"Brigade Enterprises Limited Q2 FY-16 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY16 Earnings Conference Call of Brigade Enterprises Limited. We have with us on the call today Mr. Suresh Kris – CFO, Brigade Enterprises Limited; Mr. Om Ahuja – CEO – Brigade Enterprises Limited. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your Touchtone phone. I now hand the conference over to Mr. Suresh Kris. Thank you and over to you, sir.

Suresh Kris: Thank you all. Good afternoon. Of course, this is also one of the spectacular quarter and half year for Brigade Enterprises. I will take you through the investor presentation as I can now understand that people are having our investor presentation with them. And in the same sequence I would like to go and give as much information as possible now and then I mean if I have left any other I would say finer points or do you have any other clarification after my statement you can I would say free to ask me.

The total revenue I will address the maximum on the consolidated basis because standalone may not be so much relevant. So all the figures what I am going to speak on a consolidated basis for the Brigade Group because we have substantial contribution from our subsidiaries and even the cancellation of the income from the subsidiaries to holding companies has also happened. So there could be a big spurt in the income in standalone which got cancelled because of the consolidation. So I will go with the consolidated numbers.

We have shown the half yearly growth of about 24% over the previous year even though you may be having a seasonality in I would say quarter that is why it is so called flattish otherwise you can say about 3% for quarter-on-quarter or 7% year-on-year on quarter minus growth but again this is because no new project has come in to revenue recognition region because of either they have not come in to 25% threshold limit or may be the same threshold limit that has not been achieved like that. But those projects will come in to Q3 so even without a single new project come in to the revenue recognition the sales we have able to sustain and there is a good increase in the profit I would say for the half year it is more than around 100% it is about 146% for half year to half year and again quarter-on-quarter it is 67% when we compare with the last quarter it is 102% it is quite doubled.

The reasons for the increase in the profitability is because we have also sold some projects like Sonata, **3.05** which is completed and with a very good margin of above 50% this is also one of the reason. And another is the contribution of our share from BPPL and I would say BCB Developers about Rs. 5 crores has been contributed vis-à-vis about Rs. 1 crores for the last quarter. So and earlier years, it was zero. So this is also one of the factor that we have very good contribution. Going forward we will be having this kind of contribution from the subsidiaries and may be some of the sales of the old projects definitely will bring in more profit.

And then third reason is we also have better realization over the ongoing project which are already in to revenue recognition region so that has also improved our margins. These are the three factors, which contributed for high margin on a consolidated basis. Of course on the standalone basis also.

Only thing on a standalone basis apart from this reason why there is a huge increase in profit is because of the dividend as well as the I would say interest from the subsidiaries BPPL that has contributed substantially about Rs. 17 crores which has come in to the bottom line of the total in the corresponding expenditure. That is the reason why the profit on standalone basis has gone up.

And another reason for the interest even for half year or this quarter vis-à-vis the same quarter last year there could be about 40% increase in the interest. This is because of utilization of loan I would say Rs. 890 crores last year vis-à-vis around Rs. 1,300 crores this year. This is only because of the volume in the increase in loans and of course there is a huge reduction in the interest from 11.44 weighted average vis-à-vis 11.22 for September. So this is the reasons for the increase, decrease in the profitability as well as for the income.

And of course segmental analysis we have also given we are now pretty good in the I would say contribution from each segment and majority as usual has been contributed by I would say real estate and then by the hospitality and I would say lease rental sector also. We have also given the cash flows direct method on the collections as well as on the spendings. We have 5good collections of this quarter around Rs. 556 crores. And this Rs. 556 crores mainly in about Rs. 415 crores from real estate collection and about Rs. 55 crores from the lease rental and about Rs. 78 crores from the hospitality. Overall it is around Rs. 740 crores for I would say real estate for six months and about Rs. 102 crores from hospitality and Rs. 120 crores from lease rental.

So there is an operating cash flow positive about Rs. 125 crores. Of course, which has been spent for the investment activities that is for the CAPEX as well as the investment in to the JD or JV like this. About Rs. 17 crores and other investment. And the bank borrowings there is no major increase in this quarter.

Of course standalone will also speak about that. And again as far as the capital employed and the debt-to-equity ratio is concerned the consolidated debt-to-equity has come from 0.92 last quarter to 0.8 in this quarter because there is a slight increase in the capital because of the contribution of profit to the equity and there could be a slight reduction in the overall total borrowings and because there is no major acquisition or land building has happened during this quarter not major may be around Rs. 17 crores to Rs. 18 crores has happened during this quarter.

