"Shriram Properties Limited

Q3 and 9M FY '23 Earnings Conference Call"

February 15, 2023

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the website of the company on 15th February 2023 will prevail

MANAGEMENT: **MR. MURALI M – CHAIRMAN AND MANAGING DIRECTOR – SHRIRAM PROPERTIES LIMITED**
MR. GOPALAKRISHNAN J – EXECUTIVE DIRECTOR & GROUP CFO – SHRIRAM PROPERTIES LIMITED
MR. K.R RAMESH – EXECUTIVE DIRECTOR OF OPERATIONS – SHRIRAM PROPERTIES LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to Q3 and Nine Months FY '23 Shriram Properties Limited Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

As a reminder, all participant 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 star then 0 on touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Murali M, Chairman and Managing Director from Shriram Properties Limited. Thank you, and over to you, sir.

Management: Good afternoon, everybody. This is Gopal. I would kick-off on behalf of the management of Shriram Properties. I would like to extend a very warm welcome to all of you and thank you for taking time off to join this call. I'm joined by my colleagues here in this room. And I'll make a short presentation, and then we'll collectively try and answer the queries that you may have.

I assume all of you have received the presentation, which is either mailed to you or available on the website of the company as well as the exchanges. So I'm going to refer those presentation slide numbers to walk you through our performance for the Q3 nine months as well as our expectations of the outlook of the company for the next quarter as well as the next years.

Let me begin by drawing your attention to the presentation. Since all of you are more familiar with the real estate sector. And I would very briefly cover the Slides 4 and 5 by summarizing the fact that the markets have been doing well. The under current is very strong and positive, notwithstanding the rate hike impact, which had some concerns in people's mind about the potential impact on the demand. I think so far, the demand situation has been fairly strong and robust and market sources as well as the lending partners do tell us that the momentum on home loans are also remaining strong as of now. And therefore, there is no meaningful or there's no remarkable slowdown in the demand for retail home loans, and that augurs well from a housing demand perspective.

The core markets of Shriram Properties, which is Bangalore, Chennai and Kolkata, have seen a very strong demand launches and that -- and also the positive trend in inventories. Chennai and Kolkata inventories have also reduced, but more notable was in Bangalore, which has the lowest inventory among Tier 1 cities. And that's an encouraging development for us.

From a price perspective, I think the average price hike across cities have been fairly meaningful, considering the fact that we have seen price hikes from second half of last fiscal, that from September-October '21 onwards, we have seen price hikes. In March '22, we had meaningful price hike by all players, and Shriram Properties has registered an average increase of about 7% in our portfolio. On top of that, we have had further increase in current nine months. So that's an encouraging price trend for us.

Affordable mid-market segment is doing very well. We continue to account for 70%, 80% of overall absorption of demand in the respective market. And that augurs well for us as a focused mid-market affordable housing player. With this remark on the macro, I would like to focus more on Shriram Properties' overall operating dynamics and operating highlights and then move to financial highlights.

Looking at Slide 7, a broad overview of our nine-month operations have shaped up. We have had our highest ever nine-month sales both in terms of volume and value during this first nine months FY '23. For the quarter also, we have been able to register 1 million-plus quarterly run rate has been maintained. But more important, this has been achieved despite a deferred two launches that we have had. I'll explain that in detail as we go through. We believe the fourth quarter, therefore, will be much stronger with the scheduled launches. All of them are now under control with all the regulatory approvals falling in place.

Our DM business has stabilized. The business model has stabilized. It's continuing to contribute both in terms of operating metrics as well as financial metrics now. From an operating metrics perspective, DM accounted for 22% of nine-month sales and remains encouraging for us. Our collection trends are fairly stable, a bit muted on a year-on-year basis, because Q3 collections were a little slower, primarily because the new sales activities were a bit muted because of the deferred launches. Despite that, we clocked overall collection for the nine months at INR 890 crores, compared to about INR 900 crores that we had. We believe Q4 will be robust enough to catch up with whatever we have aspired to set for ourselves for FY '23.

From an execution perspective, overall trends have been very strong. They have handed over about 1,200 units so far and under 400 plotted development units have been given, handed over. So in all 1600 units as against our target of about 2,000 units for the full year, and that's actually driving strong income recognition for us. We have completed 7 projects moved from ongoing to completed portfolio, out of which three are residential, four are plotter development, adding up about 3.8 million square feet have been moved from having received OC and other completion certificates.

We have moved them from ongoing portfolio to completed portfolio. So the pipeline to that extent got readjusted. However, with the refilling of new projects, our pipeline remains robust, 53 million square feet, 23 million square feet out of that is ongoing. Remaining is yet to be launched, out of the 23 million square feet of ongoing portfolio, 21 million square feet belongs to Shriram, 2 million square feet belongs to landowner share under the GD agreement. Our 21 million square feet, we have sold so far, along to date, cumulatively, we have sold about 18-plus million spare feet. So 85% of our portfolio is ongoing portfolio is sold as we have consistently reiterated, completed projects don't have a meaningful inventory. So we are near zero inventory and completed. Only 15% inventory is to be sold on ongoing projects that are at different stages of completion.

Registration momentum has remained strong. Recently completed projects like Southern Crest in Bangalore and Grand one in Kolkata have been the key contributors to the registrations during the last nine months. They continue to be the drivers in third quarter as well. I'll explain in the number. As I said, GD pipeline has remained strong. I explained most of it at the right-hand side bottom part of the chart.

