income of INR7.14 billion. For a period of nine months, total income was INR24.27 billion. For the quarter EBITDA was INR1.03 billion with margin of 14.4% and for nine months EBITDA was INR3.01 billion with margin of 12.7%.

As indicated and explained earlier, margin continues to be so due to recognition of pre-COVID sales. Going forward margins are expected to expand once more decent sales come for

recognition. As on 31st December 2023 we had about INR127 billion worth of RE revenue to be recognised.

I would like to thank you once again for your participation and now we can open the floor for the question and answer session.

Moderator: Thank you very much. We have our first question from the line of Parikshit Kandpal from HDFC Securities. Please go ahead.

Parikshit Kandpal: Congratulations on a good quarter, especially on the pre-sales. So my first question is that you on the call said you are readying a pipeline of about 20 million square feet of projects beyond the existing launch pipeline which you have. So I just wanted to get some more colour on how much is the pending capex on land payments to be done in this. How much will be our share in this? How will it be JDA? So if you can give some light on that.

Jagadish Nangineni: Good evening Parikshit. The 20 million square feet, the details of those we would of course declare as we convert them into projects over the course of next financial year. But largely these projects which we are planning to do will be in Bangalore and those will be from our own land banks and a couple of plans that we have done in joint development several years ago.

So the mix would be roughly again there the Sobha share should be over 90% and the majority like I said the majority of the projects are based in Bangalore.

Parikshit Kandpal: Does it include the Hoskote land, the 20 million square feet?

Jagadish Nangineni: Part of the Hoskote land is included in this. Yes.

Parikshit Kandpal: So how much would be that land if you can quantify out of this 20 million?

Jagadish Nangineni: So that would be about -- it was between INR8 million to 10 million would be from Hoskote.

Parikshit Kandpal: And sir, in terms of development potential, what will be the value of this \$20 million? Is it right to assume that realization would be about 10,000 plus.

Jagadish Nangineni: Yes. The average realization we are expecting should be similar to what we are currently doing in Bangalore, about roughly between 10,000 to 11,000 square feet.

Parikshit Kandpal: This on top of this already 22-odd million which you have given in the presentation, take the total to about 42 million square feet, which is INR40,000 crores so these kind of numbers are we looking -- what kind of numbers on presales are we looking for the next year?

Jagadish Nangineni: The planning for the next financial year has just started, Parikshit, but we will be able to sort of disclose and give a guidance probably in the next call.

Parikshit Kandpal: Okay. Just the last question is on the 3 million square feet of launches which you said will happen during this quarter, which could be back ended around March. So if you can give a broad breakup in which locations are these launches and what could be potentially the sales which will be opened?

