

AUDIO CONFERENCING SERVICE

TRANSCRIPTION REPORT

Conference	86728399
Company	Omaxe Limited
Date:	August 09, 2011

Operator:

Thank you for standing by and welcome to Omaxe Limited 1Q FY12 results update conference call hosted by Macquarie Capital Securities.

At this time, all participants are in a listen-only mode. There will be a presentation followed by a question and answer session at which time if you wish to ask a question, please press *1 on your telephone. Please be advised this conference is being recorded today.

I would like to hand the conference over to Mr. Unmesh Sharma. Over to you, sir.

Mr. Unmesh Sharma:

Thank you very much. It gives us immense pleasure to host the first quarter results call for Omaxe. We have with us Ms. Vijayalaxmi Purohit (Chief Operating Officer), Mr. Sumit Arora (VP, Investor & Strategic Relations), Mr. Amit Mehta (GM, Finance), they will represent Omaxe Limited.

I would like to invite Ms. Vijayalaxmi Purohit for initial comments before the Q&A session. Thanks, and over to you madam.

Ms. Vijayalaxmi Purohit:

Hi! Good afternoon to everybody. Welcome you all on behalf of the company to this first quarter financial year 2012 post results investor call.

Friends, presently we are again locked in a situation of high interest rate regime and inflationary pressure. We are aware that it is certainly very difficult situation for home buyers to make a long term financial commitment at this stage of economic cycle; however, on a second thought it is true that we Indians have a sense of security and belongingness with our homes and we don't consider it mere commodity, therefore it is always an opportune time to buy home for self occupancy. With this intent and given the never ending kind of demand of houses by growing middle class population spread over multiple geographies, we are confident that real estate in India is a long-term play and there could definitely be cyclical issues hovering over 6 months to 1 year.

Coming to unaudited financial results of the company for the quarter ended 30th June 2011, the total operating income for the period is Rs. 329 crores against Rs. 253 crores for the same period previous fiscal. The EBIDTA stood at Rs. 62 crores against Rs. 52 crores over the same period. There have been drop in EBIDTA margin from 21% to 19% for the period under comparison.

The PAT for the quarter stood at Rs. 20 crores, the total income includes approximate Rs. 81 crores from construction activities of the group and Rs. 248 crores from real estate activities. The operating margin for construction activity are derived at approximately 8% of revenue and for the real estate it is approximately 30%. The major revenue contribution during the quarter is from the company commercial projects at Greater Noida and commercial plots at Patiala.

With respect to operational update for the quarter following details are noteworthy. The company has targeted delivery of approximately 20 million sq.ft. at present financial year and out of that approximately 2.4 million sq.ft. has been offered for possession during first quarter. Our focus on execution of all the running projects which is roughly 42 in number is definitely putting strains on the cash cycle, but as a matter of policy management does not wish to ignore completion of any of the project on the cost of the other project. The delivered area for the quarter includes approximately 0.77 million sq.ft. of built up projects in both commercial and residential category, and 1.63 million sq.ft. of plotted developments spread over five to six projects. The company launched four new projects during the quarter adding up 1.16 million sq.ft. area. Out of this approximately 242,000 is built up affordable housing at Vrindavan and remaining 917,000 sq.ft. of plotted area at Chandigarh, Patiala and Rohtak. All these projects received encouraging responses from customers and especially the housing project at Vrindavan was super success. In terms of new bookings, 2.62 million sq.ft. area is booked during the first quarter including 1.62 million sq.ft. of plotted area and 1 million sq.ft. built up space. In all 86% of the area booked is residential and 14% is commercial. The total sale value of this area is Rs. 522 crores with average realization of Rs. 2000 per sq.ft. This total booked area stands at 41.83 million sq.ft. worth Rs. 7400 crores. The total cash inflow from operations stood at around Rs. 538 crores during the quarter including advances from customers and new booking application money. 186 crores out of this is used for construction expenses, 83 crores for further land acquisition, 16.4 crores is paid against EDC/IDC, approximately 191 crores against debt repaid during the quarter. Rs. 38 crores of interest is paid. 31 crores is paid as administration and tax expenses, 61 crores is used for media and marketing. Beyond this, new project loans of total Rs. 89 crores is availed during the quarter. The gross debt as on 30th June 2011 stands at Rs. 1,477 crores including Rs. 206 crores towards deferred and land payments. The gross debt has reduced by net amount of Rs. 75 crores during the quarter. The debt equity ratio stands at 0.87 on consolidated basis. We are able to reduce our debt equity ratio from 1.10 to 0.87 on year to year basis. Omaxe Infrastructure & Construction Limited, a 100% subsidiary of Omaxe, has present order book of Rs. 1370 crores of which 33% is already recognized till Q1 FY2012.