Our ASK co-investment platform has taken out well. The first project under the platform got launched in February '23, pre-launch in end-January and formal launch in February. It's called Shriram Pristine Estates, and this plotted development has received significantly an exciting response for us. In the first weekend of launch during first weekend of launch in February. We have sold about -- we've got 81 expression of interest, 51 have converted to bookings. Nearly about 21 of them already reached 9.9% payment levels, all in the last two weeks, and the pricing has been far superior than what we thought -- what we set out for ourselves before launch.

So overall, definitely an encouraging launch for us. We have a few other launches that I have a slide on. I'll explain that. Logos deal is moving meaningfully ahead. Likely closure is either during the remainder of this Q4 or early part of Q1 next year is when we think we will do. It's delayed by maybe a quarter, not more than that, but I think deal is on track. We have interest from other players as well that also I'll explain as we go through.

Xander Gateway is completed. The settlement agreements have been signed. Cash flows are expected in February '23. INR 1.3 billion is the residual cash flow that we need to receive. Income has been recognized in phases over the last couple of years. These cash flows will accrue to us partly this month, more than half of it. The rest will come through in tranches for the next four quarters. So fundamentally, the business is doing well across key metrics in both operational and financial metrics. And that's an encouraging progress so far in this fiscal for us. The next slide talks about the same data in a comparison form between nine months last year in FY '22. I think I explained that.

I'll instead spend a little more time on Q3 numbers, page nine. Our sales volumes are about 1.04 million square feet, 3% quarter-on-quarter growth. And this is still an encouraging number for us, considering the fact that the two launches that we have planned have got deferred to Q4 because of some approval delays. I think those are now back on track. We've got all the approvals required. And we have actually, we launched the first project which is Shriram Pristine Estates, plotter development in Bangalore in mid-January, pre-launch activity is began. EOI process started. Formal launch happened on February 1st weekend. And I think it is, as I said, few minutes ago, it's got a tremendously encouraging response for us.

The subsequent launches, as you would see in the next slide, are on track. Pre-launch EOI efforts have begun in some of the projects already. We're all scheduled for February and March. So I think we have a robust activity lined up to catch up with whatever we missed in the last one month. But I think we are very confident of realizing the impact of these four launches-plus two potential launches in the next 45-60 days.

Sales value grew by about 39% quarter-on-quarter, primarily because of the change in product mix. Last year, this time, we had -- last quarter also, we had a very high share of plotter development. The trend was similar, but this time, more of apartments, and that's one of the reasons why the sales value moved up. And so that geographical mix will keep changing depending on quarter-to-quarter. From an average realization perspective, I have another slide that I'll walk you through on has been an encouraging trend for us both in this quarter as well as for the first nine months. I think it will be appropriate to discuss that in detail along with the project details in Page 13.

So overall, the quarter has been reasonably strong from an operational perspective, except the muted sales growth, which we believe will get caught up in Q4 with the launches already on the way. It just moved from mid-December or early to mid-December to mid-January because mid-December to mid-January is an inauspicious period in Southern part. So we assume these purchases only after Pongal, which is on 14th January. So when we slip on the approvals in some of the approvals in the first week of December, we decided consciously to postpone them to post January, post-Pongal launches. And that's one of the reason why we had a muted to the launch for rest of the metrics are entirely stable.

This is exactly what is explained on Slide 10. Two projects, 1.2 million square feet got deferred from early part of December to mid-January to cover the auspicious period and to make the launch costs more effective from a return-on-investment perspective. Now we have four projects ready for launch. All the approvals are in place. Launches have started in one, prelaunch effort has started in others. Shriram Pristine Estates, I told you, North Bangalore, 0.8 million square feet of plotter development, first weekend alone, got us 81 EOIs, 51 bookings, 21 are already in the last 10, 12 days, it has reached 9.9% level. So that's an encouraging start.

Shriram Chirping Ridge is a plotter development in Sarjapur, pre-launch has begun very interesting outcome. And from an EOI perspective. I will pass this for now and maybe we'll make a media release once the formal release, the formal launches have happened next week on the outcome.

Shriram Solitaire and Shriram Poem. These are the two different apartment complexes, one in North Bangalore, one in West Bangalore. Both are at the pre-launch stage, EOI process have begun. Formal launches are happening on 26th of February. So they're all these four launches are February launches. And we have a couple of more launches lined up, one in Koramangala, one in Chennai, one in Kolkata, subject to approvals and subject to market acceptability. We will move from pre-launch to launch in these projects during the month of March.

Slide 11 gives you a glimpse of what I spoke just now, so I'll skip to level Slide 12. Again, reiterating the actual details of these proposed or ongoing launches. And in all, there's a very strong launch volumes, and given our track record of realizing sales set to launch during the first 90 days of launch, we believe a big additions big part of this can get added during Q4 and progress so far gives you the confidence that will end the year with between 4.25 million square feet to 4.5 million square feet of presales volume or the sales volume and with a meaningful growth in not just volume but also in sales value.

Apart from product mix, we are also benefiting from sales price increase. Slide 13 summarizes the price increase part. As you are aware, we started the second half of FY '22, that is September, October '21 onwards is when our focus, therefore, some price improvements come begin after COVID. And I think we have had an encouraging outcome in second half of last fiscal, 8% average increase, 3% to 16% project increased range -- range of increases in different projects.