- Jagadish Nangineni:** Sure. I mean, these -- although and we are saying it's 3 million square feet. We have a possibility of launch of about seven projects, one project in Bangalore, two projects in Chennai, one project in Trivandrum and a couple of projects in Gurgaon and one project in Gift City. So all of these are possible to be launched very soon. But given the uncertainty sometimes of pace in the launches even if you can achieve half of these launches, then I think we should be able to do 3 million square feet.
- Moderator:** The next question is from the line of Dhruvesh Sanghvi from Prospero Tree. Please go ahead.
- Dhruvesh Sanghvi:** Yes. Congratulations to you, the entire team. Sir, any thoughts on why we are doing with the rights issue. Of course, it was suggestion from multiple investors like us, but it was the suggestion around then the price was probably INR400, INR500 and INR600. It would be one of the few promoters in the history who would have sold at INR500 and probably now buying at much higher rates in the rights. And that is why I just wanted to understand what is the rationale that they think and they want to put the money. If you can give us a broad indication, that is one? I mean I have a couple of questions after that, and I'll try to sum it up in the next one.
- Jagadish Nangineni:** Sure, Dhruvesh. See there are a couple of things we respect to the rights issue. We likely have been indicating, right? First, with respect to towards our fiscal -- I mean, financial management, we want to be lean in terms of debt. At the same time, we would like to capture the growth prospects that are available in the Indian residential sector and which we think are long term in nature. Two is financial goal, which is less burdensome than the debt. So in that context, there are several services.
- One of the services, of course, the rights issue wherein the promoters also can contribute towards this fund. And the visibility of this fund from the promoters has come in, in the last few months. And hence, their outlook is also very positive in the long term. And hence, they've given their long-term nature in terms of continuing commit capital deployment point of view. So price is not the biggest matter, but the ability to deploy the capital is far more important.
- Dhruvesh Sanghvi:** And a small related to this is by when we will have the context of the rights issue available? Any sense? I mean, is it going to be a couple of weeks or it will take 2, 3 months?
- Jagadish Nangineni:** We are working the details out, and I think it should take another month or so to finalize those.
- Dhruvesh Sanghvi:** Sure. So -- and one last question about the overall growth because this is the first time we are hearing such big project lineup, including the Hoskote. Is it now safe that the bottom range for us should be 8 million, 9 million square feet and that too within the grasp of 1 to 2 years for the year, the presales, 8 million to 9 million square feet. Is that a fair estimate now?
- Jagadish Nangineni:** So we will not be able to clearly say how much is the sales in future. But we clearly have seen in the last few years, we have consistently grown. They have done consistently about 4.9 FY '23, we hit 5.65 and FY '24, we are already about 2.7 million square feet. So these numbers have been steady and we can increase price realization as well. So our focus has been for a steady growth.

Now the -- one of the important things that we need to remember here is that the tailwinds for the sector has been fairly good in the last 2 years. So I think the long -- I don't know about the short term whether if there's going to be any dips. But in a long term from a real point of view, yes, we should at any for growth numbers that what we mentioned. If it's going to happen in the next couple of financial years, and we work towards it and if there is a macroeconomic environment supports it, then we should be able to aim for those numbers.

Moderator: The next question is from the line of Puneet Gulati from HSBC.

Puneet Gulati: My first question is on the margins. Look, there was an expectation that margins will now started turning around by the second half of this fiscal. What is the new guidance now? And what's still holding back the margins?

Jagadish Nangineni: On the margin front, Puneet, this particular quarter, yes, you're right that we have guided that towards the end of the financial year, we will start looking at slightly better margins than what we did last financial year in the first 2 quarters.

However, the one of the significant reasons for this particular quarter is also because of inability to recognize some of the projects where we have completed, but we have not achieved the OC because of certain delays in the obtaining those. And this is not a tariff -- current characteristic as such in terms of delay, but it so happened that the whole thing got delayed.

And hence, which we could recognize far higher revenue and margins, we could not. And as you know, as the revenue recognition itself is slightly lower the overheads and the other costs are largely fixed in nature, and hence, the margins seem to be lower. But I think those will still catch up from this quarter onward.

Puneet Gulati: Understood. That's helpful. Secondly, you guide for future projected cash flow. Are those cash flow calculations assume the current price realization? Or are they still based on what you've historically done maybe in previous quarters? Have you revised those numbers up?

Jagadish Nangineni: You're talking about the marginal cash flow that we have showcased in our investor presentation?

Puneet Gulati: Correct, correct. 4.7 billion of potential future number.

Jagadish Nangineni: We -- typically, when we do that, then we are a little bit conservative in terms of our pricing and then we take our current pricing. And if there is anything upside that will come in once the project gets launched.

Puneet Gulati: Just lastly, once again on the rights issue. Your balance sheet is quite decent at almost 0.5x net debt to equity. You're largely going to launch your own parcels of land next year. What's the need for equity then?

Jagadish Nangineni: As you know, the majority of our land bank has been -- is concentrated in a few cities, particularly in Bangalore and in Kerala. So Hence, we are aiming growth in multiple other cities as well. And for that, we will need certain upfront capital, and that's what we are planning to use

it for. The city that we would like to focus going forward, apart from, of course, Bangalore, which contributes the most even today are where our NCR is Pune and Hyderabad, like we have been saying, but we could not make -- have good traction there because, again, the requirement of capital for growth there is reasonably significant.

