



## “Oberoi Realty Q3 FY2017 Earnings Conference Call”

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**MANAGEMENT: MR. VIKAS OBEROI – CHAIRMAN AND MANAGING  
DIRECTOR, OBEROI REALTY LIMITED  
MR. SAUMIL DARU – DIRECTOR FINANCE, OBEROI  
REALTY LIMITED**

**Moderator:** Good evening ladies and gentlemen and welcome to the Oberoi Realty's Earnings Conference Call for the Quarter 3 Financial year 2017 that ended on December 31, 2016. We have with us today, Mr. Oberoi – the Chairman and Managing Director of the company and Mr. Saumil Daru – the Director Finance of the company. Please note that this call will be for 60 minutes and for the duration of this conference call, all participant lines will be in the listen only mode. This conference call is being recorded and the transcript for the same maybe put on the website of the company. After the management discussion, there will be an opportunity for you to ask questions. Should anyone need assistance during this conference call they may signal the operator by pressing '\*' and then '0' on the touchtone telephone.

Before I hand the conference over to the management, I would like to remind you that certain statements made during the course of this call may not be based on historical information or facts and maybe forward-looking statements, including those relating to general business statements, plans and strategy of the company, its future financial condition and growth prospects. These forward-looking statements are based on expectations and projections and may involve a number of risks, uncertainties and other factors that could cause actual results, opportunities and growth potential to differ materially from those suggested by such statements.

I now hand the conference over to Mr. Oberoi, the Chairman and Managing Director of the company. Thank you and over to you, sir.

**Vikas Oberoi:** Good morning, good afternoon and good evening to all of you as per the time-zone from which you have logged on and welcome to the conference call of the third quarter of financial year 2017 results and business update. Thank you all for taking the time out for this call.

A quick update, as you all are aware that this quarter the government took the decision to demonetize our currency, due to which all of us have experienced some immediate effect on our businesses. To take you through the same segment wise - residential saw a decline in closure this quarter as customers seem to be assessing demonetization impact on their financials. We do see some offshoots of recovery beginning this January quarter, but I also feel that this is too early to comment. The silver lining is that the footfalls are healthy and makes us hopeful that it is just a matter of time before we see the volumes recover as well.

Retail also saw a short-term blip in November 2016 but the December month was far better, December numbers in the mall were even better year-on-year on all parameters including footfall, the trading density, PVR occupancy was also great, parking, signage revenue, etc. were also very good. Commercial, we see no effect of demonetization, in fact inquiries continue and we also see some deals closing shortly. So barring short-term hiccups, I would say demonetization eventually will have a positive impact on the sector, it will be good for developers like us, who have always been dealing in full cheque. The rest of the projects continue to be stable with construction progressing well, as expected.

So, with this I will hand over call to our CFO – Mr. Saumil Daru. He will take you through the details and then of course I am here for any question and answer. Thank you

**Saumil Daru:**

Thank you Mr. Oberoi. I guess most of you must have gone through the presentation available on our website along with the results which have been filed with the exchanges. The results for the quarter ended 31<sup>st</sup> December 2016 are as per the Indian Accounting Standard or the IndAS applicable from April 01, 2016. The results for the quarter ended 31<sup>st</sup> December 2015 have been recast merely to facilitate comparison. In terms of consolidated financials, we have achieved total consolidated revenue of 264 crores for this quarter as against Rs. 264 crores for the immediate preceding quarter. The consolidated PBT was about 124 crores for this quarter as against the similar number for the last quarter and the consolidated PAT was at about Rs. 84 crores for this quarter as against Rs. 83 odd crores for the immediately preceding quarter.

To move to the asset level performances, beginning with the investment properties. Oberoi Mall which is the retail asset contributed about 25 crores to the operating revenue for this quarter as against about 24 crores for the immediate preceding quarter. The EBITDA margin in this vertical stands at about 93%. Commerz, which is our office space asset, contributed about 11 crores to the operating revenue for this quarter. This is as against similar number for the preceding quarter. The EBITDA margin in this asset is at about 98%. Commerz-II Phase-I contributed about 7 crores for the third quarter as against Rs. 4 crores for the second quarter. The Westin Mumbai Garden City contributed about 34 crores to the topline for this quarter as against about Rs. 29 crores for the earlier quarter. The EBITDA margin in this vertical stands at about 39%.

We now move on to our development properties, for Esquire of the total project of 21.22 lakh square feet, we have booked 28,000 odd square feet in this quarter. Till date this totals up to about 11.84 lakh square feet which is 55% of the inventory. Total booking value in this quarter is Rs. 53 crores and the cumulative booking value till date is about Rs. 1720 crores. The total revenue recognized for this project in this quarter is 143 crores and the cumulative revenue recognition till date stands at about 1098 crores. For Exquisite, of the total project of 15.47 lakh square feet, we have booked about 1,820 square feet in this quarter. Till date we have booked about 13.54 lakh square feet which is about 87% of the inventory in this project. The total booking value for Q3 FY17 is Rs. 4 crores. The cumulative booking value till date is 2182 crores, the total revenue recognized for this project in this quarter is 4 crores and the cumulative revenue recognition till date is 2182 crores on account of the 100% project completion.