Now the floor is open for your questions. Thank you.

Mr. Unmesh Sharma:

Operator, we can ask for questions now.

Operator:

Certainly sir.

At this time participants who wish to ask any question, please press *1 on your telephone keypad and wait for your name to be announced.

First in line we have a question from Mr. Kumar Sourav from Mumbai, you can go ahead sir.

Mr. Kumar Saurabh:

Hi! Thanks for taking my question. I have few questions. First is it would be great if you can throw some light on your launch pipeline, and what kind of sales volume you are targeting for this year, and what would be the mix; this is my first question.

Second is what is your land acquisition and sales plan for this year, and also if you can talk about your deleveraging plan and how much repayment is due in FY12 and FY13 and how do you plan to finance it?

Mr. Sumit Arora:

As far as the launch of the projects is concerned, during Q1 the company launched in all 1.16 million sq.ft. of new projects spread over around four projects actually, and we received very good response of those projects, almost 80% of the inventory has been already booked on gross basis. We have identified around 7 million sq.ft. more projects which we will be launching in coming few months, so probably in the whole year the launch area would be close to around 9 – 10 million sq.ft. for the whole of the year.

In terms sales, this quarter we did 2.62 million sq.ft. and we are quite confident that we should be able to breach the figure for last year which was 9.76 million for the whole of the year. So, this year the sales would be upwards of 10 million sq.ft., that is about the sales component. Again, the composition of sales, what has happened right now is that we are seeing that commercial built up sales and residential plotted area is moving very fast compared to last year when built up residential was moving very fast.

As of now people are taking a little long time to take financial decisions and built up is moving, it is not that the demand has vanished or people are just out of the market or something, but it takes time to convert inquiries into sales. Therefore the break up of total 10 million sq.ft. of new bookings would be roughly around 55% plotted and 45% built up space. This is about the launch and the sales pattern. As far as the land acquisition is concerned, first quarter the company has spent around 83 crores and acquired land majorly again at Chandigarh, we have another 50 acres in Chandigarh, and we have added some more land at Lucknow. Only these two places are the ones where some money is going for the land acquisition part. We believe that we will be spending another 200 – 220 odd crores on land acquisition in next 6 months' time.

Mr. Kumar Saurabh:

Okay, this will be related to your present projects only or it will be like completely new?

Mr. Sumit Arora:

It will be related to only the present project, the company does not wish to expand into new geographies, may be one project we have a visibility, probably that may happen in the new geography altogether, but beyond that everything we have we are focusing ourselves on the existing projects.

Now you asked about the deleveraging part, already as per our target for this year we have reduced net debt of around 75 crores on quarter to quarter basis, so as on 31st March our gross debt was 1552 and today it stands at 1477 crores; however, we have repaid debt to the extent of 190 crores and there has been new borrowings of project to the extent of 89 crores. Effectively we have paid more but because of accrued interest on deferred land payment and couple of other issues, working capital limit, the debt figure stands increased to 1477; effectively, we had paid 100 crores net, but because of accrued interest and deferred land payment my gross debt figure again increased to 1477. For the whole of the fiscal we are quite confident that we will be able to reduce this number to around 1250 odd crores, which will include 227 or 230 crores of deferred land payments, that will bring down the banking and financial institution debt to around 1000 – 1020 crores, it will be the gross number, and if you make effect of our cash flows, cash in hand rather, so that will be expected to be in the range of around 150 – 170 crores, so our net debt will be comfortably around 850 – 870 crores for the fiscal, plus deferred land payment of 230 crores. So, this is about the deleveraging part of it. We again tried to exit from couple of our land parcels, but nothing materialized during the last quarter, so most of the money has gone in from internal accruals only from the existing and the new projects together.