And there is also a sale of our I would say Nalapad Centre partly may be one floor which we have sold so that even the commercial project will be funded without any borrowings. The sale portion is around Rs. 75 crores and it is around 116,380 square feet at about Rs. 6,400.

As far as the lower movement which you will be able to see there is no major improvement in loan but there is a huge reduction in interest rate from 11.44% to 11.22% and I would say company is continue to have enjoying the our credit rating from ICRA and CRISIL and then recently ICRA upgraded from A stable to A positive recently. They have told us that this is in between A and A plus.

And again as far as the sales report is concerned there may be slightly above the cumulative expense sales about 1.28 million square feet for six months last year vis-à-vis 1.33 million square feet this year. And whereas the sales value is about 11%. About Rs. 656 crores last six months vis-a-vis Rs. 731 crores this six months. Of course the collection is about 50% increase and about Rs. 450 crores last year vis-à-vis Rs. 669 crores this year. And quarter-on-quarter performance is also there. Of course there is a seasonality in to the sales and may be in the coming months we will be able to do because of the festive season and bonus available with the staff etcetera and even the reduction in home loan interest will definitely will increase the interest of the home buyers and in the near future and we are confident of going I would say additionally up to 2 million square feet definitely during this six months to come.

And the total project finances total ongoing projects for Brigade Group is around 19.2 million square feet out of this 17.2 million square feet I would say towards the real estate which are on sale basis and about 1.4 million square feet of the commercial and balance towards hospitality. When you compare the commercial segment from last presentation to this presentation, we have moved the Nalapad Center from this commercial to the real estate segment, which is meant for sale. Hence there was a slight reduction in the total area of commercial because we intent to sale Nalapad Centre in future which is now nearing completion.

So hence there is I would say slight reduction in the area under the I would say commercial on rent. Overall the real estate finance is about 17.2 million square feet out of which may be 2.76 million square feet can be reduced for the land owner share towards the JD. So 14.5 million square feet is our share out of which we have sold 7.8 million square feet. So balance is 6.7 million square feet which has to be sold in may be over a period of three years maximum.

Total sale value of this project in this our share which is 14.7 million is about Rs. 7,500 crores out of which we have already sold about Rs. 3,800 crores balance around Rs. 3,500 crores of the current rate is due for sale and out of the sales of Rs. 3,800 crores we are collected Rs. 2,200 crores and the balance collection including the unsold apartment is around Rs. 5,200 crores.

This we will be able to do within a period of three years. Out of this sale we have now recognized only up to Rs. 1,600 crores revenue. So the unrecognized revenue over a period of three years is around Rs. 5,762 crores. So closely around Rs. 1,900 crores we will be able to recognize on an average because but again this will depends on the sales as well as the cost incurred for the project based on the POC.

And when you see the cash flow from the operations it is around Rs. 2,400 crores out of which even when you don't eliminate the total borrowings presently about Rs. 826 crores which is now relating to the real estate sector the net operative cash flow before the overheads I would say corporate overhead and tax is around Rs. 1600 crores only from ongoing real estate segment.

And this will be achieved over a period of three years maximum. And on to the I would say lease position we have total usable area of about 1.63 million square feet out of which 1.49 million square feet has been already leased out. Of course there is a good news the Star Bazar has vacated the mall that is why there is reduction in the Orion Mall and which earlier the rate was around Rs. 30 is rate will be able to do at the current price. So normally the increase in the rent are the proposed square feet could be around Rs. 7,200. We have about three bidders for it. I think we will be able to finalize during in this quarter this Q3. So there will be a good substantial increase in I would say lease rental from Q3 and if not Q4. The total area, which they have vacated, is 73,250 square feet from that. That is when there is a reduction in I would say leased out area of Orion Mall.

And you know that we also hold the World Trade Centre license for I would say Kochi, Hyderabad, Chennai and Trivandrum besides Bangalore and then we have now commenced the Kochi World Trade Centre and we will be able to complete before March. And about the preleasing out of that area we have also preleased KPMG and others about more than 72% have been given on lease. The area is around 2.25 lakh square feet has been pre-leased out of 3.85 lakhs square feet in Kochi. The majority has been taken by KPMG and then by Xerox which is at around Rs. 34 to Rs. 40 per square feet overall.

And on the hospitality segment the occupancy rate is better. About I would say more than 80% in both the hotels we have 353 from I would say both the quarters and ongoing projects we have about 652 totally and one is already in Chennai which will be on operation may be by March if not may be in the next I should say financial year. And then Grand Mysore which we have about 150 keys which is also in the same progress before March I would say before this financial year will be able to I would say commence the operations. And another one which is in progress is all the Holiday Express in Race Course Road in Bangalore. That will be during financial year 16-17.