Moving to Prisma, of the total project of 2.68 lakh square feet, we have booked another 2602 square feet in this quarter. Till date we have booked about 1.67 lakh square feet, which is about 62% of the inventory. The total booking value for this quarter is Rs. 4 crores and the cumulative booking value till date is about Rs. 294 crores. The total revenue recognized for

this project in Q3 FY17 is Rs. 7 crores and cumulative revenue recognition till date stands at about 164 crores.

For Mulund - beginning with Eternia, in this quarter we have booked 6240 square feet and till date about 4.58 lakh square feet. The total booking value in this quarter is Rs. 9 crores, and cumulative booking value till date is Rs. 692 crores. For Enigma in this quarter we have booked 3070 square feet and till date about 3.19 lakh square feet. The total booking value for Q3 FY17 is Rs. 5 crores and the cumulative booking value till date is Rs. 484 crores. Thus, totally for Mulund, we have booked about 9300 square feet in this quarter, and till date we have booked about 7.78 lakh square feet. Total booking value is Rs. 15 crores in this quarter and the cumulative booking value in Mulund is at about Rs. 1176 crores.

For Sky City, we have booked about 35,780 square feet in this quarter, and till date about 11.21 lakh square feet. The total booking value in this quarter is Rs. 58 crores and till date the booking value is cumulatively at Rs. 1851 crores. At Three Sixty West in Worli, we have booked about 28,700 square feet in this quarter and till date we have booked about 2.95 lakh square feet. Total booking value in this quarter is 131 crores and the cumulative booking value till date is about Rs. 1104 crores.

Coming back to some key financial parameters, our EBITDA margins for this quarter were 52%. PAT margins were 32% and the EBITDA margins for mall and Commerz are much higher than average as mentioned before and excluding them the margins for our pure residential businesses is 43% for this quarter. With this we would now like to open the floor for questions that you all may have. Thank you.

**Moderator:** Thank you very much. We will now begin with the question and answer session. The first question is from the line of Atul Tiwari from Citigroup. Please go ahead.

**Atul Tiwari:** Sir, my question is on the Esquire project, in this quarter we have seen average rate per square feet declining to 19,100 from 21,300 in second quarter and 22,000 year ago, third quarter FY16. So, quite a bit of decline in terms of average realization, so what explains it?

**Saumil Daru:** Basically, our base rates have remained the same, and our pricing has also remained the same. We have always explained earlier also, even in cases like Exquisite where at times we have seen a dip from one quarter to the other in terms of average realizations, that it is predominantly got to do with this whole aspect of floor rise. So, it all depends on the floor sold during the quarter for example in this quarter the skew was more towards the lower floors and hence you see the average rate trending down. If it is any of the higher floors which goes out, then immediately the average rate starts trending upwards. So, basically that is the only explanation. Nothing else to it.

**Atul Tiwari:** So the base rate has not been adjusted in the quarter.

- Saumil Daru:** Not at all.
- Atul Tiwari:** And sir my last and the second question, what is the status of Maharashtra RERA if you can share some light on that?
- Vikas Oberoi:** Well the draft is out and they are committed to get it before March end and I think the government is working hard to get that. Now of course because there are municipal corporation elections, until the results are out they cannot even bring anything new. So, they are holding it at that. That is it, nothing else.
- Moderator:** Thank you. The next question is from the line of Abhishek Anand from JM Financial. Please go ahead.
- Abhishek Anand:** Again, continuing on RERA, because I think the last date of giving comments was on 30<sup>th</sup> of December, just wanted to understand from your side what are the key features that you will be looking at or key things you were looking to change in the draft? Anything we should be aware of?
- Vikas Oberoi:** Firstly this is pretty much like the guidelines that have been set by the center, so there is very little room for any state to do anything as such. They are doing their own interpretation of how best can they bring this law, so that it is effective both for consumers and even the developers. I am not aware of what the internal discussions of the government are and I am only aware of what the draft looks like and if the draft goes ahead in its totality we are fine. If there are changes also we are fine because this affects and concerns everybody and we are per-se are not that disturbed. Basically, what this tries to do is that it just sets the rules of the game. If the rules of the game are the same for everybody, we as a player have to abide by those rules and play the game accordingly. So, we are not that disheartened as such. I mean, if you really see globally some of the factors are already there like you have to give a warranty for 5 years, and in fact in the US it is for 10 years. So, in a way I would say that it is okay, I mean, this is what the industry needs to get used to and whoever will be the fittest will survive and we are happy with the way this is coming along.
- Abhishek Anand:** But have we calculated, so for instance the ongoing projects are part of RERA. So, is there any working capital liability which will come up for Oberoi? Have we done any calculations around it or it is a bit early to talk about this?
- Vikas Oberoi:** No, it is not early actually but look at it this way that most of our projects are cash flow positive. And in any way to keep certain discipline we almost use all the money that we generate out of that project, for that project itself and this is exactly what RERA wants you to do. So, we have always been practicing it and it is good business policy. I would say it is prudent business policy and it only helps the project. So, we are almost living RERA as we speak. So we are not very worried about all that and most of our projects like I said are cash flow positive. So, each one will be run by the cash that we generate out of that project.

**Abhishek Anand:** So, the cash flow positive actually means that there might be some liability because this 70% Escrow or the balance that needs to be maintained with the scheduled bank.

**Vikas Oberoi:** But that money is not supposed to be escrowed and kept with the bank. You can use it for the project and that is exactly what we intend to do. We any way use it for the project - all the money that we generate in a project, we use it for that project itself.