Mr. Kumar Saurabh:

Okay. I had just one more question, you know, by when can we start seeing margins inching up and what is our target margin level and how do you plan to achieve that target.

Mr. Sumit Arora:

As far as margins are concerned this year again because of the cost of funding and the ratio of interest, proportion of interest capitalized and charged through P&L that has varied, for last year almost 68% of the total interest was capitalized and only 32% charged on P&L, this year it is a proportionate 60:40, 60% is capitalized and 40% is charged to P&L, more of corporate loans and more of general corporate purpose loans are there, so that is the reason for this, that has definitely impacted the PAT margins. But now going forward, we believe that because the old projects are still under completion, this year again we will be completing almost 20 million sq.ft. largely from the old projects, so the PAT margins more or less remain in the range of around 6.5% or so for the whole of this year. For FY13, yes, because all the old projects would have been done by that time, so the margins would improve. EBIDTA would be in the range of around 19-20% for this year compared to 15-16% last year, so anyway there is a hike in EBIDTA if you will see on year on year basis.

Mr. Kumar Saurabh:

Sir, that is it from my side. Thanks a lot Sumit.

Mr. Sumit Arora:

Thanks.

Operator:

Thank you sir. Once again, participants who wish to ask any questions please press *1 on your telephone keypad and wait for your name to be announced.

Next in line we have question from Amit Morarka from Crisil. You can go ahead please.

Mr. Amit Morarka:

Thanks for taking my question. I have a couple of questions, to start with, we see a quarter on quarter around 60% improvement in realization, so would you just give us a sense like in such a difficult market scenario I mean where people are you know most of developers are finding difficult to sell at a very good prices, how we have been able to you know I mean achieve higher realizations in terms of our all the projects.

Mr. Sumit Arora:

Okay, nice question Amit. Actually this quarter the commercial projects have moved on pretty well where the average realizations are in the range of around 4500 to 5000 rupees a sq.ft., so that is giving us spurt to the average realization rate.

Mr. Amit Morarka:

So, is this like I mean the quarter is having any kind of you know lumpiness in terms of any one particular commercial project which is getting sold out during this quarter which may not happen in the subsequent quarters, and then subsequently we can see a dip in the margins, I mean the realizations?

Mr. Sumit Arora:

Nothing of that sort, it is just one of our ongoing project and we still have unsold component out there, this project will move gradually.

Mr. Amit Morarka:

Okay, and what is the status on our Omaxe Connaught Place, the commercial built up project?

Mr. Sumit Arora:

That is the project which has been moving now.

Mr. Amit Morarka:

Okay, so how much has already been sold out and how much we are still you know I mean need to get sold?

Mr. Sumit Arora:

Out of total inventory about 1.5 million we are able to sale out about 0.7 million sq.ft. of area.

Mr. Amit Morarka:

Okay, and what is the average rate....

Mr. Sumit Arora:

About 150,000 sq.ft....

Mr. Amit Morarka:

Sorry?

Mr. Sumit Arora:

In this quarter we are able to sale 150,000 sq.ft.

Mr. Amit Morarka:

Okay, and sir what is the average realizations on this 0.7 million sq.ft.?

Mr. Sumit Arora:

Average realization is coming around 5000 rupees.

Mr. Amit Morarka:

Okay, sir if I just recall the last concall presentation you know we mentioned there that we have a total debt obligation of around 6.3 billion during this financial year, and as per the latest presentation we are seeing that the total obligation for the current year is 5.8 billion, so I mean have we gone any kind of debt restructuring during the quarter in terms of our overall debt repayment obligation?