So the contribution from the hospitality sector during this quarter or for this financial year is also very good. And on to the CAPEX commitment after moving the Nalapad Centre we have totally Rs. 820 crores is the budgeted CAPEX. The breakup is around Rs. 460 crores for the commercial and I would say retail segment out of Rs. 460 crores we have spent Rs. 320 crores. So balance to be spent and on to the hospitality sector Rs. 360 crores out of which Rs. 180

crores has been already spent. So that is in overall Rs. 820 crores out of which around Rs. 500 crores has been the reduced spent.

And on to the land bank we have I would say 563 acres the total cost to us is around Rs. 1,342 crores out of which they have already paid about I would say Rs. 810 crores; balance about Rs. 500 odd crores we need to pay increase on the JVS outright purchase land. Earlier we have shown about 563 acres and 11 acres has been added during this quarter. Fourteen acres has been consumed for the pre-launches properties so 563 acres.

And we are capable of developing out of this area, Our cost is around I would say 50 million square feet and our share could be around 38 million square feet.

And we are planning to launch around 7.28 million square feet for the year which is also for the second half out of which around 5.3 million square feet towards residential and the balance towards the commercial even though about two projects are in pre-launch may be in Q3 it will become a formal launch and we will also launch in say in other area and in Bangalore.

So this is about our total financial synopsis as well as I would say quarterly performance and if you have any other questions, you are now free to ask us. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session.

The first question is from the line of Himanshu Upadhyay from M3 Investments. Please go ahead.

Himanshu Upadhyay: Yes so I asked how much of money is refundable fee we have paid for land in JV till now and land development, what would be the money which is stuck there?

Om Ahuja: There is nothing stuck Mr. Upadhyay. It is primarily if your question is stating that how much of money have you invested into JVs or the land?

Himanshu Upadhyay: How much for this refundable fee how much have you invested?

Suresh Kris: Maybe close to around Rs. 100 crores could on the let us say reasonable deposit and the balance on the outright purchase.

Himanshu Upadhyay: Rs. 100 crores for?

Suresh Kris: Rs. 100 crores so far which is into the land bank, whatever has been into the ongoing project would have been already taken as a cost. So obviously there is no what you call struck in there JV or something and what we have now already paid and then yet to commence the business of those projects could be close to around Rs. 100 crores.

Himanshu Upadhyay: Okay and can you generally just give what percentage of value we have to pay as refundable fees for land JV, generally what is the trend line and how much would be the let us say a project of Rs. 100 crores is there, what type of percentage is this refundable fee generally?

Suresh Kris: That is part of the business secret, so we may not want to share that with you, because I may give zero percentage, I may give 30% and it is all based on how we negotiate for each project. So there is no hard and fast rule in that.

Himanshu Upadhyay: One question I had on inventory. So we have nearly 6.7 million square feet of unsold inventory ongoing projects which are under construction which is nearly 45% of the project size and our share. And we are generally selling 0.5 to 0.6 million square feet, it is somewhere around that per quarter. Can you give us what is your view on the inventory and how much of inventory are you comfortable? Also some strategy of selling the inventory in residential projects means just your thought process on this part?

Suresh Kris: See, I would like to react this way. I think the entire analyst community and the people who give all the newspaper reports are all sort of misguiding the general public about the issue of unsold inventory. See if I launch a project today, of 1,000 apartments, today the analysts are taking that under unsold inventory. That is a very, very wrong approach by any analyst financial or otherwise real estate analyst. My project are normally or any developer's project normally takes about three years' time. So it is the strategy of most developers to sell this over a period of the lifecycle of the project.

I would like to take unsold inventory as one which if still remaining unsold, when the project is complete. Then only I would like to classify it as unsold inventory. So I said it is also strategy of developers to sell it during the lifecycle of the project because there is always inflation during the period of construction, which could be annual inflation of 5% to 6% whatever the government claims. And the only way for the developers to recover that is by increasing prices during the period of the project. So that being the case, our strategy is to sell any project during the lifecycle of the project. We sell some percentage maybe 10%, 15% as pre-launch or another 25% as launch, and during the construction period, maybe we would like to reach up to about 80%, 90% and about 10% to get better realization when the project is almost complete. So based on this if you today take on our Brigade Group's unsold inventory you will be happy and surprised to know we have only 0.06 million which means about 60,000 about only 60,000 square feet of unit where the project is complete and maybe you can call it as unsold inventory, and that maybe it will get sold in the next three months or within this financial year, we expect it to happen.

And as far as our run rate is concerned, today it is about 3 million square feet which we are working hard to increase it to 4 to 5 million square feet in the next year or two. That also depends on the general market conditions, okay.

