

Omaxe Limited
Q2 FY16 Results Conference Call
November 05, 2015

Moderator: Good afternoon, ladies and gentlemen I am Aman, the moderator for this conference. Welcome to the conference call of Omaxe Limited arranged by Concept Investor Relations to discuss its Q2 FY-16 Result. We have with us Mr. Mohit Goel - CEO, Mr. Amit Mehta - Senior General Manager and Mr. Abhijit Diwan - General Manager Equity and IR. At this moment all participants are in the listen only mode. Later we will conduct a Q&A session. At that time if you have a question please press “*” and “1” on your telephone keypad. Please note that this conference call is being recorded. I now hand over the conference to Mr. Abhijit Diwan. Thank you and over to you, sir.

Abhijit Diwan: Good afternoon everyone. And on behalf of Omaxe Limited thank you for joining us this afternoon. We would like to update you with the facts and results of the quarter ended and half year ended September 2015.

The consolidated income from operation for this quarter was Rs. 410 crores as against Rs. 379 crores in the corresponding quarter last year, up by 8%. The EBITDA for the quarter stood at Rs. 72 crores against Rs. 74 crores in the same quarter previous year. The Profit after Tax for the quarter stood at Rs. 19 crores against Rs. 14 crores for the same period of the previous year, up by 40%.

For the half year ended the consolidated income from operation was at Rs. 744 crores as against Rs. 710 crores, up by 5%. The EBITDA stood at Rs. 138 crores against Rs. 141 crores. The Profit after Tax for the quarter stood at Rs. 36 crores against Rs. 26 crores, up by 40%.

With respect to operational updates for the quarter, details are as follows: We sold around 1.24 mn sq. ft. of area consisting of 1.03 mn sq. ft. of residential development and 0.21 mn sq. ft. of commercial development. Total sales value of this area was around Rs. 401 crores with an average realization of approximately Rs. 3,237 per sq. ft. Group Housing in New Chandigarh, Lucknow and Sonapat were the major contributors to sales this quarter.

For the half year ended we sold a total of 2.78 mn sq.ft consisting of 2.37 mn sq.ft of residential spaces and 0.41 mn. Sq.ft of commercial spaces with a total sales value of Rs. 1,059 crores. The average realization for the half year period is Rs. 3,813 per sq.ft. Group Housing and floor in New Chandigarh, Group Housing in Lucknow and commercial built-up at Greater Noida were the major contributors to sales half yearly.

During the quarter gone by we delivered ~ 2.56 mn. Sq.ft. of space at various projects including Indore, New Chandigarh, Faridabad and Lucknow. For the 6 Month Period ended September 30, 2015, we delivered a total of 3.81 mn sq.ft of space at various projects including Lucknow, Faridabad, Indore, New Chandigarh and Bahadurgarh taking the total area delivered in real estate to 67.1 mn sq.ft.

Having delivered ~98.9 mn sq.ft in real estate and construction contracts, we are on our way to end the fiscal crossing the milestone of the 100 mn sq.ft of delivered space.

I will now brief you on cash flow position for the quarter. Total inflows from operations were Rs. 345 crores. The same was utilized towards Construction, and approval charges to the tune of Rs. 191 crores, Selling, HR & Admin expenses of Rs. 131 crores, Interest payment and financial charges of Rs. 47 crores and Dividend payout of Rs.9 crores. Net borrowings for the quarter were Rs.142 crores.

For the half year ended Total inflows from operations were Rs. 701 crores. The same was utilized towards Construction, Land Purchase and approval charges to the tune of Rs. 409 crores, Selling, HR & Admin expenses of Rs. 238 crores, Interest payment and financial charges of Rs. 86 crores and Dividend payout of Rs.9 crores. Net borrowings for the half year ended were Rs.173 crores.

Our Net Worth as on September 30, 2015 stands at Rs. 2264 crores. Gross Debt as on September 30, 2015 stands at Rs. 1270 crores, while the Net Debt stood at Rs. 899 crores. As on September 2015, the gross debt equity ratio of the company stood at 0.56, while the net debt equity ratio for the company stood at 0.39.

The floor is now open for questions. Thank you.

