ELDECO

Date: 20.05.2023

Department of Corporate Services
BSE Limited,
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai-400001

The Manager, Listing Department
The National Stock Exchange of India Ltd.
Exchange Plaza, 5th Floor, C - 1,
Block G, Bandra - Kurla Complex,
Bandra (E), Mumbai – 400051

BSE Scrip Code-523329

NSE Symbol- ELDEHSG

Subject: Transcript of Earnings Conference Call held on Tuesday, May 16, 2023

Dear Sir/Madam,

This is with reference to the intimation dated May 11, 2023 made by the Company about the Earnings Conference Call scheduled for Tuesday, May 16, 2023 at 3.30 p.m. IST. A copy of Transcript of the conference call held with the Investors/Analysts is enclosed herewith.

The aforesaid Transcript is also being made available on the Company's website at www.eldecogroup.com

You are requested to take the above information on record.

Thanking you,
For **Eldeco Housing and Industries Limited**

CHANDNI
VIJ

Digitally signed by CHANDNI VIJ
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Company Secretary
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"Eldeco Housing & Industries Limited
Q4 FY '23 Earnings Conference Call"
May 16, 2023

MANAGEMENT: **MR. PANKAJ BAJAJ – CHAIRMAN AND MANAGING DIRECTOR**

MR. MANISH JAISWAL – GROUP COO

MR. SANJAY AGARWAL – GROUP VP (ACCOUNTS & TAXATION)

MODERATOR: **MR. ABHISHEK BHATT – E&Y INVESTOR RELATIONS**

Moderator: Ladies and gentlemen, good day, and welcome to the Eldeco Housing & Industries Limited Q4 FY '23 Earnings Conference Call. As a reminder, all participant lines will be in 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 zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhishek Bhatt from EY Investor Relations. Thank you and over to you, Sir.

Abhishek Bhatt: Thank you. Good afternoon everyone and thank you for joining us on the call. Before we proceed to the call, let me remind you that today's discussion may contain forward-looking statements that may involve known and unknown risks, uncertainties, and other factors. It must be viewed in conjunction with a business risk that could cause future results, performance, or achievement to differ significantly from what is expressed and implied by such forward-looking statements. Please note the results and presentations are available on the exchanges and on our company's website.

Should you need any assistance to receive them, you can write to us, and we'll be happy to send them over. Today we have on the call Senior Management of Eldeco Housing & Industries Limited, which is represented by Mr. Pankaj Bajaj, Chairman and Managing Director, Mr. Manish Jaiswal, Group COO, Mr. Sanjay Agarwal, Group Vice President, Accounts and Taxation. We will begin with the highlights of the quarter, followed by Q&A. Over to you, Sir.

Pankaj Bajaj: Hello everybody. This is Pankaj Bajaj. I would like to welcome everyone to Eldeco Housing and Industries Limited Q4 and FY '23 results call. Thank you for participating in the call. Let me begin with a few comments on the real estate market, after which I will discuss operational and financial results for the fourth quarter and the year ended March, 2023. The demand for quality real estate, particularly residential real estate, continued its strong trajectory in FY '23. Several macroeconomic factors adversely affected global real estate demand in FY '23, but there was hardly any impact on the Indian real estate demand.

The size of the industry, which has been stagnant for nearly 10 years, is predicted to grow in the next 3-4 years substantially. The fundamental factors of rising salaries, good demographics, and rapid urbanization have not changed. The customer, particularly in smaller towns, is also unconcerned about interest rate fluctuations. Lucknow's real estate market remained robust during the year. Demand was not a concern, but supply was a concern due to the absence of new launches.

Moving on to our performance, fiscal 2023 was a flat year for us in terms of both. Due to the lack of new launches, sales remained flat throughout the year. Despite signing up for some new projects, we were unable to move them to the launch stage owing to land assembly issues, and approval issues of both. The company has already advanced about INR25 crores in these projects and had a significant expression of interest from real estate funds who want to enter the Lucknow market for the balance part of the investment.