Himanshu Upadhyay: And one question. We have been reading reports of strong demand for commercial space in Bangalore. What is your sense and have you made any changes in our strategy to cater to this demand or what is for let us say one or two years. So can you give some idea how you are thinking?

Suresh Kris: Yes, certainly I agree with you. There is a changed strategy or changed demand situation because of I would say weaker rupee and improved American economy, there is the software market, it is healthy. Bangalore being 36% to 38% of the Indian software market is a beneficiary of this increased business. Brigade Group was earlier having I would say 1 to 2 million square feet of office space. But today as a strategy we have overall we will have about 9 million square feet of office space. Quite recently, we acquired the Marquee land from Hindustan Unilever to construct in Whitefield, which is a IT belt where we can construct about 3.5 million square feet of IT space which is in the approval stage now. Other than that, we have number of buildings, maybe half a dozen buildings with half a million square feet each of IT space. Some of them are nearing completion and some have been recently marketed. For example in one building say about 150,000 square feet recently we gave to Coca Cola for their shifting of their headquarters from Delhi to Bangalore. Like that we have few buildings in progress. And also along with GAC we have recently successfully bid for Kansai Nerolac property in Chennai where we plan to build about 1.7 plus million square feet of office space in addition to the residential segment, of about 0.6 million square feet.

Himanshu Upadhyay: One more question. Have you paid the money for Brookfield that acquisition and Kansai land both the amount and when do we expect to pay the complete amount?

Suresh Kris: Brookfield land money was fully paid in the month of March and the Kansai Nerolac hopefully it should happen in the month of December.

Himanshu Upadhyay: And just I think I missed out on this thing, I was not able to hear properly. The Nalapad Center which was for the commercial project has moved to development. So from lease rental I think we have moved to outright sales, so will we be selling the complete properties or would we still have some portion for lease, rental in that space? So what is the strategy change or what has?

Suresh Kris: Yes, see some of our projects are on joint development basis. Here we have about 2.75 lakh square feet, 275,000 square feet, out of which about 115,000 square feet we have sold it to an IT company and we have still about 160,000 square feet of office space, which will be we are negotiating to IT companies. But as we have always maintained, in some projects not only Brigade, even other developers of IT spaces, in some projects we do exit after leasing the place to high net worth individuals and to other companies we sell on funds on cap rate basis. So this is a building where we would be happy to retain, but we are not averse to selling.

Moderator: Thank you. The next question is from the line of Parikshit Kandpal from HDFC Securities. Please go ahead.

Parikshit Kandpal: Sir, what is the value of unpaid land as of now? How much we have to still pay for land bank I mean which we are about to take possession? So what is the unpaid value of the land bank as of now?

Suresh Kris: Unpaid value is about Rs. 535 crores. It is there in the slide number 19.

Parikshit Kandpal: Okay and this is entirely our share so it does not include anything from GIC, right?

Suresh Kris: No, nothing.

Parikshit Kandpal: So balance CAPEX to be incurred as of this quarter is how much?

Suresh Kris: CAPEX is about Rs. 324 crores.

Parikshit Kandpal: Okay and the new buildings which will get added in this Kansai Nerolac and the Brookfield so how much will that add to the total CAPEX?

Suresh Kris: That we will show once it is launched.

Parikshit Kandpal: Okay so we expect the CAPEX to significantly ramp up over next so what is the visibility of these launches I mean these two projects being launched?

Suresh Kris: The launches has there into the last few pages of this presentation page number 22 and 21. So slide number 22 gives the information about the CAPEX project. Once it is launched, we will go and estimate those costs and then go and reflect into the CAPEX commitment.

Parikshit Kandpal: And sir, you said that in Cochin you have already done a pre-release with KPMG, right?

Suresh Kris: Yes.

Parikshit Kandpal: Okay and this is for how much area, I just missed that number?

Suresh Kris: Totally around 2.24 lakh square feet has been given to few parties, out of which major is KPMG which is around 1.7 lakh square feet and then another about 45,000 square feet to Xerox and then few others with an hard option to KPMG to take more in the next couple of months.

Parikshit Kandpal: And sir, what is our essential market looking like in Bangalore so we hear a lot of slowdown but sir what is the sense you are getting on the ground? So the quarterly numbers have been good so you are guided for better second half almost 2 million square feet of free sales. So what gave us so much of confidence that the company will pan out in second half?

Om Ahuja: Well I would say Mr. Kandpal, the market looks to be very robust at this point of time both in the commercial and the residential segment. I think the data clearly reflects in terms of absorption in Bangalore. Frankly it is not just limited to commercial, but also residential. And the reason of confidence is primarily keeping in mind the projections what we get in terms of the offtake in the market especially when it comes to commercial leasing, there is a shortage at this point of time of A grade buildings in Bangalore, specifically when it comes to commercial. And that is basically the spillover of demand in the residential segment clearly visible in East Bangalore and North Bangalore that is primarily driving the demand.