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question-and-answer. The first question is from the line of Sayan Das Sharma from CRISIL Limited. Please go ahead.

Sayan Das Sharma: If I look at your realization for the residential sales that we have done this quarter that there is sharp decline of around 35%. So is it because of higher share of plotted development?

Management: Yes, that is because of that.

Sayan Das Sharma: Okay. So how much was the plotted development?

Management: That figures I can give you but the major portion of product development which we sold in was in Indore and we sold it at approx Rs. 1,000 per square feet. Because of that, the average realization, which went up in last quarter, dropped to Rs. 3,100 per square feet in this quarter.

Sayan Das Sharma: Sir how I mean in the H1 first-half of this year what was the total launch that we have done?

Management: Total launch?

Sayan Das Sharma: Yeah, new launches and what are the plan for the rest of the year.

Management: So this quarter we did not launch anything. So whatever we have launch in the last quarter is same for the first six months and next quarter we will be launching group housing Allahabad, group housing project in Ludhiana and Faridabad a group Housing and offices. Lucknow we will be launching one commercial project plus one group Housing as well. So these four will be our major launches in the next quarter plus existing whatever inventory we have in all the places we will be selling that as well.

Sayan Das Sharma: Yeah, of course in terms of million square feet it will be possible for you to give an idea how many square feet?

Management: Next quarter I think will be able to sell around 2 to 2.5million square feet.

Sayan Das Sharma: Okay. Sir, are we seeing any benefits from the recent rate cuts I mean is there a decline in effective interest rate that you are paying.

Management: Can you repeat your question I cannot hear you properly.

Sayan Das Sharma: Yeah, so, my question was on the interest rates sir. After this interest rate cut are we seeing any benefit on the interest that we are paying basically the trade that we are paying is it coming down? I mean what is your sense on that?

Management: Yeah, as you have already seen our finance cost is coming down. It has come down by I think 50 basis points with interest rates cut. Now I think it is between next financial year, it is not going to go right away because it is going to be on our new loans which we will be taking in this financial year and next financial year. So it will have a positive impact. It will come down but not right away.

Sayan Das Sharma: Okay, got that. And do we see any benefit of that on the demand side I mean basically Home Loan rates are coming down. So do you expect benefit of that consumer move up into buying and we are seeing any kind of indication early indications of that?

Management: Yeah, absolutely and that is the reason why our sales figures are looking good and future is also looking bright. But if you go by stock markets, whatever information comes and stock market reacts to within seconds, that is not going to happen in Real Estate. It is going to take its own time. I think six months down the line, nine month down the line you will see the impact for this particular change.

Sayan Das Sharma: Sir last question from my side I mean is there any projects that are nearing revenue recognition in the next half of the year. I mean do you expect any projects to cross the revenue recognition threshold?

Management: Yeah, there are few projects which we have booked in last year like in Bahadurgarh, Grand Omaxe, some group housing in Vrindavan, plotted sales in Chandigarh, some of the project in Faridabad. These are the three-four projects which we are at the threshold of revenue recognition, which we expect will be happening in next six months.

Moderator: Thank you. The next question is from the line of Ritwik Seth from Span Capital. Please go ahead.

Ritwik Seth: I had a couple of questions. So you mentioned that you sold plotted development, I did not get the name of the project.

Management: Project development was at Indore.

Ritwik Seth: And second question is related to Construction cost we have like 70 million square feet ongoing. So what will be the expected cost residual expenses in the next 24 months?

Management: It is depending on project to project because whole 70 million is not the same type of development. It is the mix of development somewhere it is a plotted development, some where it is commercial mall and some is group housing, some is floor. So all cost is different. It is not possible to average it out because it depends on the percentage of sales you are booking the revenue. The percentage of cost also changes every quarter-to-quarter.

Ritwik Seth: And last question what is the demand like in our market and anything on the festive season, what do you expect to see in this Q3 and Q4?

