"Q4FY12 Results Conference Call of Omaxe Limited"

May 31st, 2012

SPEAKERS: **Miss Vijayalakshmi Purohit, Chief Operating Officer,**
Mr. Sudhangshu Biswal, President Finance,
Mr. Amit Mehta, Senior General Manager Finance.

Moderator: A very good evening, ladies and gentlemen. I am Sourodeep Sarkar the moderator for this call. Thank you for standing by and welcome to the Omaxe Limited Fourth Quarter Financial Year 2012 Earnings Conference call.

For the duration of the presentation, all participants' lines will be in the listen-only mode and we will have a Q&A session after the presentation. I would like to now handover the conference to Mr. Unmesh Sharma from Macquarie Capital Securities. Over to you, Mr. sharma.

Unmesh Sharma: Thank you very much. Welcome to the fourth Quarter results call for Omaxe. We have with us Mrs Vijayalakshmi Purohit, Chief Operating Officer, Mr. Sudhangshu Biswal, President Finance and Mr. Amit Mehta, Senior 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, Ms Purohit.

Vijayalakshmi Purohit: Good evening everyone. Thank you for joining us today for Omaxe Limited Q4 FY2012 and annual results 2011 and '12 conference call. I have with me Mr. Sudhangshu S. Biswal, President Corporate Finance and Mr. Amit Mehta, Senior General Manager Finance on this call.

I would like to begin by taking you through the operational highlights of the quarter and year under review followed by a discussion on the financial performance of the company. The economy is marked by these macro economic conditions which are expected to decelerate GDP growth. The current account deficit depreciating rupee and elevated inflation is restricting RBI to further reduce interest rates.

The global uncertainties are expected to continue with no short term resolutions to European debt crisis in sight. Thus the uncertain environment with inflationary pressure and high interest rates are expected to adversely affect real estate sectors with customers being cautious and selective in their purchase. However, we believe there is an inherent demand for real estate at the right price and at right locations in tier two cities which we are trying to target.

Our focus remains on accelerating delivery to earn a premium in the market which could be reaped in subsequent launches. To improve cash flow in the current inflationary conditions, we continue to focus on launch of plots and independent floors which are faster to deliver.

You would have noticed by now with the balance sheet, profit and loss account have been prepared and presented based on the revised Schedule 6. While the adoption of revised Schedule 6 does not impact a recognition measurement principle followed by the group for preparation of the consolidated financial statement. It has significant impact under presentation and disclosure made in the consolidated financial statement.

The reclassification has been done for the previous year as well in accordance with requirements applicable in the current year.

Coming to financial results of the company for the quarter ended 31st March 2012. The total operating income for the quarter is Rs. 603.58 crores against Rs. 568.60 crores for the previous year quarter. The EBITDA stood at Rs. 62.25 crores against Rs. 34.75 crores over the previous year quarter. The EBITDA margin increased to 10.31% from 6.11% for the quarter under comparison. The PAT for the quarter stood at Rs. 23.73 crores against Rs. 11.67 crores over the previous year quarter. The total income includes approximately Rs. 105.61 crores from construction activities of the group and Rs. 498.16 crores from real estate activities. The operating margins for construction activities are derived at approximately 5% revenue, and for real estate it is approximately 17% in this quarter.

The major revenue contribution during the quarter is from township projects at Chandigarh, Sonepat, Bhiwadi, Palwal, Jaipur and group housing projects at Lucknow, Ludhiana, Bahadurgarh and Noida.

Now coming to audited financial results of the company; for the year ended 31st March 2012, the total operating income for the year is Rs. 1848.75 crores against Rs. 1525.95 crores for previous year. The EBITDA stood at Rs. 257.04 crores against Rs. 237.68 crores over the previous year.

The EBITDA margin reduced to 13.90% from 15.58% for the year under comparison. The reduction is mainly on account of shift in focus from high rise group housing to independent floors which are faster to sell and deliver but have lower profitability compared to a group housing product. The input costs have not eased either. The commodity prices continued to be at their peaks affecting our margins. The PAT for the year stood at Rs. 90.38 crores against Rs. 92.71 crores over the previous year. Due to higher interest costs and the fact that majority of overall debt comprises of corporate loans which are unallocable to specific projects.

