



“2Q FY12 Earnings Conference Call of Omaxe Limited”

November 11, 2011



SPEAKER: Unmesh Sharma, Associate Director



Moderator:

Good afternoon, ladies and gentlemen. I am Varun Puri, the moderator for this call. Thank you for standing by and welcome to the 2QFY12 Earnings Conference Call of OMAXE Limited hosted by Macquarie Capital Securities. For the duration of presentation, all participants' line will be in a listen-only mode. There will be a presentation followed by a question-and-answer session. I would like to now hand over the conference to Mr. Umesh Sharma from Macquarie. Over to you, sir.

Umesh Sharma:

Thank you very much, Varun. Welcome to second quarter results call for OMAXE. We have with us Ms. Vijayalaxmi Purohit, Chief Operating Officer; Mr. Sudhangshu Biswal, Senior Vice President Finance; and Mr. Amit Mehta, General Manager, Finance. They will represent OMAXE. I would like to invite the management for initial comments before the Q&A session. Thanks and over to you, ma'am.

Vijayalakshmi Purohit:

Good afternoon, friends. I, Vijay Laxmi, welcome you all on behalf of the company to this second quarter financial year 2012 post results investor call. I have with me Mr. Sudhangshu Biswal, Senior Vice President Finance; and Mr. Amit Mehta, General Manager Finance on this call. Friends, as you are all well aware that with RBI increasing interest rates for the 13th time in a row since early 2010 and similarly hikes in fuel prices, we are likely to enter high inflation and low growth scenario unless we see some signs of inflation easing out and RBI resorting to non-monetary measures to control inflation caused mainly because of supply side issues. Constant hike of every commodity and interest rates have been impacting the budget of every Indian family, making it difficult to commit to any new investment in real estate sector. However, with the demand and supply gap in housing still being huge, Indian consumers well understand that real estate still remains the best long term investment. The input prices, mainly cement and steel, are continuously having the increasing trend putting some strains on the margins of the company. The company as a strategy is focusing on execution and possession of the ongoing projects at an accelerated pace in order to recover balance cash flow from customers. Moreover, in order to improve margins by reducing the impact of inflation, the company is focusing on launch of plots and independent floors, which are faster to deliver.

Coming to unedited financial results of the company, for the quarter ended 30th September 2011, the total operating income for the period is Rs. 454 crores against Rs 329 Crores for previous quarter. The EBITDA stood at Rs. 71 crores against Rs 62 crores over the previous quarter. There has been a drop in



EBITDA margins from 19% to 16% for the period under comparison. The input prices of construction material and interest burden caused the decline in the margin. The PAT for the quarter stood at Rs. 27 crores. The total income includes approximately Rs. 48 crores from construction activities of the group and Rs. 405 crores from real estate activities. The operating margins for construction activities are derived at approximately 10% of revenue and for the real estate it is approximately 20%. The major revenue contribution during the quarter is from North Avenue II Bahadurgarh, Grand Omaxe, Noida Omaxe City Bhiwadi I & II and Omaxe Connaught Place.

With respect to operational update for the quarter, following details are noteworthy. The targeted delivery in this financial year is approximately 15 to 20 million sq. ft. Out of that, approximately 3.12 million sq. ft. has been offered for possession during the last six months. Our focus on execution of all the lead 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 these projects at the cost of the other projects.

The company launched four new projects during this quarter adding up to 2.16 million sq. ft. area. Out of this, approximately 1.17 million sq. ft. of low-rise floors at Mullanpur, 0.80 million sq. ft. of plotted development in Lucknow, low-rise floors in Omaxe City, Jaipur, and Royal Residency, Ludhiana, is contributing the balance figure. All these projects received encouraging response from customers and almost 80% of the newly launched projects have been sold.

In terms of new booking, 2.25 sq. ft. area is booked during the first quarter consisting 1.22 million sq. ft. of plotted development and 1.03 million sq. ft. built-up development. In all, 96% of the area booked is residential and 4% is commercial. The total sales value of this area is Rs. 453 crores with average realization of Rs. 2000 per sq. ft. With this, the total booked area stands at 43.90 million sq. ft. worth Rs. 7,801 crores.

The total cash inflow from operations stood at around Rs. 493 crores during the quarter including advances from customers and new booking application money. Rs. 166 crores out of this is used for construction expenses. Rs. 76 crores is used for further land acquisition and approval expenses. Rs 49 crores is paid against EDC and IDC and other approval sales.



Approximately Rs. 207 crores of debt is repaid during the quarter. Rs 50 crores of interest is paid. Rs 38 crores is paid as administration and tax expenses, and Rs. 65 crores is used for media and marketing.