Management: On demand side, festival is not giving any sort of thumbs up to the market to be very honest. I have not seen any of the micro-market areas which have an upward movement because of Diwali or because of New Year. But as I have been saying all throughout that fundamentals have to be strong. The company which is having a good strong brand image and selling the right product at right price, that company does not have any problem. If that is not the case even if one of the things is not right in this market that guy is not able to sell. It has become such a buyers-market that if you launch a project and do not sell that project and you cannot re-launch that project so easily because the options are so much for customer. And you need to see that customer is little scared of whatever is happening in the whole economy I mean last one and half years nothing concrete has happened, nothing concrete is being done by the government and economy is also not looking that great. So the exact end user is coming in the market, the one who needs, who definitely needs a house right now and he cannot postpone his decision for the next 6 months to 12 months. Those are the only buyers and those buyers have immense choice of products to choose from at the moment. So if the fundamentals are right one can sell in these markets too.

Moderator: Thank you. The next question is from the line of Puneet Gulati from HSBC. Please go ahead.

Puneet Gulati: First of all on your presentation just wanted to understand, when you say cash from operations is it totally collections or are you deducting the construction expenses on that? Slide number 15.

Management: Total collection...

Puneet Gulati: It is just collection, right?

Management: Yeah...

Puneet Gulati: There is no other expenses?

Management: Yeah...

Puneet Gulati: And second you just spoke that next quarter you expect about 2 million to 2.5 million square feet of sales but this quarter you have done almost half of it. What is giving you the confidence to double your sales? Are there new launches which are planned? What is it really?

Management: Punit, actually I was expecting around 2 million square feet - 2.5 million square feet of sales this quarter which is there in one of my project which was suppose to launched in Allahabad it got postponed to the next quarter. So now we have already launched it and you will see the numbers next three months - four months whenever I will back with those numbers. So that is the reason I am confident that we will be able to achieve 2 million square feet of sales easily.

Puneet Gulati: Okay. How big is this project?

Management: This is around total inventory around 400 crores with around 15 acres of project and around 500 units to sell.

Puneet Gulati: In terms of million square feet?

Management: In terms of million square feet?

Puneet Gulati: Yeah.

Management: I think around 1 million square feet.

Puneet Gulati: Okay. And as a strategy how much do you intend to sell at the first go and how much you intend to sell over there?

Management: Phase-I we are expecting to sell 50% of the project.

Puneet Gulati: 50% of the project, okay. And secondly, can you also share what is the value of unsold inventory that you have with you including under construction?

Management: Including under construction?

Puneet Gulati: Yeah.

Management: That is around 16 million square feet area which is unsold. But value of that is approx 5,000 crores Puneet.

Puneet Gulati: 5,000 crores and how much construction cost you need to spend on that?

Management: On 5,000 crores that is unsold inventory or sold inventory, also?

Puneet Gulati: On unsold there should be no cost, right. I mean both actually both on unsold and what you sold but still under construction what should be your construction spin for the project that you have launched?

Management: That is around approx 2,500 crores.

Puneet Gulati: Okay. And how much do you expect to receive from your sold projects already?

Management: We have an average of around 400 crores per quarter of collections from the sold projects.

Puneet Gulati: And how long should it last without any new addition?

Management: Without any new sales?

Puneet Gulati: Yeah.

Management: I think easily around the 30 months.

Puneet Gulati: 30 months, okay.

PuneetGulati: Okay. And can you give some more color how is the Mullanpur as an area shaping up and you were dominant there and you said dominance there or are new players coming in?

Management: No, we are still dominant, so Omaxe is there, DLF is there, DLF is not expanding that much. We are expanding and we are very bullish on that particular area because every day we get to know a good news coming up in Mullanpur recently two of the universities have tied up with the state government which are planning to make universities in that area. So Mullanpur is now officially named as New Chandigarh so you can call it as New Chandigarh not Mullanpur anymore. It's going to be one of the best planned city of the country. I mean Chandigarh was the example to the whole country, now New Chandigarh will be the next level example to the whole country.

PuneetGulati: So already classified under smart city project?

Management: Yes.

PuneetGulati: And lastly referring most of your sales are coming through... From end consumers but still what would be the percentage of the sales by end consumers versus investors?

Management: I really cannot give you that number because I myself do not get to know till the time I receive 30% payment from these customers. If a customer is giving 5% -10% at the time of booking I really cannot make him as an investor or end user. But once we make 30%-40% payment then he is serious by and he remains on board till the end of the project. But I can give you a ratio of around say 60%-40%, 60% is end use and 40% investor.