Parikshit Kandpal: And sir, just lastly on the debt level, so we have already has a gross debt of Rs. 1,400 crores, so how do you see it going up, what are the peak levels of debt-to-equity we are looking at?

Suresh Kris: In fact based on our purchase of land as well as the CAPEX commitment. So it may fluctuate. We actually thought of hedging at 1:1 ratio, maybe into the seasonality it may go up, whereas presently it is now 0.89 I would say compared to 0.92 last quarter. And maybe during the financial year or let us say as of March it could be close to 1:1 or maybe 1.1:1 like this so again based on our CAPEX commitment as well as the land purchase.

Parikshit Kandpal: And so when these new this Brooke Bond and this Kansai lands gets added on the commercial portfolio, so is that further upside to this debt-to-equity levels in the next quarter?

Suresh Kris: Brooke Bond land has been already paid so I mean land purchase may not come into that. Maybe the Kansai land may get added into the land bank and if it is through the borrowed funds then to some extent definitely it will get added. But at the same time we also have some repayment for about let us say more than Rs. 200 crores within these six months. So that will also get reduced.

Parikshit Kandpal: No, I am saying when you go to construct to the CAPEX for these lands, the land you have already paid, but when you are constructing the buildings office?

Suresh Kris: Definitely, it will get added.

Moderator: Thank you. The next question is from the line of Adhidev Chattopadhyay from Elara Capital. Please go ahead.

Adhidev Chattopadhyay: Sir, firstly just wanted to understand our sales strategy I think 2 million square feet in the second half, so how much are you targeting from the new launches and how much are you looking to sell out of the existing inventory, a broad ballpark number if you could share?

Om Ahuja: Well, I would say at this point of time we are looking at two pre-launches, which we have done and in the Q2 we will be doing a launch in Q3 and there we have received excellent response. I think we have a little bit held back in terms of increasing the price there, so that at the launch we can actually do better. And we have possibly two more launches lined up in Q3 or Q4 and we will do a pre-launch this quarter itself Q3.

Adhidev Chattopadhyay: Okay so like will it be backend like Q4 will have majority of the volumes or are you expecting traction to pick up from this quarter itself like?

Om Ahuja: We already have seen traction picking up. Frankly we had a very good month September we have seen the traction already to be very good. We see October is also decent enough considering there are lot of holidays in October so we think November looks to be already promising.

Adhidev Chattopadhyay: And like could you give us a break up from the new launches and the existing what is like a rough breakup you are looking to sell means on a broader basis?

Om Ahuja: Well, I would say the focus is primarily I would say both equal. I would not say that there is very high focus on pre-launches because what the objective is to see the realization has to be better and to keep the realization better our existing projects we are focusing on how we can get better numbers there.

Adhidev Chattopadhyay: Secondly, the question on this Nalapad Center on the accounting. Basically now that you have sold at least half of it, so I understand it has not come into revenue recognition during this quarter. So could you please explain like how the accounting will work for this?

Suresh Kris: Basically this is due to I would say costs has been incurred up to I would say 25% and maybe around 4 or 5 projects like that and then in sales we may not reach 25%. Like that we have some secured projects all those things will be moved to Q3.

Adhidev Chattopadhyay: So it will hit in the next quarter whatever you are saying in Q3, it should hit the revenue recognitions project.

Suresh Kris: Yes, you are right.

Adhidev Chattopadhyay: Okay and just lastly I just squeeze another question. Sir, for this quarter could you give the occupancy of the two hotels specifically the quarter we have the first half numbers, but if you could share the number for the quarter?

Suresh Kris: Actually we had given for the half year what is there. it is about 81% for Grand Mysore and 82% for Sheraton Grand.

Moderator: Thank you. The next question is from the line of Rahul Jain from Systematix Shares. Please go ahead.

Rahul Jain: My first question how has been the response on the showcase events which might have done you have given some flavor in terms of that October was looking good and all that. But how you see it from a YoY perspective because the trend from last 6-8 quarters has not been very clear in one direction there is some seasonality factor also. But if you have to see 12 month block to a 12 month block, or 6 month block to 6 month block, you see any progress in terms of the buying behavior or conversion factors or any other input if you could give?