On top of that, from the price levels that was in March '22, we have now clocked another average realization increase of 7% for the basket portfolio as a whole. So combination of these two gives us about 15% price size in the last 18 months. That's a meaningful uptick for us, encouraging, not only improves the margin profile for these projects, ongoing projects, but also helps us in terms of offsetting the impact of a short-term spike in cost that we witnessed in Q1 and some part of Q2. Though they are all behind us. All this will go a long way in protecting and upgrading our margin profile for ongoing projects.

With these , I actually shift to financial performance highlights on Slide 15. It has been a fairly strong earnings growth story for us, sequential quarterly improvement in the nine months of FY '23. We believe the impact of improving operating leverage, project execution and the rising share of DM is supporting our financial performance.

We believe the momentum will continue in the coming quarters as well because the on-ground construction activities and sales activities are remaining encouraging. And therefore, we should have meaningful momentum continuing in the coming quarters, consistent with what we had expected in the past. We are on track in terms of delivery performance. As I said, 1,600 units and plots have been delivered. 2,000 units is what we have set for ourselves. Nearly, it's on track, and we are kind of confident that the remaining 400 units will get handed over during this quarter.

Debt reduction has been a big positive for us. We managed to move down the cost curve as well as we have managed to bring down the overall debt and that's helping us in the financial performance. I'll try to explain the financial performance. Those are detailed in Slide 17 and 18. Let me try and give you some snapshot of where the financials have stood out in Q3 as well as in nine months.

Starting with Q3. Our revenue from operations have gone up 60%, primarily on our year-on-year growth is driven primarily by the ongoing registration completion and registration activities in two of the large projects, Southern Crest in Bangalore and Grand One in Kolkata, where we got the OC and the completion certificate called OCR. And those have helped us to move ahead well in the registration front. Simultaneous to that, we also had the continuing momentum in Bangalore project called Summit and Chennai project called Temple Bells.

All these are handovers are continuing. In fact, Top 4 projects accounted for 76% of our revenue retribution in Q3. And on top of that, we also had two flat transactions during this quarter, which one is the ASK platform took off. We moved one project from SPL to the platform, which is a plotted development called Shriram Pristine Estates, which got launched in January that we spoke a few minutes ago. This transfer of development rights has resulted in fair value, the gain of about INR 14-odd crores, INR 15-plus crores to be precise. And there is also a landowner settlement in one of our projects, which is nearing completion.

This is Shriram One city in Chennai. And combination of these two have added about INR 29.7 crores of income to us. These are operational income. But due to accounting standard requirements, we have to classify them as other income. So technically, I would urge people to look at the details of it. And you will appreciate that they are primarily core of our business in terms of acquiring and monetizing the transfer out the development rights.

And so that's actually is a point that I want to draw your attention to in Q3. Other than that, if you look at down the P&L, EBITDA margins are fairly strong at 22% compared to 18% in Q2. Absolute EBITDA growth is muted because last year, we had a very high EBITDA base because, as you may recall, we had a plotted development called Shriram Santorini, which was a Whitefield plotted development project in our books for a few years as a land and we monetize that land and therefore, they had a very high EBITDA margin, INR 10,000 per square feet was a plot of INR 9,500, to INR 10,000 was the range of price that we realized in the plotter development.

And given the fact that the plotter development, the costs are very, it's a land cost primarily, and that has been our books for a few years. And therefore, we had a high EBITDA margin there, 40% EBITDA margin. So a bit of our non-comparable EBITDA margins of last year. But overall, I wish to point out that margin profile is fairly strong and encouraging both for the Q3 and nine months.

I'll explain the nine months in a minute. Before that, I just want to highlight the finance cost. Overall, finance cost is lower by about 25% year-on-year. As you know, our finance costs comprise of two things. Actual interest expense is one. We also have the non-cash charge, which is basically what we call the unwinding impact. To be brief on this, we provide 4% non-compete fee in our balance sheet for the Bengal land where we are supposed to pay the government of West Bengal a particular liability. That liability is captured in our balance sheet on a discounted basis as a liability. Every quarter as we move, we have to unwind this NPV impact charges to the P&L

So that by the time when we come to making the payment to government of West Bengal, the liability will be in absolute rupee terms will be same as what the potential outflow is. And therefore, that NPV unwinding gets charged to interest cost on a quarterly basis. That number is almost INR 5 crores out of my overall finance cost. That number doesn't change much on a quarter-to-quarter basis. It will continue for another two years or so. And unless we win the litigation court case that we have filed against the Government of West Bengal for the non-compete, until such time we'll keep providing for it.

So focusing on the actual interest expense, 42% year-on-year decline to 14.5% reflects the impact of all the refinancing work that we are doing. And I think beginning to show up. We are almost done with the refinancing of the portfolio except for one project which is also likely to be completed in February-March. And that's the refinancing impact is what shows us another finance cost, which means all the unobserved or unamortized processing fee of the previous loan gets charged off the moment you shift from one loan to refinance the other loan.

And that's the one-off cost that we observe in our P&L. And so overall, encouraging for us is the interest decline and interest cost is about 12.5% in the weighted average cost of debt for us, which is despite the 2% increase in RBI-led lending rates. And that basically means on a comparable basis from April to now, or March year end last year to now, we have gone from

14% to about 10.5% without taking into account the RBI rate hike impact. Even if you take the RBI rate hike impact, the decline is more than 200 basis points, which is an encouraging sign for us.