Beyond this, new project loan of total Rs. 170 crores is availed during the quarter. The gross debt as on 30th September 2011 stands at Rs. 1,440 crores including Rs. 206 crores towards deferred land payment. The gross debt has reduced by net amount of Rs. 37 crores during the quarter. The debt-equity ratio stands at 0.83 on consolidated basis. We are able to reduce our debt-equity ratio from 1.02 to 0.83 on year-to-year basis and from 0.87 to 0.83 on quarter-to-quarter basis.

OMAXE Infrastructure and Construction Limited, the 100% subsidiary company doing EPC contract has present order book of Rs. 1,369 crores, of which 34% already recognized till second quarter financial year 2012.

Friends, now the floor is open for your questions. Thank you.

Moderator:

Thank you. Participants, we will begin with the question-and-answer session. If you have a question for today's speaker, please press "0" "1" on your telephone keypad and wait for your name to be announced. I repeat, if you have a question for today's speaker, please press "0" "1" on your telephone keypad and wait for your name to be announced. Thank you. The first question is from Kumar Swarup from Macquarie Securities. Kumar, your line is unmuted, please go ahead.

Kumar Swarup:

Hi, thanks for taking my questions. I have a few. First, if you can talk about your launch pipeline going forward and what kind of sales volume do you expect in the coming 12 months. And my second question is regarding debt. Our current debt to equity is somewhere around 0.83. Where do we see it going? And what is our cost of debt and how it has moved in this quarter?

Amit Mehta:

In the next 12 months, we are focusing on few of our projects in Jaipur, Yamuna Nagar, Lucknow and Hi-Tech City, Lucknow, commercial hub project in Faridabad and in Chandigarh. These are the major cities where we are focusing our new launches either in the form of plotted development as well as some floors.

Kumar Swarup:

Are you seeing any kind of slowdown in sales volume and demand?



Amit Mehta: There is no slowdown. We are not seeing so much upside because in Tier 2 and Tier 3 cities, a constant demand is there. There is no upside as we have seen in the Noida market and the Gurgaon market; a constant demand is there. So, we are having a similar demand in these cities.

Kumar Swarup: Okay. And how do you see the sales prices moving?

Amit Mehta: Sales is moving very fine in these cities mainly for the floors and plotted development. There is not much demand for the commercial space, but for the floors and plotted, there is quite a good demand in the cities like Chandigarh, Lucknow, Ludhiana and Jaipur.

Kumar Swarup: Okay. My second question is related to debt.

Amit Mehta: Debt-equity ratio. At present, we have already reduced our debt-equity ratio from 1.02 to 0.83 on year to year basis. Going forward in the next six months, we would like to reduce to up to 0.75 only, not more than that because most of the debt has been already repaid in the first six months. Now the debt burden has very much reduced for the next six months. Also cost of debt, what is going on, is around 15.5%. In the last six months, it has been increased by 75 basis points already.

Kumar Swarup: Okay. I have just one more question. What is the major source of cash outflows for the next 12 to 15 months in terms of new land acquisitions or construction cost?

Amit Mehta: Major outflow is for the construction activities as we are focusing more on the execution of the existing projects because we are focusing on the delivery of about 17 to 20 million sq. ft. of area in the next 6 to 9 months. The major area of outflow will be construction activities. Then for some of the EDC and IDC approval charges to be paid for getting the new approvals in Chandigarh and UP project. So, these will be the two major things.

Kumar Sawarup: Okay. Fair enough. That's it from my side. Thank you.

Moderator: Thank you, Kumar. Participants, I repeat, if you have a question, please press "0" "1" on your telephone keypad and wait for your name to be announced. I repeat, if you have a question for today's speaker, please press "0" "1" on your telephone keypad and wait for your name to be announced.



Thank you. I'm sorry, but there are no questions from the participants.

Umesh Sharma:

Excellent. Thank you very much for attending the call. I would like to invite the management for any closing remarks, if they have any.

Sudhangshu Biswal:

As Amit has already said that last year we delivered 23 million sq. ft. and this year we intend delivering about 17 to 20 million sq. ft., out of which we have delivered already 3 million sq. ft. And most of our expenditures are going towards delivery and completion of the old projects. And we would like to maintain the debt-equity within 0.75 and 0.8, and the debt level would be same probably 1000 to 1200 crores. That is what we are looking at. And going forward, we look at... because last six months, our debt repayments are substantially less in comparison to H1. In H1, we have paid almost 380 crores. And next six months, we are going to pay about 250 crores. So, we see, in terms of company, a very good growth in terms of next 12 to 15 months. That is what I can say. Thanks to everyone and thanks for attending the call.

Moderator:

Participants, that does conclude or conference for today. Thank you for your participation; you may all disconnect now. Thank you.