**Abhishek Anand:** I was just looking at trends on Esquire and Exquisite. Somehow, I see that Exquisite despite it being completed the sales have declined significantly. Is there a case of cannibalization between the 2 projects and the related question will of course be the phase III launch. When does it happen given the sales trajectory in the projects which we have ongoing?

**Vikas Oberoi:** Honestly very interesting question because we internally also keep debating and we feel that while Exquisite is ready, Esquire is just 10-11 months away and the price at which it is sitting, it is actually itching to be raised because Esquire is at a base price of Rs. 15,000 per sqft on saleable area as against Exquisite where we are at Rs. 17,500 per sqft on saleable area. So, obviously looks like that Esquire should now go up in terms of pricing and you are right that there is some sort of cannibalization happening because both these projects are near ready. One of them is at a so called discount because if we really put that math around it, then if one project is bound to be ready in the next let say 12 months then even at a 10% interest it should be Rs. 16,500, whereas you are at Rs. 15,000. So, I am sure people are figuring that out and favoring Esquire a little more today. So, we want to ideally pull that price up and make it even-stein and give Exquisite a fair chance. Now for the phase III, it might not cannibalize for only a simple reason, that that project will be at least 4 years away from occupation. So, obviously the clientele is different. In case of Exquisite & Esquire, the clientele is pretty much similar, as in somebody who wants to move in today and somebody wanting to move in in the next let's say 1 year is pretty much the same. But somebody wanting to move in after 4 years, it is a long shot. Now this building is almost ready, super structure fully ready, finishing in progress. So, I would agree to you that Esquire does end up cannibalizing Exquisite a bit and more so because there is this price advantage to Esquire. So, yes.

**Abhishek Anand:** Any timelines for the phase III launch? Are we planning in this quarter or it is going to be pushed to the next fiscal....

**Vikas Oberoi:** No, so we have always maintained that we will be doing this in the first quarter of FY 2018 and we have always maintained that. But given this demonetization, we have almost lost this quarter and I mean everyone believes that too. However, we have yet not rescheduled it to the second quarter but we want to play it by the quarter and see how this goes by.

**Moderator:** Thank you. The next question is from the line of Adhidev Chattopadhyay from Emkay Global. Please go ahead.

- Adhidev Chattopadhyay:** First, I want to ask on the Eternia and Enigma projects, sir what is the strategy now to improve the pace of sales or are we okay with what is happening currently and only after 2-3 quarters again have look at it?
- Vikas Oberoi:** Well, we obviously want to increase the pace of sales but again like I said that this demonetization has taken the wind out of this quarter. But nevertheless, I also want to tell you that the central suburbs market is more of a cash market, atleast it used to be the cash market. Now because of demonetization, all other players have been brought into a level playing field. So, I feel going forward the unfair advantage that some other developers had, who were taking cash in that central area, is now gone and that probably gives us hope that coming quarters should be better because now there is a level playing field. We as a product are better, we as a company are much better, so all these put together if the customer does not have the option to pay cash to somebody, then my guess is that he will prefer or rather my hope is that he will prefer our company over other companies.
- Adhidev Chattopadhyay:** Sir, just follow on that sir, the project is expected to hit revenue recognition sometimes second half of next year, next financial year, Mulund project?
- Saumil Daru:** It would in all probabilities be only towards the end of the next financial year.
- Adhidev Chattopadhyay:** Sir, secondly on the Worli project the spend seems to be higher during the quarter, so could you just explain why is that so?
- Vikas Oberoi:** It is at the finishing stage, lots of new large items purchased and all that. So, that is it, it is just picking up pace.
- Adhidev Chattopadhyay:** And could you provide some split between the tower and the hotel like some broad split, if that is possible?
- Vikas Oberoi:** No, we have not done the expensing into that split account as yet. We continue to spend it at one go.
- Adhidev Chattopadhyay:** Sir, have the height approvals come for the upper floors, because that has been stuck for quite some time, I know, that is across Bombay but ...
- Vikas Oberoi:** No, not come as yet, the hotel, the front tower we have now full FSI and everything is done. For the tower at the back we are awaiting and again hoping may be in the next two-four weeks we will get that.
- Adhidev Chattopadhyay:** Sir, last question is on the Glaxo land parcels, so what is the status currently and any plans to launch in the coming year?

- Vikas Oberoi:** Again, like I said, permissions are there in place. We are, like I said contemplating to build a shopping mall there and so we are just working towards that.
- Moderator:** Thank you. The next question is from the line of Saurabh Kumar from JP Morgan. Please go ahead.
- Saurabh Kumar:** My first question is on Three Sixty West, so do you anticipate that the sales here will now come back to the 8 -10 odd units that you were doing till about last quarter. I would assume that this clientele which will not be affected by all these demonetization and all that stuff?
- Vikas Oberoi:** Yes, we too are obviously hoping so. Infact all the sales that you see, it was all done in the month of October and all of November and all of December ,for most of us, was literally a wash out. So, had that not been the case, we would have shown you 3x the sales you see today or may be even more. But that is something that has not happened. Yes, going forward we are absolutely hopeful that yes this clientele is absolutely unaffected and so, absolutely hopeful and look forward to concluding and getting back to the numbers and may be even higher than that.
- Saurabh Kumar:** So, that is nice and second is essentially on this revenue recognition for Mulund and Borivali and even Worli, Saumil if you can just like throw some light on when do you expect this to happen?
- Saumil Daru:** So, basically both Mulund and Borivali we expect that towards the end of the next financial year, so March 2018 we should be able to recognize revenues there. It all depends on the pace of construction and all of that, so anywhere between the third and the fourth quarter is what we believe that we should be able to achieve in both of these cases.
- Saurabh Kumar:** And Worli will depend on you hitting sales.
- Saumil Daru:** Worli depends on sales, frankly. Because you have got twin filters 25% cost and 25% of area sold. So in Worli, I do not have a problem on the cost side. Worli we just have to achieve the sales bit and we should start recognizing.
- Saurabh Kumar:** So, at least Mulund recognition seems to be a bit delayed than what I think we had originally estimated, has the construction been running on progress or has there been any delay out there?
- Saumil Daru:** No, nothing much other than the construction exigencies which are there on the site, so typically finding something like rock or something. But other than that things are on track over there.
- Saurabh Kumar:** But you are still hopeful that it should have happened by Q4 2018, right?