PBT is higher by 20% year-on-year to INR 26 crores in Q3. And share of JV is negative, positive contribution from ongoing income recognition in Part 63, which is a JV between Shriram Properties and Mitsubishi Corporation. is continuing, but the impact is masked by the renewed campaign that we had for the next phase launch in one or two of our joint ventures called Shriram WYT, Shriram Whitefield and Shriram 107 South East. These are the new launches during this quarter and therefore our share of cost we are picking up as a share of JV, that's all negative. Overall net profit is at INR 22.4 crores, 16% year-on-year growth and more importantly, 14% higher on a sequential basis compared to Q2 level, which is fairly satisfactory, it's encouraging for us.

On a nine month basis, spending a few more minutes, last three columns of the table will tell you that our overall revenues have grown up 129%, revenue from operations have grown 144%. So we stand at the total revenue of INR 643 crores compared to INR 281 crores last year, nine months. Our EBITDA is up 59% year-on-year, INR 137 crores compared to INR 86 crores last year. Finance cost for the nine months is also lower. It's down 20% year-on-year. Interest expense as I explained earlier, interest expense is a more relevant metric in our context. Since it also include non-cash tax. So net interest cost is down 32%. INR 52.3 crores or INR 523 million compared to INR 77.3 crores or INR 773 million last year.

Non-cash charge explained it's a Government of West Bengal royalty related non-compete fee or royalty payment related charge and that will continue for a few more years unless we get the litigation ongoing litigation closed in our favour until the system will as a matter of prudence will continue to provide for this.

On a nine month basis, share of JV income is positive because Part 63, which is JV between Shriram and Mitsubishi, is registration activities continuing with a strong momentum. And that's actually showing up there. Of course, partly offset by marketing expense and JV refinancing costs that we had in the first half, where we refinanced from LIC or the NBFCs to banks like SBI and IndusInd Bank at 9.5% to 10.5% cost. And therefore we decide to refinance them for the long-term gain of these projects. Net profit for the nine month period is at INR 52.4 crores or INR 524 million, compared to our negative earnings in nine months last year. More importantly, it is meaningfully higher compared to INR 18 crores reported net profit for fiscal '22.

Looking at a quick look at a balance sheet in the ROCs, our return on capital employed stands at about 10.5% on a nine month annualized and expected Q4 should put us slightly ahead of the full year FY '22. So we are in the 10.5% to 11% band on an ROC basis, which puts us meaningfully in the first quartile of listed peer group. And on the debt side, I'll cover that a little more in detail in the next slide. But before that, I wanted to talk about cash flows a little bit in detail.

Slide 20 gives you the overview of our cash flows. If you look at the cash flows chart on the right-hand side, it is a company-wide collections. The collections are here, talking of the blue bar at the bottom is the Shriram CFS consolidated cash flow. The next bar is for nine months, it's 3,853, which matches with the column three of your table on the left. 311.18 is the INR 311 crores is the JV share of collections. And the DM collection is about INR 189 crores. That's how consolidated collections for the nine-month period is about 887 crores that you would have seen in the previous slides.

Focusing on the CFS cash flows of Shriram, which is 100% belonging to us. I'm not bringing JV, our share of JV cash flows in this context. I'm just focusing on CFS cash flows. If I look at the overall operating cash flows, cash flow from operation has been positive at around INR 77 crores. And for the Q3, it was about INR 18.8 crores. And we drew about INR 17 crores from the financing activities in a nine-month period. And therefore, so we invested, or we spent INR 17.5 crores from the operating cash flows towards loan repayment as well as interest costs. So, free cash flow before new project investments have been in the in the range of INR 15 and INR 16 crores.

And if I look at the new projects, primarily comprises of JD advances given in some of the projects. So we typically give somewhere around INR 8 crores to INR 15 crores kind of outflow to the typical outflow for a JDA project as a JD advance for a half a million square feet kind of project. So we signed up a new project, those are the JD advances. We also spend money, our share of investment in the co-investment platform in ASK, where we launched this project called Shriram Pristine Estates.

And also we have made some further investments towards acquiring 100% economic interest or equity capital in a project called Suvilas Palms and Suvilas Gardenia. These are now, as you recall from the press release we made, we acquired 100% of -- these are the DM projects. We acquired 100% equity in that project to make it a 100% subsidiary of Shriram. Now they are owned completely by us and they are getting launched. You heard a name called The Poem by Shriram. That's nothing but the renamed version of Palms, which is being re-launched as our own project instead of a DM project.

So all these activities took us about INR 120-odd crores of investment in new projects. Some part of this capital will come back in the next 45 to 90 days because we are putting some of these projects back into the monetization mode in the co-investment platforms or raise capital to unlock or release some part of our investment already. But during the nine months, we invested around INR 23 crores. That's how we used INR 64 crores of cash flow from our cash and cash equivalent in hand.

We believe the closing balance of INR 77 crores will rise sharply in Q4 because as I said in the beginning, we have concluded the DM arrangement and settlements with the Xander, the gateway office complex that we are building as a DM project. They are supposed to get a DM from Xander's funds. They are supposed to get a DM fee of about INR 130 crores, of which INR 65 crores should come through in Q4. These incomes have been recognizing phases in the past year or two. The cash flows will accrue now. I think we are getting about INR 60 crores or INR

65 crores now and their balance will come and branches over the next one year, four quarterly instalments. So that will boost our cash and cash equivalent at the quarter end.