At this stage, we cannot disclose the location or nature of these projects due to confidentiality issues. However, we expect the issues to get resolved in the first or second quarter of the current financial year. The positive side of this delay is that the prices have turned up in our micro-markets and the launches will happen at price points higher than our original underwriting.

Moving on to the operational highlights, during the year, the company handed over 4.15 lakhs square feet with the registration of 322 homes. The FY '23 collections were INR 158 crores. The area booked for the financial year was 2.01 lakhs square feet. We have successfully added land bank of 20.91 acres between April 2022 and March 2023. All our existing projects are developing well in terms of execution, sales, and collections. And we are confident that we will complete them all within or before the RERA timeline.

I would like to spend a minute on new launches. We have received RERA registration for our new residential project, Latitude 27, and construction has commenced. We plan to formally launch it by the end of May, 2023. We expect strong sales from Imperia Phase 2, which we will launch during the second half of the year. Apart from these, we have signed two new projects where land assembly and approvals are under process.

We hope to be able to formally announce them in the next quarter. Furthermore, we are working on building a strong project pipeline for the coming 2-3 years. To finance all this business development, we will look at an optimum mix of external debt and internal equity. Accordingly, we plan to raise debts this year against existing and new projects. We feel that the time is right to invest at this stage of the real estate cycle.

Moving on to our financial performance. The consolidated revenue from operations for the quarter showed INR 38.7 crores in Q4 FY '23 compared to INR 28.9 crores in Q4 FY '22 and INR 30 crores in Q3 FY '23. The revenue from operations in FY '23 showed INR 129.1 crores compared to INR 126.9 crores in FY '22. The consolidated EBITDA was at INR 18.1 crores for the quarter compared with INR 15.6 crores in Q4 FY '22 and INR 12.2 crores in Q3 FY '23. EBITDA for the entire year was INR 51.2 crores. EBITDA margins stood at 46.8% for the quarter against 39.6% in FY '23. The company's consolidated profit after tax stood at INR 14.9 crores for this quarter which is Q4 FY '23 and INR 44.4 crores in FY '23.

With this, I would like to open the floor for questions.

Moderator: Our first question comes from Gunit Singh with CCIPL. Please go ahead.

Gunit Singh: Hi Sir. Thank you for this opportunity. So Sir, in the last concall you mentioned that we will have a sales value of INR 300 crores, INR 400 crores in FY '24 and about INR 500 crores in FY '25. So I just want to understand how much of it will be realized in actual sales for the coming years.

Pankaj Bajaj: The guidance that we gave remains unchanged. So that will be the sale booking number. So if you look at it, we have given an investor presentation also. The area which is available for sale in existing projects is about a million square feet. And similar areas are already planned in the forthcoming projects. And this is not counting the fresh projects which we have not declared. So 2 million square feet at an average utilization of INR 4,500 to 5,000 per square foot which is what our latest numbers are. So that is the sale value of INR 900 to INR 1,000 crores.

And this will all get booked in the next 2-3 years. So our numbers stand whatever the guidance I gave stands. But there are two ways of recognizing the revenues. The latest accounting standards say that revenues get recognized when you get a completion certificate and pass on the title to the customer. So obviously a lot of this will get recognized on the back end. Except for the running projects which will get recognized during this period.

Of course, in the tax part, we continue to use the old method of recognizing revenue which is the percentage completion method. But for you, the relevant number is that the new projects, the revenue will get recognized towards the latter part of this period, 3-4 years. The existing projects the company is running, the numbers as you can see have been stable and they will not bid. They will only write comments.

Gunit Singh: Okay and how much was the sales value for FY '23?

Pankaj Bajaj: Fresh booking number right? The booking number is about INR 100 crores I think.

Gunit Singh: And do we have any projects which will be handed over in FY '24?

Pankaj Bajaj: FY '24 yes sir we will be handing over one of our big projects, Imperia.