- Saumil Daru:** Between Q3 and Q4. So may be initially you would have been looking at Q2 or something but it is either Q3 or Q4, hopefully Q3 but if not Q3 then Q4.
- Moderator:** Thank you. The next question is from the line of Ritwik Sheth from Span Capital. Please go ahead.
- Ritwik Sheth:** Most of the questions have been answered, just a couple. Sir, firstly there was some news article in the paper which said that the Glaxo land at Worli might have to be handed over to the metro MMRC temporarily. So, have we got any notice or anything on that?
- Vikas Oberoi:** Well, yes they do require part of our property for doing their work and that is basically for 3 years. We are working something out where we can also continue to do our work and they can work as well. And the other part of our property they also want, in very small of course 500 square meters for giving them access to the station and all that. But of course, getting a station next to your site is an absolute game changer, so our strategy is to do a mall there. You can imagine that this Metro Line is literally the spine of Mumbai, which will connect from Colaba to literally Goregaon, going through BKC, airport and everything. So fabulously located, it really gives us a big fillip. It is a small price to pay for the advantage one is getting and it is a very friendly conversation, where we are basically trying to accommodate them and making sure that our work also does not suffer. We will build it in such a way that they get what they want and we also get what we want.
- Ritwik Sheth:** There should be no issue once it settles like it just ..
- Vikas Oberoi:** Not at all.
- Ritwik Sheth:** What percentage is of the total land if you can?
- Vikas Oberoi:** Very small, literally like, I think 500 odd square metres if I am not mistaken.
- Ritwik Sheth:** So, in fact it will add to the location because of the metro.
- Vikas Oberoi:** So, basically we are looking at 2 things, one is the permanent space that they want, that probably will be less than 500 meters and the second one is a temporary construction shed, this thing they want, that is for 3 years, which is probably 2500 square feet in all.
- Ritwik Sheth:** So, this will like structure our plan according to the ...
- Vikas Oberoi:** Exactly. So, even they want to finish the metro, is what they say by 2019. For our mall also, we want to obviously start operating around that time. If we can really speed up and build it, then we want to start the mall around 2019, so it kind of really tallies with our things also. So, it will always be better to have a mall with all this, because they are going to dig the entire Annie Besant road for the station and stuff like that, which is going to be underground. So,

obviously we can't anyway work. So, we are clearly looking at a 2019- 2020 and we will be ready with and so will the metro be. We are really working in tandem with them.

**Ritwik Sheth:** So, it is a win-win for both, right?

**Vikas Oberoi:** Yes, absolutely.

**Ritwik Sheth:** Next question is regarding Esquire. Sir you have mentioned that we are around 12 months away from the completion of the project. So, what you seen this generally like towards the end of the project once the superstructure and the floors are built, generally the sales tend to pick up.

**Vikas Oberoi:** Obviously, we see that sales tend to pick up but that did not happen with Exquisite. So, we cannot continue to claim that and the markets have been slightly slower than what we expected them to be. Though a small but significant portion of Exquisite remains to be sold, one cannot say that and we had also originally hoped that we would be able to sell it in one year but that has taken longer than one year and just about when everything was starting this demonetization happened which is fine, I mean it is for everybody. So, one cannot complain and we have to set our own sail as per the wind blowing. So, we are okay.

**Ritwik Sheth:** And sir one final accounting question. Sir, this topline of Worli project might come in Q4 or Q1, sir how will it be affected due to this IndAS because sir, we have 25% to 35% depending on the selling price. So, will it come through our topline or it will come through the minority interest.

**Saumil Daru:** It will basically now since we have moved over to the equity methods. So, basically you will just see one line item which is share of profit from Worli.

**Ritwik Sheth:** So we won't see any topline we will see the bottom.

**Saumil Daru:** Correct, you will only see the bottom line consolidate over here.

**Moderator:** Thank you. The next question is from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.

**Sameer Baisiwala:** A quick question on the revenue recognition for Mulund and Borivali, is there rule of thumb that if it is 70 storeyed tower you need to hit broadly whatever 15-20 floors of the structure to hit the revenue recognition?

**Saumil Daru:** Not necessary and not even firstly I do not think these are 70 storeyed towers. So, that is the case but even there, if you look at it Sameer disproportionately a lot of your cost actually goes into foundation. And then in addition to that it all depends on how much of the podium area and everything is being constructed. So, even when we look at it historically in terms of our

own projects, various buildings of ours reach 25% at not necessarily 25% of the number of floors or something like that but a lot lesser.