And we're also expecting to, as I said, monetize or unlock or release capital from some of the new investment that we made last quarter. in acquiring Suvilas projects from Suvilas, because those projects are now we can't we have done completely equity funding of this project acquisition now, we'll monetize that so that cash will come back so we think we'll end the year with much stronger cash and cash equivalent, should be in the range of about INR 150 odd crores of cash and cash equivalent by year end.

Moving to slide 21 ongoing debt and so as I said, our gross debt is about INR 504 crores top left chart. Our net debt is about INR 427 crores. And we've gone up slightly compared to previous quarter, about INR 20 crores higher, but gone up by about INR 60 crores, compared to our year end or the year beginning of the beginning of this fiscal. We'll go down that curve in the next quarter. Debt equity is about 0.3, 0.35, 0.36 is to one, still remains as one of the lowest in the sector. Cost of debt remains in the 12% and 12.5% range.

We're working towards stabilizing around 12% at least before the end. Majority of this impact is of course, the reduced the high cost debt as well, but more importantly, the cost of debt has come down because we shifted from mostly NBFC focused loan portfolio to bank focused loan portfolio through the refinancing that we have completed over the last nine months. 55% of our loan book is now in banks. The incremental debt we are able to raise now is in the 9% to 10.5% range with coming from banks like SBI, IndusInd Bank and RBL, who have been the big contributors in the last 9 months to add this loan portfolio -- increase the share of banks in the loan portfolio.

Our focus remains on reducing the overall debt as well as remind on the cost of debt, realistically speaking, with all the RBI rate hike impact. So this 12.5% includes RBI rate hike impact, which means effectively, we are down to about 10.5%, 11% in that sense, but I'm not trying to complicate it right now. So from a 12.5%, I think we should -- we are still aspiring to go settle around 12 before year-end -- notwithstanding unless there are very large rate hikes that's coming through from RBI for the next 3 to 6 months.

Some of the awards and recognition that we received for our projects are on Slide 22. I will quickly summarize what we see as an outlook for '23 and beyond for the next 2, 3 slides and then I'll pause for, stop for Q&A, because I've only taken 40 minutes of yours. From and outlook perspective we see a very strong for Q4. As you know, five projects account for 76% of our projected revenues in '23. All of these projects have come under control in terms of external factors like we have received OCs in all of these projects. So as we complete customer registrations and handovers, we start recognizing income in these projects.

DM remains on track and will continue to be a key contributor to FY '23 revenues as well has EBITDA. And moving beyond ’23 Q4, which is just 45 days left, looking at a three year earnings per curve, ‘23, ‘24, ‘25, we believe the visibility is very high. 75% of our aggregate revenues during this period, ‘23, ‘24, ‘25, will come from projects so volume sold up to September ‘22 already. And 60% of DM revenues will come from projects launched already. And therefore, we see a meaningful visibility on what we can deliver. And we have been consistently emphasizing since our first analyst call post listing that we do see a greater visibility on earnings and we are therefore confident of delivering what we promised.

And we see nine last three quarters supporting our efforts. And we believe it will continue to demonstrate that we are on the right track in delivering long-term value for our shareholders. And we'll wait for, and we believe as we continue to deliver stock capital markets will give us a due credit and valuations will move. And as someone pointed out last, yesterday in the board, our current EPS from nine months is about a shade below INR 3 per share.

And therefore I'm analysing it to INR 4 earnings per share. compared to an INR 70 stock price. So on a historical earnings basis, it is trading at a, we believe at a low number, but given the fact that we are currently focused on delivery, demonstrating to the markets that we are on the right track to deliver earnings and Returns and we believe at some stage markets will recognize this consistent delivery.

Slide 25 talks about the same message that I talked about the three year earnings. We will deliver 10,000 units. We are targeting to deliver 10,000 units over the three year period. Close to about -- because we sold about 11, 12 million square feet in the last three and a half years. They are coming up for completion and handover. And therefore, at least 10 plus million square feet will be handed over to customers involving 10,000 units. That should give us the revenue recognition potential. This year, I think we believe we will complete and hand over about 2.5 to 2.6 million square feet for the full year, which basically means at least 3 million square feet at least annually over the next two years.

Even on an INR 5,000 per square foot selling price, it means INR 1,500, INR 1,400 crores of revenue recognition. And with an EBITDA margin that we believe is sustainable at mid-20s, I leave the audience to decide what should be a sustainable level of EBITDA in this company. And therefore, what we want to emphasize is the fact that we believe we are on the right path. We believe the current performance is supporting our belief that we are on the right path. And we'll continue to move forward with both all-round growth in terms of volumes, as well as the financial earnings and returns.

Slide 26 summarizes what we expect to do over the next couple of years. We will continue to focus on delivering growth momentum, we will continue to leverage our operating benefits and the benefit on the back of scale and efficiency improvement and over the next couple of years we remain committed to delivering 20% CAGR in sales volume, margin stabilized around the mid-20s EBITDA and ROC stabilized in the mid-teens.

And we'll continue to focus on BM, simultaneous to our energies on JVs and JDA. While doing all of this will continue to unlock potential from Kolkata. Some of these are explained more in detail in the slides later, but I'll end with slide 27 saying despite moving seven projects, 3.8 million square feet from ongoing portfolio to completed portfolio, which is a positive development and also deferring couple of projects because they are taking more time than what we envisaged, 2.8 million square feet moved out of the pipeline.

Though they are not shelved projects, I think they are not coming through for the next couple of years. Therefore, we said when it comes, we will add them back. Despite all this, we have still managed to have a pipeline which is robust enough with 51 projects, 53 million square feet, out of which 23 million square feet is ongoing and therefore 30 million square feet upcoming projects pipeline potential. spread well across JVs, JDS and BM.