Gunit Singh: Okay so sales from that project will be realized in this period sir? Yes. And how much would that be?

Pankaj Bajaj: See there is a mix of a lot of numbers. There will be Imperia, there will be other projects also. So it is very difficult to correlate the completion of one project with the declared number. Because when you give the completion and handover to the customer, the number would be slightly on consolidated basis. The revenue recognized will be slightly higher than last year.

Gunit Singh: Alright and what are the timelines for the handover? I mean in the second quarter, third quarter.

Pankaj Bajaj: I think by the third quarter.

Gunit Singh: Alright and the revenues for this would be slightly higher than what we realized last year?

Pankaj Bajaj: Yes it should be.

Moderator: Thank you. Our next question comes from Abhishek Agarwal with KR Choksey. Please go ahead.

Abhishek Agarwal: Hello. Sir my question is you have mentioned about debt raising. So can you throw some numbers on it for FY '24 and FY '25?

Pankaj Bajaj: It depends on our new business development. Debt is required mostly for our new projects and we are going as I mentioned we are going aggressive on it. But it should be in about INR 100 crores range.

Abhishek Agarwal: For FY '24?

Pankaj Bajaj: Yes.

Abhishek Agarwal: Okay. And are you planning to merge our unlisted entities in the near future? Because it's a much bigger size compared to listed entities?

Pankaj Bajaj: Nothing that I can declare right now. It's a complicated issue because there are multiple agencies involved, and there are multiple RERA's. As you know that the unlisted company is bigger and is in multiple jurisdictions. So it is also controlled by RERA. So it's not something that we can have a firm view on right now. But it's something that one keeps exploring informally.

Abhishek Agarwal: Okay. If something we get approval or everything is in line, we can think on that.

Pankaj Bajaj: Yes, it makes sense. So the two sets of shareholders, of course we will like to see that.

Abhishek Agarwal: Okay. Sir, can you give me the segment of the new launches? How many projects in the residential or commercial?

Pankaj Bajaj: These are all residential. And there will be a mix of group housing which is apartments, multi-storied apartments. And horizontal plotted townships which Eldeco has been traditionally very good at. So it will be a 50-50 split between horizontal plotted development and group housing which is apartments. All will be in the Lucknow area.

Abhishek Agarwal: Okay, sir. And you have mentioned about the realization of around 4,500 to 5,000 for the new project what we launched. So how much growth we are expecting compared to we did in the FY '23?

Pankaj Bajaj: Because it's a lumpy business, it's very difficult to give a quarter or yearly kind of forecast. But as I said that we should be – we have been doing about INR 100 crores to INR 150 crores of annual fresh booking for the last many years. But my number for the next three to four years is more than INR 1,000 crores. Now which year we will do, how much, depends on the stage of the project. But on an average, we should be doubling or tripling somewhere over the next two to three years.

Abhishek Agarwal: My question was more related to the growth on the realization. So like we are expecting….

Pankaj Bajaj: On the realization. Yes. So we have given a chart actually where every year we have been – this year we have seen the highest improvement in realization in the last many years on a per square foot basis. Last year it was INR 3,800 per square foot. This year it is INR 4,600 nearly. And going forward we also expect it to improve. But the last year was outlier in terms of residential market realization. The prices increased on an average which is average by 20%. This year we think another 10% should rise.

Abhishek Agarwal: So it will be more than the normal growth in the real estate, correct?

Pankaj Bajaj: Yes. It is more than normal because many years it has been stagnant for many years and now there is an upward correction to correct for some years of stagnation.

Abhishek Agarwal: Okay. Sir, from the last few calls I am asking the same thing that apart from the Lucknow market, which are the markets you are looking to grow? Because Lucknow market, though we have the potential to grow in the Lucknow market, but there are other markets where we can think on it. So what is in our plans right now on other markets?