So balancing growth and investing has certain limitations. And that limitation we would like to overcome by having an equity capital with us and seek opportunities in these cities. And also while we are doing this, we would like to also explore some new cities as well. So given the nature of our outlook, not just from the existing operating cities, but also enhancing our presence in our other non-Bangalore cities and new cities, we think that this equity capital will really enhance our capability to focus on long-term growth.

Puneet Gulati: Okay. And you think NCR, Pune, Hyderabad would not be more JV, will be more land purchase transactions?

Jagadish Nangineni: Well, the nature of the transactions will continue to be mixed. Wherever we think that we can find good opportunities in just an outright purchase or a joint development, we will continue those. I don't think the outlook of how we pursue the opportunities will change. But of course, with larger capital base available for us, if something makes sense for us to do outright, we will -- that choice that we currently do not have really will be available to us, and we will exercise it based on the opportunity and the economics around it.

Moderator: The next question is from the line of Parvez Qazi from Nuvama Group. Please go ahead.

Parvez Qazi: Congratulations for the great set of numbers. So a couple of questions from my side. When we look at this 3 million square feet proposed launches in Q4 or the 16.8 million square feet of projects in the launch pipeline, what would be our share in these projects?

Jagadish Nangineni: Both put together in the launch, for the 16.7 million square feet that we have, our share would be roughly about 81%.

Parvez Qazi: Okay. Sure. And including the 16.8 million square feet and the 20 million square feet projects that we are working on, what is the kind of, let's say, approval costs, etc, which we might need to incur over the next one to two years to bring these 36 million, 37 million square feet projects to the launch stage.

Jagadish Nangineni: The details of those, we are still working on, Parvez. But largely, the land is paid for us. And if I have to clearly -- for incremental investments if I have to do and probably acquire more land in and around where we already have, then it might incur additional outflow. But otherwise, these requirements for approvals or any sort of consolidation or remaining payment that needs to be done for the land and for the partners, those I think we'll be able to cover from our operational cash flow.

Parvez Qazi: Okay. And lastly, you mentioned we are looking at maybe increasing the land spend and entering new cities or go into cities other than Bangalore. Do you have any number in mind as to our annual land capex, and maybe it will be about INR250-odd crores in FY'24. Are we looking to,

let's say, scale it up to INR500 crores, INR600 crores on an annual basis going ahead? Is that the number in your mind or it could be even higher?

Jagadish Nangineni: I'll not be able to give clear numbers at this stage. But if we have to grow in outside cities, outside Bangalore cities and if we have to look at a higher volume of projects -- sorry, higher volume of sales, then clearly we will need more investment in land going forward. And I think we -- it should be about that number what you have mentioned.

Moderator: Thank you. The next question is from the line of Abhinav Sinha from Jefferies. Please go ahead.

Abhinav Sinha: Hi, Jagadish and congrats to the team. A couple of questions. Firstly, the 3 million launch, I think you mentioned for fourth quarter. So does this include Karma Lakelands? And what is the product that we are looking at there now?

Jagadish Nangineni: Like I mentioned just in the previous question, we have about seven projects that we can launch in the next couple of months. So some of them might come in this quarter, some might spill over to the next quarter. So one of them is Karma, and Karma specifically, we are going to launch an apartment project on 31 acres, and it's a golf course project and that's about 2 million square feet.

Abhinav Sinha: And this was supposed to be a DM project, right? What is the structure now?

Jagadish Nangineni: The structure of the transaction continues to be the same, which is the development management.

Abhinav Sinha: Okay. So ex of this, all the other projects would now be largely owned, right? Because if this is a 10%, 12%, then the remaining and you are saying 80% of your stake in the total pipeline?