Out of 23, as I said at the beginning of the call, I'll end with saying we have no completed inventory. Out of the 23 million ongoing, nearly 85% is sold and that's a fairly encouraging spot to be in as a mid-market real estate developer.

With this, I pause or stop here. Me and my colleagues will be more than happy to address all the queries that you may have. Thank you and over to the host.

Moderator: We have a first question from the line of Dhananjay Kumar Mishra from Sunidhi Securities.

Dhananjay Mishra: So what is the likelihood of launches? I mean, how many projects we can launch out of the seven you have listed in your presentation? So can we launch at least four or five or will it not be as low in the next quarters?

Management: Yes. I think we are very confident because -- so it's -- while it looks like move from one quarter to other quarter the launches were planned for early part of December. So it is a delay by 3 weeks for us. Of course, clot move. So we moved from a shift from it looks like a 1-quarter delay. So out of the 6 projects that are listed on to Slide 12. Shriram Pristine Estates is launched already on February third or fourth for the first weekend. And that's what the story encouraging story that I explained. Chirping Ridge and Poem, UIs have started last weekend, and they've actually got a very good response.

In fact, Chirping Ridge has more than 100 EOI's in the last weekend. So I think the launch -- relaunch has already started in these two projects. Solitaire and Prime LifeSpace, we'll do the prelaunch during second half of February and formal launch by, I think, 26 is when getting launched Solitaire and LifeSpace. Solitaire in Bangalore brand and Prime LifeSpace in Chennai. So they are all the formal launches during early part of March.

So once we gauge the EO interest levels, then we'll try to price it. That's the premarketing that we do. So I think -- 5 of them are already taken off in that sense four in the prelaunch launch stage, and one is launched Koramangala. We've got all the approvals in place. So there is no external dependency. It's a very boutique project, 1,30,000 square feet of project in Koramangala and therefore, it's a high-end bimutation type marketing launch that we are trying to do. And therefore -- and I don't -- we don't see a big challenge in Koramangala project, which is not yet named called in Koramangala.

So we are on track for all the here listed here. On top of this, we have some buffer in two other launches, where there is one external approval dependency pending in West Bengal, therefore, not compared them. So these 5 new plus 1 launch quality. 6 of them are definitely on track. They will all be formally launched by end of this month. Basically, next 2 weeks, they will be on the shelves and the newspapers.

Dhananjay Mishra: So total, we have -- we will have at least 8, 9 for this year?

Management: This year, we should end with about 9 or 10 launches.

Dhananjay Mishra: What is the target for next year in terms of launches? I mean we have any targets...

Management: Launches are many, but based on where they are out of -- we believe we will be somewhere between 6 and 9 launches at least based on where we stand today. And out of which, nearly 4 of them are very high visibility in terms of the time line. The remaining to May is contingent on the timing of plan approval plus the RERA in each of these cases. So there is some visibility -- some dependency on two projects. But otherwise, 6, 7 launches are visible, but I would imagine between 6% and 9% would be the fair number for FY '24.

Dhananjay Mishra: And in terms of sales booking...

Management: So just to clarify, the number of -- more than the number of launches is of the size of the project, which also matters for us. Like, for example, Primelife launch is very different from Chirping Ridge launch for us because a million square feet apartment complex in Chennai, prime locations. And therefore, we see that one launch can feed a very large volume. So we are confident of 5.5 million square feet next year because we see the pipeline already in a mature stage to support that kind of to be prudent, I would say 20-plus percent growth is definitely achievable in FY '24 and '25 based on signed pipeline document already signed a document for pipeline projects.

Dhananjay Mishra: Okay. So 4.5 million sales booking we are affecting this year for 2 and about 5.5% next year, right?

Management: Yes, a few percentage here and there for this year, but we are ballpark there on 4.5 zone.

Dhananjay Mishra: And second question with respect to ASK investment. So what is the arrangement with them going forward, how many projects we are going to do with them at only...

Management: Yes. So it's an ASK platform is an INR 500 crores co-investment platform, cost equity in nature, where ASK puts 80% of the capital, Shriram puts 20% of the capital. And ASK gets coupon on their investment for the first stage of return will be in the form of a coupon to them. Shriram gets a 10% BM on these projects. ASK gets a somewhat similar coupon on the investment that they've made. And thereafter, its sale Pari-passu proportionate sharing of free cash flow available in the project. And ASK exists at 20% cap or 20% IRR subject to cash flows available in the project. There are no guaranteed return beyond the coupon. But -- and there -- even if the coupon cash flows are very strong, they get capped out at a particular level, and thereafter all that cash flows belong to Shriram.

The first project, which we have dropped in this platform is called Shriram Pristine Estate that I said that we launched in January -- February beginning, Jan in prelaunch and February first week launch. And that launch is -- that project is 8 lakh square feet plotted development in North Bangalore and that's already in the platform. We think that the platform, it is using about INR 100 crores from the platform, INR 20 crores from Shriram and INR 80 crores from ASK. It's an acquisition of a plotted development land from someone is a stress asset acquired from an NBFC. And we think we have another potential for 3 to 4 projects depending on the size of the project.