Pankaj Bajaj: So as of now we are focused on the Lucknow market and as I mentioned in my opening address, we have already done significant BD. Unfortunately, in the last year, we could not bring it to the launch page which it has got delayed by a couple of quarters. Hopefully, we should resolve that. And I don't think we will be constrained for growth because and I have already committed to that. If a time comes that the company is limited for growth because of its geographical presence, then we will go beyond our core market.

But as of now, I think that there is a strong trend towards consolidation. We can get a bigger market share of a very rapidly growing market. So we are focused on that market. If for some reason, we are not able to do it, we will move out. And to begin with, it will be in the other parts of U.P. only. And we did make an investment in Bareily and maybe we will do one with, if nothing works out, then Gorakhpur is the market we are looking at.

Abhishek Agarwal: Gorakhpur, okay. Because why I am asking this question is because you are one of the players who are leading this geography. So I think it is a good time for us to be more aggressive to cater the market.

Pankaj Bajaj: That is a good point. And U.P. itself is growing very fast now. It is a 20 crores population. And real estate and urbanization is really exploding in this part of the country. So if we are to be at the right place at the right time, which we think we are and we'll try to ride this wave with our -- how we have been doing in the past.

Moderator: Our next question comes from Faisal Hawa with HG Hawa. Please go ahead.

Faisal Hawa: Sir, what is causing our movement towards Lucknow and U.P. markets, because we were predominantly an NCR-based player? And, are the realizations there for our ROCE, ROE calculations for which we have been very conservative over the years? Secondly, sir, now we are almost like more than a 40-years-old company.

So to really give a good shareholder return or to enhance shareholder returns, are we looking at any kind of buybacks or kind of giving some large dividends to really reward the shareholders? And thirdly, sir, what is the kind of movement we are seeing in the affordable housing market? Is it still profitable for most real estate companies like ours or it's getting to be little difficult now?

Pankaj Bajaj: Okay. First question, why did we moved from NCR to Lucknow. So let me correct it, not at all. This company has always been in Lucknow, has only been in Lucknow and has never ventured outside. So it is not that we have moved from NCR to Lucknow. So Eldeco is a group from Lucknow. In fact, this company has operated only here. It's a separate -- because it was operating only here, the separate company was formed some years ago to look at other markets in the unlisted entity of the promoters. So it's not that it has moved from Lucknow but from NCR to Lucknow, it's the other way around.

Faisal Hawa: My apologies for being wrongly informed. I was confused in the unlisted company.

Pankaj Bajaj: Yes. So it's not that we moved from there. It has historically only been in Lucknow. The second -- your question was that because maybe Lucknow does not give us the kind of ROE or ROCE that other markets might. Again, I would like to correct you. If you look at the number, I think that our company in Lucknow gave the highest ROE and ROCE of all listed companies in the entire country. It is the highest. And if you look at our margins there, our consolidated revenue this year is about INR 150 crores and our PAT is about INR 45 crores.

On those margins, any other real estate company in the country to give that kind of profit after tax would have to do a turnover at least 4 or 5 times of that. So our margins are very good, our ROEs have been very good, our ROCEs have been very good. I think we are market leaders amongst all listed or unlisted real estate companies that I know of.

Third point – the second point was on, it's been an old company with a track record and should we not give buybacks and increase the dividend. So we did do a stock split last year because the stock -- just to increase the liquidity. I know it's not a value-wise, it's a neutral impact. For whatever it is worth, we did a stock split 1:5.

Dividend, if you have been noticing, we have not only been increasing our dividend ratio. So this year, I think we have recorded 400% dividend. So historically, it was quite low. It has now come down to 400%. We have also been increasing our dividend payout ratio. It used to be 2% to 3% or 5% of our profit. This year, it is I think almost 17% to 18% of our profit. And our intention, in the long run, is to take about 25% of our profit.

Why we don't give more dividends or more buybacks is because as I answered for one of the earlier questions, we see a great opportunity to invest this money on behalf of our shareholders and at the stage of the real estate pipeline. I think we are in a long-term secular uptrend. We are well placed. So it will be a good thing to put this money to work on something which the company is good at, which is doing real estate development.