The total income includes approximately Rs. 280.44 crores from construction activities of the group and Rs. 1568.26 crores from real estate activities. The operating margins for construction activities are derived at approximately 7% of the revenue. For the real estate it is approximately 21% in this year.

The major revenue contribution during the year is from township projects at Chandigarh, Sonepat, Bahadurgarh, Palwal and group housing projects at Lucknow, Ludhiana, Faridabad and Noida.

The company had launched seven new projects during the quarter adding up 0.77 million square feet of saleable area of which 0.48 million square feet has been booked. Some of the prominent ones are 0.29 million square feet of plot and 0.14 million square feet of villas in Omaxe city Mayakhedi, Indore; 0.19 million square feet of low rise floors at Omaxe North Avenue II Bahadurgarh; 0.10 million square feet of commercial mall at Omaxe Mall, Patiala.

In terms of booking, from existing projects during this quarter 1.53 million square feet area is booked consisting 0.49 million square feet of plotted development and 1.04 million square feet built up development. Total sold value of this area is approximately Rs. 352 crores where the average realisation comes to approximately Rs. 2300 per square feet.

On consolidated basis for the year, 8.82 million square feet area is booked consisting of 5 million square feet of plot development and 3.82 million square feet of built up development. Total sold value of this area is approximately Rs. 1526 crores where the average realisation is approximately Rs. 1730 per square feet.

Total booked area till 31st March 2012 stands at approximately 47.68 million square feet.

Also in line with our strategy, to execute and give possession of the ongoing project approximately 9.13 million square feet has been offered for possession across nine projects at Baddi, Indore, Palwal, Rudrapur, Ludhiana and Noida. 1.80 million square feet has been completed in four construction contracts during last financial year 2011 and '12, taking total deliveries to 74.60 million square feet including 31.80 million square feet of construction contracts and we target approximately another 8 million square feet of deliveries for the current financial year also.

During the current year we have strategically improved our recoveries by focusing on execution and delivery.

I will now brief you on cash flow position of the group during the quarter under review.

The total cash in flow from operations stood at around Rs. 588 crores during the quarter. The same has been mainly utilised towards the construction activities to the tune of Rs. 172 crores. We have repaid debt of Rs. 183 crores during this quarter along with interest of another Rs. 56 crores. Rs. 43 crores has been utilised towards further land acquisition and approval expenses. Rs. 53 crores towards EDC and IDC and other approval fees. Rs. 26 crores is paid as administration expenses and Rs. 74 crores has been utilised towards commercial, media and marketing activities of the company. Beyond this, new project loans of total 43 crores have been availed during the quarter.

I will now brief you on cash flow position of the group during the year under review.

The total cash in flow from operations stood at Rs. 2057 crores during the year. The same has been mainly utilised towards the construction activities to the tune of Rs. 677 crores, we have repaid debt of 652 crores during this year along with the interest of another Rs. 196 crores. 290 crores has been utilised towards further land acquisition and approval expenses, 147 crores towards EDC and IDC and other approval fees. Rs. 107 crores is paid as HR, admin expenses and other costs and Rs. 255 crores has been utilised towards commercial, media and marketing activities of the company. Beyond this, new project loan total Rs. 423 crores has been availed during the year.

The gross debt as on 31st March 2012 stand at Rs. 1339.52 crores including Rs. 233.43 crores towards deferred land payment. The gross debt has reduced by net amount of Rs. 212.82 crores during the year. The debt equity ratio stands at 0.76 on a consolidated basis, that is, we have been able to reduce our debt equity ratio from 0.93 to 0.76 on year-to-year basis.

As per the new schedule, gross debt is shown as long term borrowings Rs. 477.8 crores short term borrowings Rs. 225.21 crores. Other long term liabilities Rs. 156.16 crores, trade payable Rs. 50.19 crores and other current liabilities of Rs. 401.99 crores and Rs. 28.17 crores in other current liabilities.

Omaxe Infrastructure and Construction Limited has present orders under execution is Rs. 1018.48 crores of which 29% is already recognised till Q4 FY2012 and 71% remaining to be completed till March 2014.