Om Ahuja: Yes, certainly Mr. Jain. What we look at typically is Q3 and Q4 are the crucial quarters in terms of festive season starts post-Shradh that is the critical period in the real estate space. And though we had Shradh in the month of September where we had a very good month August and September we had the showcase which was basically where we launch a lot of new projects, prelaunch of lot of new projects and those pre-launches are what we will be launching in Q3 as a project. So we will be having in terms of actual recording of those sales considering a pre-launch to a launch, those recordings will actually happen in Q3 and that is where you will see the benefit.

Rahul Jain: Okay but just another thing is that are the volume for the first half if I have to see is barely up by 1% or 2% but our realization is up by 8%. So two things – firstly, how much is the like-for-like realization hike and what is the portfolio mix impact of in this overall realization of 5,500?

Management: See basically we agreed maybe the sales in the first half is flat as compared to the sales in the first half of last year. In spite of the much negative news in the media and by the analysts, real estate analysts, I think we would consider it as reasonably creditable that the sales have not dropped as in the case of many other markets be it Mumbai, or NCR, etc. So that in itself should be considered as very good. But naturally we would have wanted it to be much higher without any doubt. And as far as the realization is concerned, some of the projects have got better price realization and also the organization has worked hard on improved cost control systems. So all that has yielded some results. And there was some I would say completed inventory though not in the big number, which got sold, which contributed to a GOP of about (+50%).

Rahul Jain: So obviously we appreciate the volume numbers have been much better than the industry in general so that point taken. On the lease portfolio, there is some drop in some of the projects I know it is not meaningful but is it something specific there or what could be the reason for these?

Management: No, see the lease portfolio is always a bit erratic. It is not as predictable as residential space. It will always have peaks and thrusts in leasing. If I sign up one lease of let us say 500,000 square feet in one quarter there will be a big peak, then if nothing happens it can come down. So I would like to see this as you very rightly said in the beginning you will have to see it on a year-to-year basis than on a quarter-to-quarter basis.

Rahul Jain: So I am talking about the Orion?

Management: No, Orion is fine. Orion is performing well, except one large client we asked them to vacate. So that is one space we probably will need to fill up which will take next three months or so.

Rahul Jain: And you have given this Kochi bid, but what all assets we are on the commercial leasing side we are expecting to come up in a 12 month perspective, that may come up for the lease?

Management: See out of about approximately 380,000 square feet of office space the first tower which is almost complete out of that as our CFO said KPMG will be occupying in the next week or two weeks.

Suresh Kris: Rahul, you have those details in the Slide #14, which gives about 1.4 million square feet with the property details its location and what is our share and what is land owner's share. Maximum about 80% will come during this financial year and balance in the next financial year in terms of area.

Rahul Jain: And just lastly, if I can squeeze in on the hospitality business, revenue has flattened cost is a bit up impacting the EBITDA margin on a YoY basis so how we see the outlook here?

Management: No the hospitality revenue is not flat. If I am right there is a 20% jump in hospitality revenue with a fairly good GOP.

Rahul Jain: So I am referring the consolidated numbers, which is Rs. 87 crores?

Suresh Kris: Yes.

Rahul Jain: Okay so this was last year Rs. 85 crores, right?

Suresh Kris: Last year or last quarter we are talking about?

Rahul Jain: So I am saying 6 month '14 was Rs. 85 crores, 6 month '15 is Rs. 87 crores?

Suresh Kris: Yes, in that way it is right. But on a quarter-on-quarter this is much better. That is what we are saying.

Rahul Jain: And so since the revenue lines are the same and the cost have increased, the EBITDA is down from 40% to 34% so how we see this going up, because I know this REVPAR has been sort of flat ARR has been flat. So it is driven by the ARR further room because utilization have come off. So do we see this trend of utilization improving in the coming period or any reason why it could happen?

Management: We expect the occupancy to be in the range of (+80%) average between two hotels. As far as the ARR is concerned, it is likely to be flat or may be (+5%) at best, primarily because of the new hotels in Bangalore have been launched and that will always put some pressure on the existing hotel in increase in the ARR.

Moderator: Thank you. The next question is from the line of Danesh Mistry from Tata Mutual Fund. Please go ahead.

Danesh Mistry: I just wanted to run a few questions passed to you. The first is regarding the Kansai land that we bought along with GIC, so it will be in the same 49:51% JV share, right?

Management: It is under discussion and finalization. It will not be more than the present this thing but based on mutual discussion it may be slightly different also.

Danesh Mistry: So till now have we made any advance payment for this land or what is it?

Management: Yes we have made advance payment in line with the RFP or whatever term sheet.

Danesh Mistry: So would it be a large percentage of the land or is it just a token amount?

Management: It is not token but it is a small percentage.

Danesh Mistry: And just on this HUL on the Brookfield if you could give some sense on what could be the project mix will it be all commercial, ready commercial, mixed use?