We all be evaluating one project to be put in the pipeline in the platform. Depending on the size of the investment, it could be anywhere between three projects from now -- three more projects from what we have done already to a maximum four projects. From our perspective, it is like a DA We put 20% of the capital, we are getting the remaining capital instead of borrowing the remaining money, we are actually getting a cost-to-equity investment structure. That's the way we see it because our IRR will go up, as long as the project IRR is more than 20%, we should get our investment should get a much higher IRR.

Dhananjay Mishra: So can we assume that this INR 500 crores platform, we will have three, four projects and potential revenue could be about INR 1,500 crores, INR 1,600 crores from this platform itself?

Management: How many crores? Sorry, I missed the last part.

Dhananjay Mishra: INR 1,500 crores sales potential?

Management: Sales potential, yes, It can be because, we will definitely do three to four projects at least. We are already evaluating one which involves 1.8 million square feet. And that alone should give you about INR 750 crores of sales value. So I think you are there, I will tend to agree with your number. There is a meaningful potential there to unlock. It's a way of financial structuring in a sense because these project pipelines are already either being sourced by us or already in the pipeline with us. So it's kind of a capital source for us.

Dhananjay Mishra: Lastly, sir, our interest funds. So for nine months we have done 12.5% interest cost. But in this quarter what is the interest cost? It should be lower than that, I think?

Management: No, in the initial quarters it will be higher. Maybe I can share the details offline or I'll see if my colleagues can fill that number out. Because we started with 14.2% in March or April '22. And obviously as we go down, there's an RBI impact that keeps pulling back. So the combination of both is, I right now don't have an apology. I don't have quarter-to-quarter WACC number. But I think it would have descended from 14 point something to 12.5 gradually only. It would not have gone down a big number in Q1 and Q2.

Moderator: We have a question from the line of Kanika Kothari from Kothari Securities.

Kanika Kothari: Firstly, I wanted to ask, can you please elaborate on the trends and patterns and the performance of real estate sales in metro cities versus in Tier-2 cities?

Management: Yes. So, as most of you are aware, top seven cities account for about 80-odd% of organized real estate demand in the country. NCR has one, if I count, then there are seven key cities, NCR, Kolkata in the east, Hyderabad, Bangalore, Chennai in the south, Pune and Bombay in the west. You may have seen this from Slide 4 and 5, our core markets, the numbers are very encouraging from a sales volume or the absorption number they call it, the quote. There are a lot of IPC reports floating. I picked up a couple of them, Anarock and PropEquity as more frequently visited numbers.

Basically the new launches in these core top Tier 1 markets have gone up by about 15%, 16%, absorptions have been in the 20%, 25% growth and therefore naturally the inventories have gone down both in our core markets of Bangalore, Chennai and Kolkata as well as other core markets. So overall market is going very strong, large supplies are also there. The number of suppliers as you know has come down because of the ongoing consolidation. Therefore the supply growth is more controlled in my view and therefore the trend of declining inventory could continue for some more time.

And it's a very, very encouraging inventory levels. If you look at Bangalore as the less than 12 months of inventory, which probably is one of the lowest that we have seen in the recent years. Chennai has 13 months of inventory. Kolkata has about 15 months of inventory. And few markets like Bombay has 14 months. Hyderabad has 15 months. So, it's like ranging from 10 months to 16 months compared to 36, 38 months that we used to have. So that clearly shows the market is getting balanced.

One other interesting factor I must point out when you're talking about the markets, I'll come to pay-to-stake later. One other interesting factor is that the mid-markets have always been a stable from participant. Mid-market demand is primarily end-user driven. There is no investment gain here because the ticket size is low. So the end-user demand is more than investment demand. And therefore, mid-market tends to perform much stronger and inventory levels are very, very low in the mid-market across Tier 1 markets.

The premiums and higher end of the segment is where even in the pre-COVID period, we saw very high inventory problem. I think that inventory problems have gone down now post COVID, even those luxury and premium products have actually moved on very well in the market. So overall, the markets are doing well. That's the point number one.

Point number two, the interest rate hike impact, all of us, especially the capital market participants had more concerns than the real estate players, but there were concerns and apprehensions about the impact of rising interest rate on the housing. Unlike the Western world where these have a much stronger direct correlation. In our markets, if you look at the last two, three cycles of real estate and the interest rate, we just map them, you will realize what I'm talking about. In the previous cycles also, residential has just got into a new cycle, maybe one, 1.5, two years is gone. So there is still another two, three years left for the cycle to go. And in the past cycles, interest rates have been even higher than what it is today.

So we don't see that as a big dampener and this belief is also endorsed by the fact that all the home loan companies listed and un-listed. So all are reporting very strong continued strong demand from customers for home loans. That clearly shows that the customer perception and decision making process have changed. So will it continue forever? No, at some stage it will break off. Where would that point? We don't know, but I would guess I would probably hazard a guess saying that the double-digit interest rates for customers, maybe there will be a slowdown in their appetite. But as of now, there is no big negative impact that we have seen in front of other places in our core markets.

You had a second part of the question that I forget. Tier 2, cities? Yes. Tier 2 cities, I have a limited knowledge, but what I will say, some of the Tier 2 cities are emerging slowly trying to become Tier 1. They are doing very well. But the question here is several of the listed players have not really focused on these Tier 2 cities because Tier 1 itself has an immense potential as of now. And I think it will be a few years before we all start exploring new markets. But Tier 2 are also doing well, especially markets like Ahmedabad, Bhopal, Indore, they seem to be doing extremely well. As an outsider, I was listening to the feedback from people who know this market better, but based on what we hear, secondary information, I think the markets are doing extremely well.