Moderator: Thank you. The next question is from the line of Abhinav Ganesan from Canara Bank Securities. Please go ahead.

Abhinav Ganesan: Yeah, thank you for taking my question. Can you just throw some light on the new developments that you are doing in Uttar Pradesh because last time we met you had spoken very briefly about your plans over there. So can you just give some more color on that?

Management: In Uttar Pradesh?

Abhinav Ganesan: Yeah, which cities and what projects are going on.

Management: In Lucknow, one integrated township is going on where we have many group housing projects. We have sold many of the group housing projects in last quarters. In this present quarter we will be selling more projects. Hopefully we will be launching our Hi Tech Township, but I think that is going to go in the next financial year. That is one major driver to our revenues. I expect revenues of around 600 crores to 800 crores from that single project per annum. And then Allahabad is next big thing which we are betting on. Allahabad we have launched our group housing project and we are getting a good response. The whole Hi Tech Township of Allahabad I assume that it is going on track in the next six months again. So Lucknow and Allahabad adding together can give a potential to revenues of around 1,000 to 1,200 crores to our balance sheet but this is going to happen next to next financial year, next financial year it will start coming in our pre-sales but next to next financial year it will start coming our balance sheet. And rest are in Vrindavan. We are thinking of doing a project in Noida very soon. Basically the strategy is simple where we are number one where our image is superb we are going to launch our project there because if the image is superb we can sell in these markets also. The person who will be able to sell in these markets would win the race two years down the line. Three years down the line everybody will become same. The person will be able to sell in these market would actually come out as an achiever in two years down the line and that is what I am trying to make a basket of portfolio where Noida and Faridabad can give me sales of around 1,000 crores per annum and rest Tier 2 cities and Tier 3 cities can give me a revenue of 1,500 crores to 2,000 crores per annum. Taking the revenue to 3,000 crores in the next couple of years that is the whole plan.

Abhinav Ganesan: Okay. I appreciate that. Just want to know one more small thing from your side is what would be the ticket sales that you are looking at? The average ticket size would it be around 50 lakhs or is it lesser. Can you just give the break-up for Tier 1 cities and Tier 2 cities and Tier 3 cities what are the ticket size?

Management: So, Tier 2 so I am going to guys for the first time I am going to define one more segment to you right now one is Tier 1 which is metros, second let me put it as state capitals. So let us not name it as Tier 2 cities - Tier 3 cities let us name it as State Capital and then rest of the cities. Okay, so we are present in majorly in state capitals like Chandigarh, Lucknow. So if I talk about Tier 1 the average unit price of residential unit would be around 80 lakhs

to 1 crore and this figure for a state capital is around 40 lakhs to 60 lakhs and if I talk about rest of the cities this figure is around 30 lakhs to 40 lakhs. So right now if you are launching project in Allahabad ticket price starts from 25 lakhs. We have launched a property in Vrindavan our ticket price start at what? 15 lakhs to 20 lakhs so that is for rest of the cities.

Moderator: Thank you. The next question is from the line of Puneet Gulati from HSBC. Please go ahead.

Puneet Gulati: Just following-on with the previous question what is the construction spend that you intend to do every quarter?

Management: That is around 200 crores right now. I think I am going to take it up at 20% soon because the projects which we have launched in the past because in the last six months we have done pre-sales we are going to start spending good amount of money on construction of these projects so that is going to happen soon. So it will go up by 20%.

Puneet Gulati: By 20% that should be by next fiscal or next quarter?

Management: I really cannot comment on that Puneet. I mean sooner the better for both of us.

Moderator: Thank you. Ladies and gentlemen as there are no further questions, I would now like to hand the floor over to the management for closing comments. Thank you and over to you.

Abhijit Diwan: Thank you, all once again for joining us. Results and investor presentation is uploaded on the exchange website and also on the company's website. If you have any further queries kindly drop in an email at abhijitdiwan@omaxe.com I will spell it out abhijitdiwan@omaxe.com. Thank you all once again.

Moderator: Thank you very much.