**Vikas Oberoi:** But Sameer having said that it is a very interesting question, I will go back to our engineering team and ask them where exactly do we spend 10%-25% of our money and on what level and we will come back to you offline also. But it is a good question, we never thought of it that way.

**Sameer Baisiwala:** Yes actually that would be very helpful for us to because we all loading up a lot of profits for you next year and we do not want to...

**Vikas Oberoi:** Correct. That thumb rule is a good idea and why thumb rule actually, what we can do is we can do it for all our projects specifically and create some sort of a very simple tool to get to know exactly when we are recognizing revenue.

**Sameer Baisiwala:** And the second question is on Borivali versus Mulund, I understand that the dynamics are quite different in terms of customer profile, but in terms of competing inventory of ongoing projects or readily available and sold. Would you make a distinction between the 2 locations?

**Vikas Oberoi:** Firstly, when we bought Borivali, we were absolutely of the belief that a customer who is wanting to look at Borivali will not look at Mulund and the guy who is in Mulund does not look at Borivali. So, from that point of view we are quite correct. The similarity begins and ends with the size of the project or rather I would say the ticket size. Both of them are in the same ballpark number. That is the similarity. Customer profile is very different, Borivali you still have a lot of people, I mean the market here is more cheque than cash, whereas the Mulund market is more cash than cheque and that has been one hurdle for us. So, somewhere I feel that this demonetization is going to really help Mulund because now every developer is looking at full cheque, and there is no way in which it is going to get you cash. So, that way we are kind of getting a level playing field there and Borivali was always full cheque. So, to answer your question, both are different barring the fact that the ticket price is the same. Am I able to answer your question or was that something else?

**Sameer Baisiwala:** Sir this is helpful but I guess the question was in terms of competing inventory, so would you say that you got 1000 apartments or may be 2 or 3 large projects around Mulund but very few competing inventory in Borivali?

**Vikas Oberoi:** Good point there. Also, at Borivali per se there is very less competition from outside and Mulund there is more competition from outside because there are more developers doing more projects in Mulund than they are doing in Borivali. So, if that is what you are saying, so then the answer is yes, but again luckily for us two things – one is this demonetization has really helped us in Mulund big way because all other developers are largely dealing in cash. So, now that problem is sorted out and the other thing is that even though there is competition and there are large layouts, we continue to believe that the company shares a good reputation and people

have a different following for our product. So, we will now continue to do better than other people, we are not worried about competition. We take them seriously but we do our own bit, so we are not really worried about that.

**Sameer Baisiwala:** And in terms of presales that you had during the quarter, it almost looks like it was better than the pre-demonetization quarters and I am just spelling out 2 key ones. In Borivali you did 33 units which is better than the 2 preceding quarters and they are the only 2 out there at 20 units and Esquire you sold 11 units, which is again higher than many quarters preceding that.

**Vikas Oberoi:** And Sameer can I tell you something that we were all done in October only. So, imagine if I had a good run of November and December, the numbers would be 3x or something like that. Genuinely at end of October we were jumping and we said that we are going to hit the ball out of the park and you guys are going to have such an exciting time but like I said it was just cold water thrown at us. I am not against the demonetization because like I said we do not deal in cash, but having said that it did affect the mind set of people. This is what I exactly said when we were starting our conversation that it has affected the mindset of the people. People started thinking "Oh!, now because of this, the real estate prices might come down and we might start getting good deals and good developers will also have to reduce their price". Little did they understand that both GST and demonetization are only going to increase the price. Because people who are selling their products in cash were also saving on income tax and all that and that is the benefit they were passing on to the buyers. Today with all this they will not be able to do that and many projects are stuck, are going to get stuck including reasons related to RERA and all that. So, all in all put together in the next 3 months I feel good developers, good companies are bound to do well and with all these impediments or hurdles, only the strongest will be able to cross the hurdles and people who are not able to cross these hurdles will probably have to relook at their business strategies and things like that.

**Sameer Baisiwala:** One final question with your permission. When I see the rental rates for Commerz-I, it says about 141 for 3Q and if I see Commerz-II where you are doing the new leasing, it is almost has 110 or 115 excluding CAM and profit tax I guess. So, I think we are talking like-for-like. So, is that the sort of deferential that you are getting.

**Saumil Daru:** Not a very high differential actually but what is happening is in Commerz you are not seeing any impact of straight lining which is happening due to IndAS because these are all existing tenants who have been there for long. Whereas in Commerz-II what is happening is even where we have handed over possessions to some of the tenants for the purposes of fitout and the rents have not come in, you are seeing the straight lining of rent so rent of over say 36 months period is now getting recognized over a 40 month period. So, that is where effectively it is kind of in a way artificially reducing your realization because as I said that 36 months' period is getting recognized over 40 months and that is about it. The amount is not materially different if one were to say that between Commerz and Commerz-II.