Jagadish Nangineni: Yes, that's largely correct, yes.

Abhinav Sinha: Okay. Sir, second question is on the rights issue. So what is the timeline you're looking to deploy the money?

Jagadish Nangineni: Like I said, Abhinav, the specific rights issue matter, we are still working on the details in terms of the number of branches in which we can -- we would like to raise the capital and also deployment and requirement specifics. So we will be able to share those details in the next -- over the course of the next month or so.

Moderator: The next question is from the line of Pritesh Sheth from Motilal Oswal. Please go ahead.

Pritesh Sheth: Just firstly, on the forthcoming pipeline, when I see not many cities being mentioned there, but we have had a very successful project launch in Thrissur in Sobha Metropolis. But I don't...

Jagadish Nangineni: Hello? Pritesh?

Moderator: The line of Pritesh got disconnected, sir. By then, we will take the next question. The next question is from the line of Mohit Agrawal. Please go ahead.

Mohit Agrawal: Yes, thanks for the opportunity and for many congratulations to your team for showing consistent growth in pre-sales and also debt reduction. My first question is on your pricing. So

if I look at the average realization and over the last two years that has moved up from INR8,000 average to almost INR11,500, INR12,000.

Can you give some color on what you mentioned about this premiumization of project, so that is one. And the other is the like-to-like growth that you would have taken the pricing growth you've taken in projects. So could you kind of bifurcate broadly what would have been the like-to-like growth annually and the premiumization impact?

Jagdish Nangineni:

Thank you, Mohit. Like you said, the price -- the volume growth -- sorry, the pricing growth has been from about INR8,000 about two years ago to about -- I mean, this particular quarter it's about INR10,000 -- that we do but first nine months is about INR10,800. So the main -- the reason for this increase is really change in the mix of the project. As we are launching new projects, we were able to launch at a price higher than the replacement inventory we make also. And that has yet to be increasing the pricing mix for us.

So hence, to give a like-to-like comparison, it is very tough because the change in the mix is not from the same project, but from new projects. But if you have to take it a specific study of certain projects. The -- like for example, we started selling one of our projects Brooklyn and Manhattan. Both of them, we started around INR6,500 to INR7,000 and today, it is about INR9,000.

So that's still an increase of about 30%. So similar would be the case in -- similar to the price increases we have seen for a similar location projects where we launched -- completed the new one. So from a like-to-like -- from a pricing point of view, I said it's similar from INR8,000 to INR10,800. And the volume has been -- volume growth has been roughly about again -- around about 4.9 million, 5 million square feet to this year.

If all goes well, we can probably do another 2 million to about 2.6 million square feet.

Mohit Agrawal:

Sir, my second question is on business development. We've been talking about adding more projects. My question is are you comfortable with the valuations being offered. You mentioned that you want to expand to NCR, Pune, Hyderabad especially markets like Gurgaon, Hyderabad. Any thoughts on if you're going for outright or JDA, what has been the landowner expectations?

We keep on hearing about land prices going up. So any thoughts on valuation? And do you think on these prices, you'll be able to make healthy IRRs?

Jagdish Nangineni:

Good question. When the market is up and very optimistic, the land prices are also -- also have -- there has been a raise in the land prices too. So that is where, I think, having capital with us and ability to chase the opportunities where we can pursue opportunities which are not -- where the competition is lower, will be where we'll have an advantage.

Whether we will be able to achieve the kind of financial objectives that we have whenever we do a transaction, that is something -- we think that we are optimistic, and we for that our -- the daily development process has to be far more robust and we take a lot of conservative estimates. It's a tougher market for us to do new deals.

And that's why we -- I think we need to be a little bit patient. That is where probably our advantage comes wherein we already have a good pipeline of projects lined up. And hence, the additional to that having operational cash flow and capital without the rights issue will give us a last test of kind of capital too and patience to pursue opportunities which will be profitable.