During the year total income from operations stands at Rs. 218.54 crores against Rs. 212.18 crores for previous year. And the PAT for the year stood at Rs. 3.67 crores against Rs. 7.73 crores. And total EPC contracts orders under execution in the group is, Rs. 1123.24 crores. Till date four EPC contracts of approximately Rs. 325.54 crores is completed.

This is the brief highlight and a small presentation from our end. We have updated our investor updates also in our website. You are requested to please visit our website for more detailed information. Now the floor is opened for your questions.

Moderator: Thank you so much, ma'am. With this we are going to start the Q&A interactive session. So I would request all the attendees and the participants, if you wish to ask any question, please press "0" "1" on your telephone keypad and wait for your name to be announced.

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Here comes the first question from Mr. Ravi Dorea from CRISIL. Mr. Dorea, you can go ahead and ask your question, please.

Ravi Dorea: Hello. Thanks for taking my question. I have two/three questions. One is with respect to the tax rates during the quarter, it is significantly lower; I just want to understand the reason for the same.

Management: Good evening. Tax rate is lower because earlier the tax rate provision has been made as per what will be coming as the projections what we had made for the full year. Now at the year end actual calculations have been made as the tax is coming as per MAT. So that is why the provision has been reversed in this quarter.

Ravi Dorea: What was that figure, if you can share that?

Management: Earlier the figure was about 28%. Now the tax has been provided at the rate of 24%. That is why. So 4% extra what we have provided in the three quarters, that reversal had taken place in the fourth quarter. So if you see standalone in the fourth quarter, you will see the tax provision is very much lower, otherwise for the year it is at 24%.

Ravi Dorea: In the last three quarters you have provided for 28% whereas actual tax is coming to 24%. So this is what reversal...

Management: This all depends on the project mix, which are the 80 IB projects where we are getting tax exemptions. So accordingly the tax has been calculated.

Ravi Dorea: Can you name some of the 80 IB projects where we are getting tax exemptions?

Management: All the group housing projects which are of 1500 square feet or 1100 square feet like what we are making in Noida, Indore, Sonepat, Palwal, Bahadurgarh, wherever we are making the group housing, for 1100 square feet or less, there we are getting the benefits of 80 IB.

Ravi Dorea: Okay. Also I want to understand these margins which have declined, if you look at year-on-year basis margins have actually improved but on Q-on-Q basis it has declined.

Management: Even Q-on-Q basis margins cannot be compared because it always depends on the project mix. revenues recognised more on the plotted sale, otherwise sometimes it is coming on group housing and Floors.

Ravi Dorea: Plotted development contribution has also declined if you compare to the third quarter. But still margins have actually declined. So typically margins in the plot sale business will be on the lower side, right?

Management: Yes.

Ravi Dorea: That is why I just want to understand.

Management: In the whole year, the maximum contribution is coming from Chandigarh, Ludhiana, Lucknow, and every state has a different project mix; like in Chandigarh earlier we are going more for the plotted sales, now in the last one year everything what we have launched is the floors. In three phases we have launched the floors there . In Ludhiana earlier we launched the group housing but now with the demand in Ludhiana we have converted group housing into low floors, G+3 structures. There we are getting good profits margin , now the profit margin has been reduced because of the floors. It is all depending on the project mix, what is coming. And when the 30% criteria are met as per POC method, we are getting the margins accordingly. If you see overall, the margin is being maintained at 20-22%. But in quarter to quarter if you see sometime it is coming to 17%, next time it is going to 23%.

Ravi Dorea: That is actually true but where I am coming from is income contribution from the plotted development it has actually declined.

Management: Plotted have declined because earlier we are launching everything as plotted in Chandigarh. That time 30% criteria have been met by plotted development. Then we have stopped the sales of plotted in that particular area, we launched the floors in the same area, there we are getting the maximum sales in Chandigarh. So obviously the margins will go down because the rates are same, you are just adding the floors on it, the fraction cost is increased, so in percentage basis margins will be reduced. In absolute terms you will be earning more but in percentage terms your income will be lower.

Ravi Dorea: This probably we will take off line. Also in terms of your debt repayment plans, though we have actually repaid 200 crores of debt in last one year, what is the plan going forward for, say, FY13 next year?