- Vikas Oberoi:** But Sameer you are right, Commerz-II does lease at probably a be 5%-7% discount to Commerz-I. We have a large inventory there, and the other issue is that we are getting very large clientele there, I mean people wanting 4 floors and 5 floors like Teva there are other companies that are coming in. So, obviously when they take such large spaces they expect that we give them Rs. 10-15 cheaper and all that. So we are just being prudent, closing transactions and all. So one effect is that straight lining of that rental, the second is that yes we are selling that at Rs. 10 or Rs. 15 cheaper also. Depending on the client, the reputation, and the size that they want to bring in and all that.
- Sameer Baisiwala:** Sir, Rs. 10 - Rs. 15, I presume this is 12% to 14% cheaper not 5 to 6.
- Vikas Oberoi:** No, let's say the rent is 140, Rs. 10 is about 7%.
- Moderator:** Thank you. The next question is from the line of Abhinav Sinha from CLSA. Please go ahead.
- Abhinav Sinha:** Sir the first one, just continuing on your previous one that there is good traction in Commerz-II and also possibly on the retail side. Do we see restarting of CAPEX in the next financial year itself on both the cases?
- Vikas Oberoi:** For sure, we want to start the third tower here for commercial and we had said that let's say if X percentage of Commerz-II is gone then we will start that. So, your assumptions are not wrong. We want to fire all cylinders and both, as far as the mall goes, yes, even that will start and the third tower also might start. So, your assumptions are not wrong.
- Abhinav Sinha:** Anything to share on the mall platform, currently?
- Vikas Oberoi:** Give us one more quarter, hopefully we will have some good news the next quarter.
- Abhinav Sinha:** Sir, secondly on demonetization and when you are talking about a bit of recovery seen in January. So, it looks like possibly property is one of the worst impacted as compared to other sectors. What do you think will change the pace of recovery here, or may be it just recovers very gradually?
- Vikas Oberoi:** Not really. Firstly, life has to go on that is what I believe, one. Two, people want a house, we are an aspirational society, we want to move into better homes and we want to live better, that is the second thing. If you really see whoever was making cash or whatever was doing it at the cost of let's say saving income tax. Today the Finance Minister is committed to take this tax down to 25%, so once he does that, you are really looking at what is the amount of money that you are saving. I am just hypothetically saying that if 20% of the value of property was in cash you are basically looking at saving about 5% of that value when you save on income tax. So, I think demonetization is going to be a win-win, government is going to get its taxes. People are going to sleep well because they will have money which they can really keep in their bank accounts and businesses are going to be back. We all get used to all the new rules and the

systems that come into play and all that. The Government is very clear bringing in GST, bringing in demonetization was an action, then bringing in your RERA. All in all, finally if you see that it will only end up supporting your business if you know how to use these well. So, I do not see that is a problem at all. It is going to bounce back big time.

**Moderator:** Thank you. The next question is from the line of Nitin Agarwal from IDFC Securities. Please go ahead.

**Nitin Agarwal:** Saumil, on the Worli project what is the amount which is left to be expected for the CAPEX for the construction part now?

**Saumil Daru:** So, typically this will finally depend on the overall size of the project once we get our height approvals and everything. So, if you can give us some time once we get that in place then I think we will be able to put a better number to it. We can always discuss this offline to get some more because this is going to get into some amount of intricate detail. We can carry it offline but essentially it will have to wait till we get the height approval.

**Nitin Agarwal:** And Vikas, in terms of when we are looking at the business about a year and half back, with the success that you had in the Mulund and the Borivali project we were very-very excited about the way were looking at growth for the business going forward. Have the events of the last few quarters changed anything for us in terms of the way we looking to make investments in terms of launching new projects, buying property or buying or acquiring new projects how does the next 2-3 years for us look like now with the reality that is there today?

**Vikas Oberoi:** I am an eternal optimist firstly and I do not want to sound philosophical but what Warren Buffett says is right, "Be greedy when others are scared and be scared when others are greedy." I follow that very truly, if today people are scared it is time to be greedy. I am very happy to look at new land parcels and this is the time for companies like us to grow because now you would never have so many things aligned for you - RERA is in place, you have demonetization that has happened, so the cash is out of the window, GST is also coming into play. This is like a dream for any company that wants to do clean business. I guess in the long run it is just great for a company like ours to perform and play in this sort of level playing field.

**Nitin Agarwal:** But are we actually seeing it on the ground in terms of proposals, opportunities to buy land which were lot different and what used to be say 6 to 9 months back?

**Vikas Oberoi:** Yes, there are, but I always keep saying that the developer community is a bit of a die-hard sort of a community. They do not so easily give up, but having said that I do see some cracks already happening due to all these three forces coming together. It is only a matter of time when RERA comes into play and these people realize that it is not everyone's cup of tea to develop, and you will see a deeper crack into all these. But yes, to answer your question straight, there are more proposals available but still they are a little difficult to close. They are

down but not out as developers, so once they really agree that they are out then they will come to our terms and we are waiting patiently.

**Nitin Agarwal:** And sir lastly ,from our perspective do we think we are in position where our existing projects are not established all the existing land banks that we had, so we are more than ready to sort of go ahead with launching some new land parcels?

**Vikas Oberoi:** Firstly, I feel that with RERA into place a lot of the existing developers who are trying to sell their property without any approval will go out of the window. So, there will be very little competition left. Having said that we have projects which like today Exquisite is ready and complete, we have Esquire all permissions in place may be 2 or 3 slabs to go to top up. So, that and with the third phase starting, we are of course going to try and capitalize in which ever form we can and go ahead and do all that.

**Moderator:** Thank you. The next question is from the line of Abhishek Bhandari from Macquarie Securities. Please go ahead.