Mr. Sumit Arora:

No, actually if you see the presentation it says that 415 crores is yet to be repaid within the next 9 months, and 190 crores has been already repaid in first quarter. So, that adds up to 600 odd crores, plus there may be new loans, short term working capital cycles and all those things which may add up.

Mr. Amit Morarka:

Okay, sir any reason for change in or basically I mean a higher proportion of corporate debt as compared to the last year?

Mr. Sumit Arora:

Most of the projects where there were project launch they were completed last year, and again this year also most of the loan is getting repaid, and as of now if you would have observed there are loan against share, loan against properties which are more active these days. So, that is the reason they are all general corporate purpose loans and the interest is being charged to the P&L for that.

Mr. Amit Morarka:

What is the average interest which we are paying, you know, I mean on these kinds of debts?

Mr. Sumit Arora:

Our average cost of debt still stands at around 15%. The maximum is around 16.5% so far.

Mr. Amit Morarka:

And these are all the debts which are I mean taken from the banks or any other financial institutions or NBFC is also involved with this?

Mr. Sumit Arora:

There are NBFCs as well.

Mr. Amit Morarka:

Okay, sir another thing is on the margin front I mean compared to the last quarter though it is not quite comparable because Q4 is again one of the best quarter for any developer, but we have been able to achieve quite lower margin of around 4.5% in that quarter because we sold many projects on a down payment basis and we offered quite a lot of rebates and discounts, and this quarter we have achieved 17.5% kind of EBIDTA margin, so is it just because we have not offered any significant discount in the quarter or is it because of change in sales pattern we have offered more and more number of plots as compared to the build up spaces?

Mr. Amit Mehta:

It is also the one time effect as well as now it is the mix of the product where we are booking the revenue. Like this time we have booked revenue on the commercial side, there is a Patiala commercial has been sold, so what is the proportionate of the mix is there it margin is depending on that.

Mr. Amit Morarka:

So if I have to segregate of the total I mean basically the real estate sales, how much proportion would be coming from the commercial build up and how much would be from the others?

Mr. Amit Mehta:

Commercial built up is about 0.77 million sq.ft. out of total area.

Mr. Amit Morarka:

And in terms of value term?

Mr. Amit Mehta:

It will be 30% of the value, what is the total revenue we have booked this quarter it will be 30% revenues coming from the commercial areas.

Mr. Amit Morarka:

Alright, and sir just one last thing on the net profit margin side, I mean we are maintaining that we would be clocking around 6.5% kind of margin during this financial year, so any I mean is it only because of the cost front I mean basically because of higher interest rates which we are seeing in the market or is it also because there is a mix of the down sales realization which you are seeing?

Mr. Sumit Arora:

It is because of completion of old projects, again the same thing which happened last year to some extent, the old projects which are at high carrying cost, the interest cost has definitely hitting the financial hard, so that is again major impact coming out of there, and labor cost to some extent, our material cost is not that matter of concern any longer, but labor cost and the interest cost is definitely going to impact.

Mr. Amit Morarka:

And sir have you sold any land during the quarter just like last quarter?

Mr. Sumit Arora:

No, nothing for this quarter.

Mr. Amit Morarka:

Thanks, that is all from my side sir, thanks a lot.

Mr. Sumit Arora:

Thank you.

Operator:

Thank you sir. Once again, participants who wish to ask any question please press *1 on your telephone keypad and wait for your name to be announced.

I repeat for the participants who wish to ask any questions, please press *1.

Next in line we have question from Deepika from BNC Securities. You can go ahead.

Ms. Deepika:

Hi Sumit. Most of my questions have already been answered but just one question, what is the difference between your inventory and the WIP figures which you gave in your presentation, because your WIP figure seems to be very high in each and every presentation, so what exactly it constitutes of?