Sudhangshu Biswal: Hi Ravi, Sudhangshu here. As I said last time also we would be maintaining debt equity of 0.75 to 0.80 by the end of FY12. I think we have managed to do that. Going forward we would like to continue the same probably maybe in a range of 0.6-0.7, so that is what we are trying to look at. Last time also I told mentioning in the conference call that we would be maintaining about 1000-1200 Cr .

Ravi Dorea: Right. No, of this 1339 crores, what portion of debt will come for the repayment?

Management: This 1339 crores includes deferred land payment of 240 crores. And for FY13 as you asked, the FY13 I will have a repayment of approximately 500 crores. We will be paying 500 crores during this FY.

Ravi Dorea: What is your expectation of cash flows for next two years?

Management: Next two years?

Ravi Dorea: Yes, or say FY13.

Management: Last year, the cash flow is – Ms Laxmi had mentioned in her speech about 2000 crores. So we would be maintaining at least that 2000 crores. That is the minimum. Probably it would be between 2000 to 2500 crores; that is the range I can tell you.

Ravi Dorea: Okay. Last thing about this new revenue recognition guidance by ICAI, according to you, what will be the impact on your P&L.

Management: See, the guidance has just come, everybody is stating what are the integrities in that, because there are difference of opinion , it is saying for the old projects where you have started the revenue recognition, we continue to do with the old guidance. And for the new projects what you will be launching or you start revenue recognising from 1st April, that you have to do with the new guidance note . So when we will start the construction and reach the 30%, then the new guidance will come into effect, then only the effect will start coming. Otherwise whatever the projects are going on, we have to continue with the old revenue recognition policy. So the effect will start coming after six months. And everybody is now studying , let us see what will come, we will be able to tell you within a month or so when the first quarter results will be there, that how it is anything effecting or it is showing the same or what it is.

Management: we are still trying to evaluate the impact on our P&L. I mean, everyone is trying to do that. It is not very clear what kind of impact we have. We are still trying to evaluate and trying to look at things. But there is a lot of ambiguity within that also.

Ravi Dorea: Okay. Sure. I will get back to you in first quarter

Moderator: Thank you so much, Mr. Dorea. I would request once again to all the attendees and the participants, if you wish to ask any question, please press “0” “1” on your telephone keypad and wait for your name to be announced.

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Unmesh Sharma: Operator, I would like to ask a couple of questions. This is Unmesh. Sir, two things, in FY13 and beyond, I am looking for a slightly broader statement on what the intended product mix will be in terms of plots versus group housing, etcetera. And if you could talk about what geographies and broader areas you would be targeting, that is my first question.

The second is in terms of the debt, given your refinancing requirement for FY13, how much of this you think will be rolled over versus repaid, and what would be the source for that, and where do you see debt at the end of next one year and three years? Thank you.

Management: Coming to first question, we will continue, as you know Omaxe is working mostly on township, and we continue in the same region, the same places wherever we have projects, and we keep on expanding within the project and land adjustment to the projects, so that monetising will be quick and we will be able to get the cash flow in quickly. Some of the places could be Yamuna Nagar, Chandigarh, Vrindavan, Greater Noida, Indore, and High Tech City Lucknow. So those are the places. Like Lucknow, we have already presence. And apart from that probably some of the new projects we could come up in Faridabad and the NCR region. So we are in the process of identifying those projects.

And coming back to your second question, debt repayment, if you look at our history last two years, we have been reducing our debt. So our debt level is reduced substantially. That is why the debt equity, in one year 0.9 to 0.76. But we have to have a debt at a certain level so that the company can be leverage and we can keep on continuing and growing the business. But our debt repayment has always been from the internal accruals. That is how we have managed to reduce the debt. If you look at last year, we have paid 850 crores of debt including interest, so out of which 650 crores principal. So the question of refinancing is not there, like some of our peers are doing. So we are paying purely out of internal accruals.

Unmesh Sharma: And where do you think debt would be probably at the end of FY13 and may be two years out?

Management: We would be maintaining debt equity of probably 0.6 or 0.7 level. And 0.6 or 0.7 level at 1200 crores, that level we have to maintain.