Management: It is substantially commercial predominantly commercial project SEZ development with great amount of I would say facilities for the occupants in the neighborhood.

Danesh Mistry: So it will be an IT SEZ?

Management: Yes, it is an IT SEZ.

Danesh Mistry: Okay and this should be how much about 3.5 million square feet roughly?

Management: 3.3 million square feet.

Danesh Mistry: And when do you think we could look at launching this project?

Management: Certainly in FY17 Financial Year but we expect hopefully in Q1 '16-17.

Danesh Mistry: And sir just two bookkeeping questions. The first is that you mentioned that you sold Sonata and Rubix. So you mentioned the 50% margin, but what was the sale value that we got from this?

Suresh Kris: Sale value is Rs. 24 crores from this.

Danesh Mistry: Okay Rs. 24 crores and Rs. 12 crores would have added to our bottom line. And just one more last question. The Nalapad Center if I heard correctly we sold it for Rs. 75 crores 115,000 square feet. Have we received the proceeds there also?

Suresh Kris: We have received I would say during first tranche about 60%, 70% and balance during this quarter that is Q3.

Danesh Mistry: Okay but this is a completed project right?

Suresh Kris: This is not completed.

Danesh Mistry: Yes because we were talking revenue recognition so how much is complete of this project sir?

Suresh Kris: You can say about 80%, 85% has completed but for this deal we have not recognized revenue in Q2.

Danesh Mistry: So out of Rs. 75 crores we have already received about Rs. 60 crores, balance to come in next quarter?

Suresh Kris: Correct.

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

Sourabh Jain: Sort of macro related question. The new launches in Bangalore what I see is down by about 50% YTD basis. So any approval side related delays or developers are deliberately holding back new launches?

Management: I would say it is the combination of both because as I said earlier because of there is so much negative atmosphere is created in the media, developers also become cautious particularly the new entrants, new entrants to the business or recent entrants to the business. And secondly, yes there was a certain delays in the approval process also, for the past couple of months, because of what you may have read in the newspapers, there was an election process in the local municipality. There was I would say a big tamasha happening for a couple of months. So, there was certain delay. And in addition to that our National Green Tribunal has our hand clamped on imposed certain restrictions in general. Nothing particular for Bangalore as such, but because of that there were some delays in approval process. We are hoping this will all find a solution in this quarter. In fact the positive side is for the first time the Government of Karnataka has created a new Ministry for the City of Bangalore. So all these years there was no separate Minister for the city of Bangalore, there is a new portfolio created and only the new Minister has taken charge I would say as of yesterday.

Sourabh Jain: So you are seeing any improvement in delays are getting subsided and approvals coming fast now, going forward or?

Management: Yes certainly, we expect things to stabilize post Diwali and October and bit of November as there are too many holidays were there and how government staff also add a few more days and make it into an extended leave. So I definitely expect things to improve, the approval process to improve in I would say immediately after Diwali.

Sourabh Jain: Okay but can we go back to the same pace like what used to happen some 10 million square feet almost every month they were launching I believe. They might start improvement from here but not as good as the run rate it used to be in the past?

Management: Probably people may not become so aggressive and that it may be good for the industry also. Indiscriminately a lot of new entrants who are coming into the picture with making questionable promises so that being the case it may help in just cleaning up the industry a bit. So which is welcome at this juncture.

Sourabh Jain: One more question. The Outer Ring Road I believe has emerged as a preferred destination and probably demand is far more higher than the existing supply in the market. Do we have the land parcels on the outer ring road?

Management: Not exactly. We do not have exactly on the Outer Ring road, though we have recently finalized the land parcel to add about a million square feet of office space. But it is that belt Outer Ring Road, Whitefield, Marthahalli, it is called. It is all that Bangalore South East and East of Bangalore is generally can probably contribute about 60% of the IP market.

Sourabh Jain: So where exactly on Marthahalli the land parcel is?

Management: This is on Outer Ring Road what we have finalized.

Sourabh Jain: No, I have a fair bit of idea on the Outer Ring road so can you just help me with the location like it is close to your Marthahalli or it is far away towards?

Management: I think probably I can send you the Google link, so it is near what I should say that Aloft Hotel you can say.

Sourabh Jain: Yes, got it, near the Prestige project. And so when are you planning for developing this space?

Om Ahuja: It is just in designing stage. It may all happen only in 2017.

Sourabh Jain: Okay and no further plans of more land acquisitions on the same micro?

Management: No, plans are always there but whether we finalize or do not finalize depends on a host of factors like commercial tons, title deeds of the land, etc.

Moderator: Thank you. The next question is from the line of Saurabh Kumar from JP Morgan. Please go ahead.