Mohit Agrawal: Understood. And sir, just a last clarification. In your initial remarks, I heard you mentioning that the spends on construction are likely to increase going forward. So does that mean that your operating cash flow margins currently on an average, which is around 20%, could that see a change? Or will higher collections kind of take care of the higher outflows as well?

Yogesh Bansal: So our focus is going to be a higher cash flow, okay? So higher cash flow once we get cash flow that only we are going to spend on construction. So our operating cash flow is going to be on a similar range.

Mohit Agrawal: Sorry. Sir...

Yogesh Bansal: Higher construction outflows is going to -- also from higher cash flow.

Mohit Agrawal: So margins will remain stable, right?

Jagadish Nangineni: Margins will remain similar. What if I could paraphrase it. So, essentially higher outflow in construction will lead to higher inflow because of the milestone achievements and particular in the last couple of not couple -- last year what ever we have launched the construction outflow for those will start coming in more in terms of structure completion.

Those, we will be -- and some of the other projects where we will start doing finishes. So a combination of that, we think that more outflow will lead to higher billing for us for the sales and will lead to higher cash inflows. So it's a positive cycle of spend, leading to billing, leading to cash inflows and so higher cash outflow, higher cash inflow.

Moderator: Mr. Mohit? Sir we will take the next question. The next question is from the line of Pritesh Sheth from Motilal Oswal. Please go ahead.

Pritesh Sheth: So first question is on your forthcoming project pipeline, while we have mentioned quite a few cities. But being at Thrissur where we have had a very successful project launch. It's kind of missing from that -- I mean, the -- next project is not mentioned here, while I assume we might have some land in the pipeline in Thrissur as well. So what's your plans in that market?

Jagadish Nangineni: Specifically in Thrissur?

Pritesh Sheth: Yes, specifically Thrissur.

Jagadish Nangineni: No. We have two ongoing projects there. One is Lake Edge and the second -- there are three projects, Lake Edge, Silver Estate and Metropolis. So we have just released -- in the last quarter, we have launched the Phase 3 of the Metropolis. So we have a good set of inventory there. And I think it might take a few quarters for it to be continuing. And while that is happening, we are looking at other opportunities in Thrissur as well.



Pritesh Sheth:

Sure. So we do have more land in that market, right?

Jagadish Nangineni:

The current developable land currently we do not have. But there are certain land banks, which we are trying to get approvals upon. If that do not certify, we are looking at other opportunities in Thrissur. Thrissur has been our home market for a long time, and we have developed one of the most iconic projects SOBHA City there. which has both retail apartments, villas and one of our retail portfolio in that project.

So we have a great brand name and recognition. So we will look forward -- we will continue to look for opportunities in having a presence there.

Pritesh Sheth:

And this 20 million square feet of upcoming pipeline, you mentioned there is Hoskote, which is included there. Is there Hosur project also included in that pipeline? And if yes, how much would be the size in the first phase?

Jagadish Nangineni:

Good question. Hosur, we are in the last leg of obtaining the permissions there or resolving one of the issues which has been long pending. If we are able to resolve that, then we should be able to launch plotted development in Hosur land. Remaining parts of the Hosur land holdings, we don't think that they are in the development stage.

So as and when we find the opportunity we will monetize that. But otherwise, the remaining land that we have, which is a small core, which is about 60-plus acres that we will do it as a plotted development.

Pritesh Sheth:

Sure. Got it. And one lastly, on the contractual margins in this quarter. So last quarter, we had seen that improvement blocking 14% EBIT margins, 14%, 15%. It's come down to 03% now. How should we look at that going forward? This quarter was just an aberration or there might be some quarters where we still might go through the same sort of subdued margins.

Jagadish Nangineni:

It's more of an accounting treatment that has undergone this quarter. So therein some of the revenue that we have recognized earlier had to be reversed because of short closing of the [PORC] not continuing the project because of the ambiguity in the scope of the project. So that, I think, has led to the reduction in the margin.