Unmesh Sharma: Okay. And one last question, regarding the promoter shareholding, there is obviously this requirement now before June 2013 to bring that down to 75%, what is your thought process on this?

Management: See, there are 150 companies, 40,000 crores required on these. So I really do not know what is the strategy of on these. And whether the market can absorb 40,000 crores today, looking at the scenario, Europe and dollars and so many things? So any way, we are working on it; it is not that sitting idle, definitely working on it, but we do not know the market. As you know, the market is tough today. Total raising is just 40,000 crores. If you reduce it maybe by some PSUs, 15,000 crores, still 25,000 crores needs to be sucked from the market. And we need to see whether those kinds of liquidity is available in the market.

Unmesh Sharma: Great, sir. These are all my questions. Operator, do we have any other questions?

Moderator: Well, sir, we do not have any questions from the queue from participants. I can see Mr. Ravi pressing “0” “1”, so, Mr. Ravi, you can go ahead and ask your question, please.

Ravi Dorea: On this township project where you have signed MoU with UP government, there any additional land has been acquired in any of the three locations?

Management: We are continuously buying the land at every location, in both Allahabad as well as Lucknow; we are continuously buying the land; and about 450 acres of land has already been acquired in Lucknow. And we target that this year, in the first six months we will be able to launch the city.

Ravi Dorea: So if you can just share till date what portion of land has been acquired.

Management: Till date in Lucknow we have DAI of about 750 acres, out of which 450 acres has already been acquired. And the rest is in the process. We are tying with so many farmers. So it is in the process, that whenever we will be able to complete 60-70% of the land, we can get the plans in approval and wherever the contiguous lands are there, we can start launching the projects. So we are planning to do so as early as possible.

Ravi Dorea: And for other locations, Allahabad and...?

Management: Allahabad we have already started the project. It is going on. Even the delivery for the villas is already ready. So it is already in place, it is going on.

Ravi Dorea: So there also you have acquired close to...?

Management: We are buying, yes, in the second phase, in the first phase, we are slowly, slowly acquiring the land.

Ravi Dorea: And what is the average cost of these land parcels?

Management: It will be in the range of – location to location, the total area of 15,00 acres in Allahabad ; in Lucknow it is 27,00 acres. It is ranging from 10 lakhs to 30 lakhs.

Ravi Dorea: Per acre?

Management: Yes.

Ravi Dorea: Okay. And in terms of new launches for next two years, what are your plans?

Management: We are targeting our locations like Chandigarh. Then Yamuna Nagar we are targeting; in vrindavan, in addition, we are launching some high rise buildings, in Greater Noida we are targeting some commercial space, in Indore we are coming up with some villas and some high rise group housing, in Faridabad we are coming with some commercial space like service apartments or FCOs, something like that.

Ravi Dorea: So in terms of area, what million square feet will be launched?

Management: Within the range of 10 to 12 million square feet of area.

Ravi Dorea: Over next two years?

Management: Yes, in next one year.

Ravi Dorea: Okay.

Management: Going forward, it will depend on how the market responds. This year the market continues to remain stable, or something happens, it will all depend on that. This year our target is about 10 12 million square feet of area; that needs with – Even in such type of conditions, it continues to be there.

Ravi Dorea: Okay. And in terms of increase in this cost, labour cost and raw material cost, what has been the increase in the past one year?

Management: Within one year at least 5-6% will be the impact going on.

Ravi Dorea: Okay. Thank you.

Moderator: Thank you, Mr. Dorea. I would request once again to all the attendees and the participants, if you wish to ask any question, please press “0” “1” on your telephone keypad and wait for your name to be announced.

Sir, there are no further questions from the participants. I would request you to please take over the floor for the final comments.

Management: Thank you very much to all the attendees and thank you very much for the management. Sir, would you like to say any comments before you go?

Vijayalakshmi Purohit: Thanks to everybody for participating. If you have any queries, please contact Mr. Amit Mehta or on our website. We are always there to answer your queries.

Management: Thank you.

Amit Mehta: Thank you very much.

Male Speaker: Thank you, Amit.

Moderator: Thank you so much all the panellists. With this, we conclude the conference for today. Thank you for joining the conference call. You all can disconnect your line.