If the market is stagnant, of course, we are going to give back the money to the shareholders, either by way of dividend or buybacks or whatever. Your third question was on affordable housing. We have never been an affordable housing player. We never believed that it was a sustainable kind of model. The margins are just too thin there. And given how RERA has played out in the last four, or five years, whereas as a developer, you are open to inflationary pressures, but you cannot pass that on to your customers, because once you enter into an agreement to sell contract with the customer, your price is fixed.

Earlier you could pass that on to your customer by saying that escalations have happened. So -- and this is exactly what has happened after the pandemic. The commodity prices have increased 20% to 30% and in some items even more. And the developers who had done affordable housing had pre-booked their inventory. They could not pass on this price rise and many other projects are unlisted, be a real estate projects in India or long gestation projects, largely they depend on advances from customers, which is good because that reduces our capital requirement. We use customers' money as capital to finish the project. But what that does is expose us to inflationary pressures. And if the margins are not high enough, sometimes that can be very, very risky for the company.

For that reason, we are largely not in that segment. We would in fact -- we have always been a premium player with good insight. We are introducing a couple of projects in the luxury segment also because that's a segment end of the market which is showing the highest rate at the moment. So affordable housing, my comment is, too risky in the current model. I hope that answers your question.

Moderator: Thank you. Our next question comes from Harmit Desai with Pendulum Investment. Please go ahead.

Harmit Desai: Good afternoon, sir. Thank you for taking my question. Sir, actually this is with reference to your most recent quarterly results. As we can see that the other expenses in this quarter are negative. Could you elaborate a bit on that?

Pankaj Bajaj: I can't. I will ask my colleague, Sanjay Agarwal, if he is on the line. Sanjay, are you there?

Sanjay Agarwal: Yes, Yes, I'm here, sir.

Pankaj Bajaj: So can you answer this question, please?

Sanjay Agarwal: See, where other expenses you want to know what is the reason of an increase in other expenses, right?

Harmit Desai: They are negative actually, sir, for this quarter. I just wanted to know why.

Sanjay Agarwal: Sorry. Please, come again.

Harmit Desai: Sir, in your most recent quarterly result, I am seeing other expenses are negative, which is a value of negative 1.40, 1.86. I just wanted to learn more about it.

Sanjay Agarwal: For the last quarter, the figures are always the balancing figure. It is quite possible that in earlier quarters, the provisions for some expenses have been taken on the higher side. And when the year ends, then they need that that provision is not required. So for the event in our notes to the financial statements, you're right that the balancing figure is there in the last quarter. So it's quite possible that some of the provision has been reversed and it is the net impact of those reversals.

Harmit Desai: Okay, sir. And I had another question actually. Could you elaborate a bit on your strategy for the next two years?

Pankaj Bajaj: I've already elaborated, Harmit. We have worked on our business development pipeline in the last year. We could not bring them to launch, but this year we hope to. And I did give guidance in my last call that we would be doing about INR 300 crores or INR 400 crores of sales this year -- fresh bookings, which is what we are on line for that. Hopefully, we should be -- for that, it is important that we launch the new projects that we have tied up.

And that number should increase slightly in the year after that. We are looking at substantial increase in our top-line and bottom-line in the next coming years. But frankly, that's not -- there is no change in strategy. We are going for the premium end of housing in Lucknow and riding on the infrastructure and growth wave which has happened there. So that's the strategy. And those are the kind of numbers that we are looking at in the next couple of years.

Harmit Desai: Okay, sir. And sir, my last question to you is, is Lucknow experiencing or is it receiving any strategic investments for real estate development?

Pankaj Bajaj: The city is booming and the GDP of the city is booming, the infrastructure is -- what has happened in the last 10, 15, 20 years is that the top seven metros really geow in India. But now the belief is that the next set on 10 or 15 cities in the country are also seeing a similar kind of boom, and Lucknow is one of those and it is the capital of the most popular state.