But the Overall, in the contractual and manufacturing business, the manufacturing business continues to look very good in terms of opportunities and in terms of the margins that we can achieve through these opportunities. In contractual projects, the ones which we were -- which we had got in 2021 or so, those are still under little bit of stress but otherwise, which we have started in the last financial year and this financial year.

Those we look to have a good margin. So as you recognize the revenue and close out the older projects, there will be a little bit of stress, but I think largely it's over.

Pritesh Sheth:

Sure. Got it. So, sustainable new margin should be somewhere between 10%, 15% for this segment?

Jagadish Nangineni:

It should be.

Moderator:

The next question is from the line of Himanshu Upadhyay from Buglerock PMS. Please go ahead.

Himanshu Upadhyay:

I have this question on capital allocation strategy for us, okay? And again, the capital is what we want to do. I have three points and a question following it. Our network is around INR2,500 crores, okay, which is the total capital on which this company has been built. And we want to raise something like INR2,000 crores of incremental capital, which is a quite large based on what historically we had used capital, Okay. The first point.

Second is, in the last cycle also, we invested huge capital in land bank which led to high debt, low profitability also means. Okay, we need not use high debt but the profitability in IRR may be low. And we have not used that land also completely what we built in the last cycle that was point two. And third, how do you ensure that capital, which we'll be raising now will it get used to the, more cautiously than in past?

And what will you not do with this capital? And finally, the timing of this capital raise because what we understand of where is that prices of land have gone up significantly in the last three, four years. Can you give you complete idea on these four points? And how are you looking at the things? And how should I understand it then outside investors in your company. In the last cycle also, we invested huge capital in the land bank.

And that capital land bank is also not fully utilized is what we understand, okay? And it also led to poor profitability in bad years. So the question is, how do you ensure that the capital which you'll be raising will get used more cautiously than in the past. And what will you not do with that capital, okay?

And finally, on the timing of this capital raise, what we understand here is that prices of land have gone up significantly in the last 3, 4 years. So how do you be confident that this large chunk of capital will be able to be deployed in let's say, in the next 2 years, where we can get high IRRs or decent IRRs. So this is the question.

Jagadish Nangineni:

Okay, thank you. So Himanshu, to answer your question, we got the gist of the question. So coming to each point, you are right that the -- our equity is about INR2,500 crores, and we are raising the capital of about INR2,000 crores, which is more than double of what we had raised from all the capital raises that we have done in the past.

That -- in fact, that shows the our -- the ability to scale the company from where we are today. So I think that's a very positive kind of development wherein with that kind of equity base where we have reached and from this new capital base, the growth opportunities that are present for us seem to be far more, and considering that the current sustainable positive economic environment, we should be able to put this capital for the best use in terms of opportunities.

Second is -- yes, we did raise capital in the last cycle. It's not -- I'll not say last cycle, but last to last cycle. As a company, we have been operating for the last 50 years. And collectively, we have gone through at least 3 real estate cycles.

And therein, there have been multiple lessons that we have done. And one of the biggest things that we have done, particularly in the cycle where in '8-'9, was that we stopped -- we were earlier allocating capital for land banking. And that's something that we have said we will not undertake in future. And when you ask one of the questions, which is what we're not going to do, and this is what we have not been doing in the past 10-odd years.

And in the last 10 odd years, our ability to allocate capital and actually gain or convert the investments in the projects and in a profitable investment has been really good. And fortunately, in some of the -- in the last cycle, which was the '2014 to '2018 it was stagnant.

And after the post COVID, the cost increase also had played a big role in terms of margins. But otherwise, we have been deploying our capital judiciously. And going forward also, we'll follow the same principles of prudence and make sure that the capital investment is done to achieve multiple objectives, both organizational and of course, financial.

Himanshu Upadhyay: And one thing, would you like to build your commercial portfolio significantly over the years?

Jagadish Nangineni: That's also a good question. We have -- our focus has been largely residential, and that's what we are good at. And we would like to maintain that focus in the medium term. The reason being we think that there are enough opportunities for us to continue to pursue in residential.