Mr. Amit Mehta:

Inventory is unlicensed land parcels.

Ms. Deepika:

Just the land parcels on which the work has not started?

Mr. Amit Mehta:

Yes, work has not started, and WIP is all the projects where the work is going on.

Ms. Deepika:

Okay, and your finished goods whatever means inventory

Mr. Amit Mehta:

Where the project is completed.

Ms. Deepika:

They are completed projects but which have not been sold is that also included into WIP?

Mr. Amit Mehta:

No, that is completed stock.

Ms. Deepika:

Okay. That is it from my side.

Operator:

Thank you madam. Once again, participants who wish to ask any questions, please press *1.

I repeat, participants who wish to ask any question, please press *1. Next in line we have question from Rohit Gupta from Consultated Securities. You can go ahead sir.

Mr. Rohit Gupta:

Hello. I just want to know the status of this long project Omaxe Forest, how much you have already taken into your numbers and what kind of percentage that is yet to be accounted in your books and what is the time of the possession when you will be handing that possession to them?

Mr. Amit Mehta:

Which project, there are two Forest projects, one in Noida and Faridabad.

Mr. Rohit Gupta:

Sir I am talking about Noida. Going through your balance sheet last year you said it is the most luxury project where huge numbers are expected this year, so....

Mr. Amit Mehta:

We have already spent more than 70% of our money, now the finishing work is going on in this project.

Mr. Rohit Gupta:

Okay, so how much we have already accounted in your books and how much still in terms of percentage of completion?

Mr. Amit Mehta:

That is what I am telling, it is 70% is complete, 30% is yet to be completed as per books of accounts.

Mr. Rohit Gupta:

And the balance revenue will be accounted in this year or next financial year?

Mr. Amit Mehta:

As it will be completed, as we will spend on the construction the revenue will be continuously booked.

Mr. Rohit Gupta:

When you expect to complete that project?

Mr. Amit Mehta:

Next 12-18 months.

Mr. Rohit Gupta:

Okay, but I was going through your analyst reports and representations made by you, you were saying that it will be accounted for in this FY12 itself?

Mr. Amit Mehta:

There is some additional FSI available in the Noida, so getting the approvals it has delayed the project.

Mr. Rohit Gupta:

That project is getting delayed because of certain approvals?

Mr. Amit Mehta:

Yes, getting approvals from the Noida authority.

Mr. Rohit Gupta:

You are constructing some additional FSI they will be there.

Mr. Amit Mehta:

Yes, earlier there was an FSI of 1.75 available and now the FSI is 2 available, so getting the approval it has delayed the project from 6 months.

Mr. Rohit Gupta:

Because of that can you just explain me the additional FSI will come, then additional revenue will come or you have already booked that total

Mr. Amit Mehta:

Additional revenue will come.

Mr. Rohit Gupta:

So, you will be constructing some additional towers or what?

Mr. Amit Mehta:

It will be decided, it is not yet decided, it will be decided.

Mr. Rohit Gupta:

It has not yet been decided?

Mr. Amit Mehta:

Yes.

Mr. Rohit Gupta:

Okay, can I have your name sir please?

Mr. Amit Mehta:

Amit Mehta.

Mr. Rohit Gupta:

Thank you.

Operator:

Thank you sir. Once again, participants who wish to ask any question, please press *1.

I repeat, participants who wish to ask any question, please press *1.

At this time, there are no further questions from the participants. I would like to hand the floor back to Mr. Unmesh Sharma. Over to you sir.

Mr. Unmesh Sharma:

Thank you very much to the management of Omaxe and thank you very much to the participants.

Ms. Vijayalaxmi Purohit:

Thanks.

Mr. Sumit Arora:

Thank you every one for being on the call. Presentation has been updated on our website omaxe.com, it has been sent to many people on their mails as well. You have the access to our website, please have a look. Thank you very much.

Operator:

Thank you. That does conclude our conference for today. Thank you for participating on Reliance conference bridge. You may all disconnect now.