For that reason itself, we expect the market size in Lucknow and real estate and in other things to improve significantly or increase significantly over the next two, three years or four years or five years. So we are just at the right place at the right time. If you look at the expressways, airport, educational institutes, recreation, so almost everything is falling into place for that city.

Moderator: Thank you. Our next question comes from the line of Niraj Mansingka with White Pine Investment Management Private Limited. Please go ahead. Niraj, your line is unmuted. You could go ahead and ask your question.

Niraj Mansingka: Yes, Yes. Just a question on the launches that you're doing in the future. Will your -- how is the margin profile be of those launches? The other way to put it is, will the margins remain at a similar 40%, or 45% range or would it be slightly lower or higher?

Pankaj Bajaj: Slightly lower, but still above the industry average. The industry norm for gross profit margins are about 20%, 25%, we are at 45%. So the prices at which we will get launched today should be about -- the gross profit margins should be about 35%. But as we know that during the life cycle of the project, prices tend to drop, and towards the end, again, the margins should become better. So overall, it will start at about 30%, 35%, but it will go up higher as we go along.

Niraj Mansingka: When you're saying gross profit, you are talking about the EBITDA margin or talking about the gross profit for the project?

Pankaj Bajaj: EBITDA margin.

Niraj Mansingka: Okay. So this is so just curiosity that the profit in the land purchase price that you're having -- you're holding right now on those land?

Pankaj Bajaj: I couldn't get your question. It's not clear.

Niraj Mansingka: Was the cost of land much lower than the market price right now on the launching that you're doing in next two years?

Pankaj Bajaj: Not really. These are the new launches which we are doing are at -- we have bought land at market prices, assembled the land, that's why it's saving time. And the thing is that what has happened in the real estate market is, for a company like ours, we buy at market price, and we used to sell at market price. But now we don't sell at market price, we sell at market price plus.

The market has started giving a premium to credible developers. So that's why we continue to get higher than the market margin. The higher margins are not attributable to lower land prices, they are more attributable to higher realizations that we get as compared to the market.

Niraj Mansingka: So is it right to say that a similar type of land, not a premium developer like you would launch, they would still do 20%, 25% EBITDA margin, but because of your brand…

Pankaj Bajaj: Somebody else could get 20%, 25% margin, we'll get about 35%, 40% margin.

Moderator: Thank you. Our next question comes from Monica Arora with Share Giant Wealth Advisors. Please go ahead.

Monica Arora: Hi. Thanks for the opportunity. So I just wanted to ask, can you throw some highlights on how the Lucknow market is growing? And what is the trend you're seeing in the market? What's your expectation on that?

Pankaj Bajaj: I expect the market size to double in the next three to four years. Had it not been for the supply constraint in Lucknow, it could have already done so. Anyways, Lucknow is at the -- right now for whatever reasons, land assembly has become very difficult. But I do expect it to get unlocked in the next year, a year and a half, because new master plans, and new policies are coming. And the inherent demands that we face on the ground are verystrong.

We feel like even if there was whatever the supply right now is, if it were to get doubled or tripled, it will get absorbed in that market. And the reason for that is the inbound population influx in Eastern parts of UP, investment influx from the Eastern part of UP, which is organic and the government itself is investing a lot in the infrastructure, then UP itself is growing and Lucknow is the capital. So if you visit Lucknow, it gives you the feeling and characteristics of any growing metropolis in the country.

So we feel like as I've mentioned in my opening remarks, demand is not the concern, it's the supply which is a concern which will gradually get unlocked in the next year, year and a half on the market size and consequently our company size should increase significantly.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to Mr. Pankaj Bajaj for closing comments.

Pankaj Bajaj: Thank you all for coming today and for your interest in the company. I'm hopeful that we'll be able to make the current year count in terms of performance. Bye, everybody. Thanks.

Moderator: Thank you. On behalf of Eldeco Housing & Industries Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.