Saurabh Kumar: Sir, your unpaid land does not include the Kansai parcel right as of now?

Suresh Kris: Definitely not.

Saurabh Kumar: Okay, so basically if I include that then this number should be about Rs. 800 odd crores, right?

Suresh Kris: Correct.

Saurabh Kumar: And this is all your share you know?

Suresh Kris: Yes, basically this is our share.

Saurabh Kumar: And sir, over what period will this Rs. 800 crores be need to be paid out like one year?

Suresh Kris: No, it should be maybe around 2 to 3 years' time depending on the terms of the contract. Not for Kansai but some of the land parcel in I would say Gujarat something in Bangalore like that.

Saurabh Kumar: Okay. So I am just trying to basically if you consider part of this unpaid land as debt and actually your real estate debt actually goes up quite materially because your lease rentals and all will essentially be used to fund the CAPEX and the debt in that business those subsidiaries will have to fund their own growth. So the core real estate business given the unpaid land you have even if your cash flow projections come to your absolute level of debt should not come down that much, correct?

Suresh Kris: Yes because there is one hand you wanted to go on increasing your investment, obviously there is in another hand you will have to go and fund it either by equity or by increase in debt. As of now we have the sanction but not utilized limit of more than Rs. 800 crores with the banks.

Saurabh Kumar: Sir, but fair to say from here on will you be looking to occur more parcels like I am just worried that the EBITDA to net debt on this business is I mean your EBITDA is improving but your net debt is also going up. So that ratio is not the gearing ratio on the core real estate is not coming down?

Suresh Kris: I would say debt-to-equity ratio has come down and we are actually planning for 1 or 1.1, but still we have lot of room for that. I would say based on the growth strategy definitely it will go up and then whether it will be having its own result during coming years.

Saurabh Kumar: Okay and that this Brigade GIC that subsidiary does not have any debt, right?

Suresh Kris: You are now talking about Nerolac or the existing Brigade…..

Saurabh Kumar: So obviously Kansai you have nothing but in Brookfield there is nothing and in the Cosmopolis also there will be no debt, right?

Suresh Kris: Cosmopolis we have there will be a very small debt of Rs. 100 crores, so I would say our share of Rs. 51 crores has been considered in our consol balance sheet.

Saurabh Kumar: Okay and Brookefield?

Suresh Kris: Brookefield, zero.

Saurabh Kumar: Brookefield you have zero. So basically any debt that company takes to build out the portfolio will be in that, right?

Suresh Kris: Correct.

Saurabh Kumar: So basically the parent level debt will go up just because of this Kansai acquisition right?

Suresh Kris: Correct, it may go up, it may not also. I would say depending on our collections from ready stock existing projects.

Moderator: Thank you. The next question is from the line of Danesh Mistry from Tata Mutual Fund. Please go ahead.

Danesh Mistry: Hi sir, if you could just tell us about the Star India Bazaar thing, was it that their lease period got over or was it some other kind of thing that…?

Management: No, their lease period did not get over. It was more like their performance was not satisfactory. So we consented to vacate. So it is by mutual agreement.

Danesh Mistry: Okay so they were not able to meet maybe their revenue share kind of targets?

Management: Yes, they did not meet their targets and they did not meet our expectations.

Danesh Mistry: Okay and this Rs. 70 to Rs. 100 that now we are negotiating with people is on a minimum guarantee or revenue share again?

Management: It is minimum guarantee with revenue share.

Danesh Mistry: So Rs. 70 would include our revenue share component.

Management: No, Rs. 70 will not include the revenue share component.

Danesh Mistry: Okay, it will be MG?

Management: Minimum guarantee.

Danesh Mistry: Just taking our point from the previous caller's question, so in this Brookefield, Brookefield is held in the GIC bench only right?

Management: Yes, correct.

Danesh Mistry: So if that takes any debt our share would be 51% of that?

Management: Yes, correct.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Om Ahuja – CEO, Brigade Enterprises for closing comments. Thank you and over to you, sir.

Om Ahuja: Thank you. Ladies and gentlemen, we completed 29 years in business and on 10th of August we actually celebrated this 29th year and we had launched offers for people to avail the benefits, which we could offer to the customers. And we have seen a very good response in that period and we expect next two months primarily keeping in mind festival period to see excellent momentum and Bangalore market overall seems to be very exciting at this point of time. And with our position in Mysore where we are the leading developers in the city we have seen an excellent H1 in Mysore and Hyderabad is somewhere we believe that things have really started picking up and this quarter we see good momentum there too. And very happy to meet you again next quarter. Thank you very much.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Brigade Enterprises Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.