And at this juncture, where there is a clear visibility of good opportunities, I would rather focus on that rather than moving to another asset class which we are not as good. But at the same time, we will start experimenting a bit if the right opportunity comes by in a small scale. And if it makes sense, then we will look at it once we see through this residential opportunity set.

Himanshu Upadhyay: Okay, thank you so much.

Jagadish Nangineni: Thank you, Himanshu.

Moderator: Thank you. The next question is from the line of Sabyasachi Mukerji from Bajaj Finserv AMC. Please go ahead.

Sabyasachi Mukerji: Yes hi. Thanks for the opportunity. First question is on the -- in your initial comments that you said that will do a 20% growth on -- in FY '24 on the FY '23 number of INR5,198 crores. 9-month FY '24, we are already up by 38%. Do you expect a very soft Q4 in terms of bookings?

Jagadish Nangineni: Good evening Sabyasachi. This quarter sales is largely, again, like I said, is dependent on the -- our ability to do new launches and considering that the new launches are a little bit back ended. So I think that they can -- there is a possibility for us to not repeat the same sales numbers. But like I said that it's completely dependent on our ability to launch.

And that's where we would like to guide or we would like to keep all the investors informed. So that's something which is -- which can cause variance. Not that it is going to impact the medium term or short-term sort of objectives of the company. But when it comes to quarter-on-quarter, these are things which can come in or not. So that's a data that is too be the cognizant of.



- Sabyasachi Mukerji:** Got it. Just a follow-up here. So does it mean that probably launches will get spilled over to next quarter Q1? And is it a fair assumption that '25 also, FY '25, we'll see a decent growth in terms of sales, 15%, 20%? Do you have guidance over that?
- Jagadish Nangineni:** Sorry, Sabyasachi but currently for the next financial year, we don't have -- neither have a guidance nor we have planned it out in detail. As and when that -- we do that, then we'll be able to discuss that.
- Sabyasachi Mukerji:** Okay. Last one from my side is in our last quarter earnings call, you said that probably in the next 6, 7 or 8 quarters, we have a launch pipeline of 15 million square feet around. So does this remain intact? I mean, how are we planned in terms of launch pipeline, let's say, for the next 1.5 years, let's say?
- Jagadish Nangineni:** Yes. I mean the last quarter's pipeline was about 15.3 million square feet. And this quarter, that has increased to 16.77 million despite launch of about 3.88 million square feet. So I think that's what I was mentioning in the initial remarks, we should -- we are aiming to launch majority of pipeline in the -- by the end of next financial year.
- Sabyasachi Mukerji:** Majority of the pipeline by end of, let's say, FY '25 that you are mentioning?
- Jagadish Nangineni:** That's right.
- Sabyasachi Mukerji:** Okay, that's all from my side and all the best.
- Jagadish Nangineni:** Thank you.
- Moderator:** Thank you. That was the last question for today. I would now like to hand the conference over to the management for closing comments. Thank you, and over to you, sir.
- Jagadish Nangineni:** Thank you, Adhidev. I express my gratitude to all the participants in the call today. All the factors contributing to residential demand, which is high growth economy, job creation urban centers, migration to cities, higher income levels, optimism for the future, need for living in larger communities, steady interest rates would continue to play out in the long term.
- And we, as a company, has very strong foundation built by a dedicated team, which pursues the organization goals with passion. And hence, this -- both those, coupled with our brand, operational and financial model, we are positioned to experience a steady growth. And I hope that we will work towards it. and we are pretty optimistic about our future.
- While we continue to pursue our short-term goals, we have a very clear view of the long term as well. So with that, I thank you. Thank you, everyone, who have participated in the call. I hope we have answered some of your questions satisfactorily. In case you have any further questions, please do reach out to us. Thank you.
- Adhidev Chattopadhyay:** On behalf of ICICI Securities, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.