And with all the ongoing infrastructure spending by the government of India and continued trust on this PMUY where the budget allocations have gone up, all these are going to be good news for residential because eventually the money will flow into the common man's hands, purchasing power and therefore, it will come back into their real assets and real estate being one of them should be a beneficiary across Tier 1 and Tier 2. But for now, to clarify, Shriram Properties will remain focused on our core markets which are Tier 1 markets of Bangalore, Chennai and Kolkata. And we will explore cautiously the other markets, but so then other southern market. So fundamentally we are currently focused on Bangalore, Chennai and Kolkata.

Kanika Kothari: And sir, also can you please throw some light on the Kolkata land parcel, I mean how much we will recognize and by when?

Management: Kolkata, as I've stated in the past couple of calls, our strategy was very simple and continues to be unchanged. We will develop 10 million square feet by ourselves. We will sell FSI equivalent to 20,000 square foot of approval. So roughly about 175, 200 square acres of land is saleable and rest will be developed by us. Our own development has moved ahead well. So the monetization is already progressing. Grand One handovers have been making good progress and I think we will complete the Grand One. Grand One, which is the first project, we launched 2 million square feet, 2.1 million square feet.

That will be completed in handover in about 18 months. In Grant Two, I think we’ve sold 98% of Phase I and about 50% of Phase II. So in all about 1.1 million square feet has been sold out of 2.3 million square feet. So as a launched project, 4.4 million square feet launched, And about 3.3, 3.4 million square foot has been sold. So we are kind of sitting comfortable on those launched activities. As I said in between the launch topic, we are also waiting for one approval there.

We might launch row houses in that site sometime in the next 45 days subject to approval coming through. This is over and above the launches that I've listed in the PowerPoint presentation. If it comes through, we'll launch it in mid to late part of March. So I'll treat it as a March or April launch. That would be a third project that we'll start monetizing and then some commercial activity that we have-- commercial space development we are doing. So that's our side of 10 million square feet story.

On the monetization, I think as you are aware, we have signed up with Logos. Due to this, it's nearly almost complete. The documentation is progressing well with them. And we think we should be able to close in the next month or two. So it's basically, I would probably bet on, we are originally targeting second half of FY '23. Might get pushed to first part of FY '24 I think. Because the buying party needs to get some land holding approvals, ULC clearances and other, few other clearances from Government of West Bengal. So that might, since that being out of our hand, governmental dependency by a foreign company, so I would go cautiously on the timeline. Somewhere around the end of this year, early next year is when fiscal is when we think Logos will settle.

We also have got, as you would have seen from slide 29, we also have got interest for additional land beyond Logos, from another large, credible global player. I would stay away from quoting the name right now, but it's a very large, one of the largest names in the global space. I've also shown interest in the same land parcel, I mean in the land parcel that we own in Calcutta. So between Logos and the second large global player, second player, I think we would monetize a large part of a saleable area. But we will keep our fingers crossed till we sign a term sheet with the second player.

So monetization is progressing well is the limited point I'm making. We believe from a timeline perspective, our own development will be completed in about three to four years. We will be out of that site, 10 million square feet. From monetization, depending on the models of monetization, can be anywhere between 24 to 36 months before we completely complete this Shriram Grand City as a project. So four years from today, is when I think we see entire 300 acres of land getting completely monetized both by ourselves as well as FSI sale.

Moderator: We have a next question from the line of Ashay Jain from Jain Capital.

Ashay Jain: Sir. I have a question. So what will be the impact of repo rate hike on our sales considering that we cater mostly to the affordable segment?

Management: So just one correction, we do sell both affordable and mid-market, is together add about 85% of our portfolio. And affordable alone must be about 35% of our overall volume. Remaining 50% must be coming from mid-market. So that's the kind of breakup. You're right in expectation that both, because of 85%, 90% of our customers are salaried class. 85% of our customers take home loans, and they're all end-user customers. Therefore, it does have some impact. As of now, it has not dented any demand as we see.

It may have, if the interest rates keep moving up, it may have an impact. At the HOP, home loan, it has not really had a meaningful impact, not just for us. What I hear from critical large home loan companies. It's just the ICICI and all of them, you all cover them more closely than I do. What we hear from them is that they have not seen a slowdown in home loan momentum. So it clearly says that customers are fairly comfortable with the current level of rates that it's moved up about thin one. It used to be SBI lending rate used to be about 6.7%, 6.8%. Now it's like, 8.25%, 8.3%. So there is a meaningful corresponding increase with repo rate, but fortunately it has not had a meaningful dent on it.

From our own sales perspective, we haven't really seen either a big impact in footfall or even a conversion. Conversions have actually been faster than pre-COVID, which we have been consistently mentioning it to you all, the capital market participants for the last three, four quarters. Surprisingly, big conversions happening, faster conversions happening compared to pre-COVID level. That has not slowed down. So I assume therefore the impact is very marginal.

Moderator: Thank you. I would now like to hand over the call to management for closing comments. Over to you, sir.

Management: On behalf of all of us in this room, Murali, Ramesh, Gopal, and my other colleagues, I wish to thank every one of you for your time and energy taken to listen to our story. I hope we've been able to answer your queries and always available phone call away or e-mail away for any further queries that you may have. I'd also like to thank SGA for hosting this. Thank you, Rahul, and Yashashri for coordinating this call. Thank you.

Moderator: Thank you. On behalf of Shriram Properties Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.