**Abhishek Bhandari:** Basically Vikas, throughout the call you have been saying November and December were wash out for residential but things are started looking upwards in January. So, if you could share some data point in terms of, is that like January had some sales it is not zero for sure, that is the first part of the question. I will come back for more?

**Vikas Oberoi:** If I give you this answer you will not log on to the next conference call. So, I cannot give that answer to you.

**Abhishek Bhandari:** No, basically what I am trying to assess is that have things really started moving after the demonetization?

**Vikas Oberoi:** The answer is yes, they have started moving I must say. People are also waiting for the budget and luckily no court has ordered them not to go ahead with the budget which is a great thing. So, I feel Yes, that is a big trigger we are hoping as well.

**Abhishek Bhandari:** The second question is on Commerz-II, you have mentioned that there are certain deals out there. Do you think over next 12 to 18 months you should be able to lease out the remaining 500,000 odd square feet left?

**Vikas Oberoi:** You want us to take that long? We hope to do it faster.

**Abhishek Bhandari:** I would expect you to do in 2 to 3 quarters, but just wanted some sense of what is the ...

**Vikas Oberoi:** Hopefully it should happen in that time. Because we really see a lot of traction and the good thing about commercial space is that it is not under construction any more. Even companies like ours who are so well-capitalized had to kind of slow down and we also did not build the

third tower. So, likewise a lot of developers have converted their commercial into residential. So, there is no real new supply happening. Of course, the pace of growth also kind of slowed down globally but India has been doing well at 7% growth and stuff like that. So, I feel the commercial market will see fast absorption if not increase in rentals with the mood that people are in and all that but they are already seeing fast absorption. Then there will be a time when there will be no supply available and people will then start asking for more rent and then it will become a more lucrative business and then again people will start building commercial, but building a commercial project is a good four years away or three years away as it takes time. So, I think within that kind of a time, rentals will start going up. I see absorption happening in the next 6 to 9 months for all of us. I am not just talking about myself or excluding myself but all the remaining office buildings are going to get leased and then you will see price gradually go up.

**Abhishek Bhandari:** And my last question Vikas is on this retail mall you mentioned on the Glaxo land parcel. What do you think could be the rough sense of your size and what kind of product you are going to make, is it going to be a super-premium or like your Oberoi Goregaon project?

**Vikas Oberoi:** So, again it will be about 500,000 or 600,000 odd square feet. It is a very large mall and it is in fact bigger than the Oberoi Mall here. And I think Zara is luxury for India. So, similar brands is what I want to do. I do not want to do Louis Vuitton and all that, because I personally do not think that India is ready for that. I think these are the brands people want to wear, something sensibly priced and stylish and all those sort of things, and they give us good rent so it is fine.

**Abhishek Bhandari:** And my last question Vikas, do you also intend to build a mall in the Borivali parcel given than that it is a big 4.5 million square feet and the value goes up?

**Vikas Oberoi:** Yes, we are absolutely building one. We are already at final stage of designing and we said that in the last quarter also that we are building one.

**Abhishek Bhandari:** So, Vikas I do not want to preempt your platform question but do you think all these development are more likely to come under the platform thing?

**Vikas Oberoi:** Again so, what we are currently doing is unlike other players, we are absolutely not leveraged, very minuscule leveraged. And, we have enough cash flows So let's say that if I were to merely discount my rent receivables of Goregaon Mall, I can build both these malls. So, we are contemplating whether we create that platform today or whether we create that platform as a REIT for the company itself and take that advantage for the investors or for the company itself. So, these are many thoughts that are running on our mind and with an interest rate declining regime, the cap rate that we are expecting keeps going down leading to a valuation increase as the interest rate goes down. So, there is no point in kind of committing ourselves when you are not short of cash or options to get cash.



- Moderator:** Thank you, the next question is from the line of Parikshit Khandpal from HDFC Securities. Please go ahead.
- Parikshit Khandpal:** So, just wanted to know if RERA comes into force by March, so how does it impact the real estate market on more longer terms say 5 years with respect to the property prices, land prices and supply and the number of developers which will be left, the consolidation in the industry?
- Vikas Oberoi:** It is a very long shot on the crystal gaze, I am not sure how to answer this but if one has to logically look at it you can clearly see that obviously, you will be left with fewer players who will be able to comply with RERA. If that be the case land prices are bound to get a little corrected but RERA will also bring in a lot of constraints on the developer. These constraints are going to cost the developer most. At the end of the day I feel going forward real estate prices are bound to go up and I am not saying this that the margins will go up but cost might also go up and the buyer will have to pay. RERA is like an insurance for them. So, the premium on that insurance should be paid by that buyer because developers have very little to kind of give them.
- Parikshit Khandpal:** But if it is applied retrospectively, so won't it result in lot of fire sales and ...
- Vikas Oberoi:** But fire sales also of what, I mean something that is under construction how will he sell something cheaper than what he is going to build it for. See, if I know I am going to go in a loss how much of that will I be able to or want to take that.
- Parikshit Khandpal:** So, I interacted with quite a few developers recently, so they are even ready to sell at the cost. So, they just want to exit before the RERA really kicks in whatever they have. They want to exit or they want to tie up with more reputed developers like you or Godrej or some other A grade developers with their land banks?
- Vikas Oberoi:** I agree with you. So, absolutely this is bound to happen. Now let's see how this kind of pans out. I see in fact a ready market might go up because RERA might just slow down the entire process of bringing new product into the market. Suddenly you see the supply kind of diminished and ready product might just go up also. Also, say any developer who even if not very reputed and all that and if he has the building which is ready with occupation certificate, I do not think that he will have a problem.
- Moderator:** Thank you. The next question is from the line of Adhidev Chattopadhyay from Emkay Global. Please go ahead.
- Adhidev Chattopadhyay:** Just wanted to clarify on the Borivali project. So, did you sell more of studio apartments during the quarter because the average ticket size seems to have a come down per apartments?
- Vikas Oberoi:** You are absolutely right. We have a combination of the studio and the adjoining apartment and so, what was your reading as in what has happened finally?

- Adhidev Chattopadhyay:** No sir. I was asking like this 33 figure is you have added a 3 BHK plus a studio as two you have counted or it is counted as one apartment. Just a clarification I wanted?
- Saumil Daru:** They are counted as two. They are counted separately.
- Vikas Oberoi:** They counted separately, because they are separate apartments.
- Adhidev Chattopadhyay:** Yes, because the average ticket size coming to less than 2 crores per unit that was the recent past.
- Vikas Oberoi:** Correct.
- Moderator:** Thank you, the next question is from the line of Atul Tiwari from Citigroup. Please go ahead.
- Atul Tiwari:** In your remarks, you briefly touched upon the impact of GST, so if you could elaborate what will be the impact of GST on you and on a smaller developers that would really help?
- Saumil Daru:** So, we now need to wait for the final print on GST more importantly what the sector is looking at, so if you look at the current service tax regime there is an abatement percentage which is there on your service tax roughly there is a 70% abatement. In the revised GST thing, we will have to see what is the abatement percentage which is there, they have not yet declared that. So, till that actually comes out, it is very difficult to quantify as to what would be the impact of GST. Obviously the one big impact which is going to come through is mainly on the retail side. Today for most of our tenants on the retail side the service tax that they pay on the rent is purely an item of cost as far as they are concerned. So, at least on that particular aspect, very clearly there are going to be full setoffs which are going to become available. So, that is one area which we know for sure that is how it is going to work. As far as the offices are concerned, again it is only going to be beneficial again. Mumbai is more services and financial services, so full input credit pass throughs. The only area which remains kind of open is our residential bit, I think may be as we keep going ahead as we get more color I think we should be then in a position to be able to share that with you.
- Moderator:** Thank you, the next question from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.
- Sameer Baisiwala:** Just one final question Vikas, you might have already discussed this earlier like what is the key 2 or 3 points that is driving your decision to have a mall on GSK plot?
- Vikas Oberoi:** Firstly, when you do a hotel and a mall you get that 5 FSI that is one thing. Number two, I also feel the success of Palladium has kind of motivated us to do a mall here. My reading is that we are far better located than Palladium. Palladium in fact, attracts crowd which really does not live on the road and they attract crowd from all over South Mumbai and so on and so forth. So, if let's say somebody is given an option to drive into a place which is far easily accessible than

that, I feel that there is a case to be made out for our mall. Plus again there are so many tenants who come to us and say that they are not getting place in Palladium. So, I feel there is enough and more yet to be brought into India from the international retail perspective and there are not many people who have a land either well-located or building that mall, barring the Maker Mall here and a little bit of retail in Reliance. There is not any other mall that is coming up. So, this is what has prompted us to do a mall here and rentals are great. Once you build it, you can REIT it and cash it out. So, such a big-ticket item can be sold at one shot. This is exciting.. even if you do not get the big international investor to buy, you can still REIT it and do it yourself. So, these are things that are, I mean very simple reasons if there is anything that I missing please help me.

**Sameer Baisiwala:** And did you say that it is a 0.5 million square feet?

**Vikas Oberoi:** Correct.

**Sameer Baisiwala:** Is that the total development or hotel, etc. is ...

**Vikas Oberoi:** No, total development will be a million. We will do some resi, some hotel and resi might be resi-to-lease only approved under the hotel regime then it might be that and that is how it is.

**Sameer Baisiwala:** And how do you think about the HBS plot right in front and now the Siemens-GIC deal that is happened next to you?

**Vikas Oberoi:** Both are well-located projects. There is really nothing to it. They are both very well located. And again, both are resi. So look at it from my mall point of view we have 360 West which is the large development you have got other projects right next to us, we have got the HBS, the new projects there at the back. So, I am just saying that even within like may be 1 kilometer vicinity I have got so many large luxury projects, we are bound to get good traction and all that and that is what I am assuming and hoping.

**Sameer Baisiwala:** Well I guess in terms of blocking your sea view that was the context of putting HBS there?

**Vikas Oberoi:** So HBS does take away our complete West but the Southwest is open for us. We have a building where we have a tower, which gives us 100% sea view if we just positioned our building facing Southwest.

**Moderator:** Ladies and gentleman due to time constrains that was the last question and I hand the conference over to the Chairman and Managing Director, Mr. Oberoi for closing comments.

**Vikas Oberoi:** I would once again like to thank you all for joining our conference call. Like I always say that we are absolutely open to any feedback and suggestions that come from your end. We really value the time that you take in going through this call and questions that you ask us. They are



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absolute pointers to how we need to run our company. I once again want to thank you and wish you good luck. Bye-bye.

**Moderator:** Thank you. On behalf of Oberoi Realty we concludes this conference. Thank you for joining us and you may now disconnect your lines.