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Sub: Q3 FY23 - Earnings call Transcript

Dear Sir/ Madam,

We are enclosing herewith a **REVISED** copy of the transcript (*post correcting the grammatical, factual and spell errors*) of the Company's Q3 FY23 earnings conference call held on February 07, 2023. The transcript is also being uploaded on the Company's website i.e. www.rustomjee.com under the Investors section.

This is for the information of your members and all concerned.

Thanking You.

Yours faithfully,

For Keystone Realtors Limited



Bimal K Nanda
Company Secretary & Compliance Officer
Membership No A11578
Encl.: As above

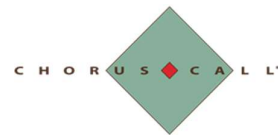
KEYSTONE REALTORS LIMITED

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Rustomjee®

Rustomjee' s
Q3 FY '23 Earnings Conference Call”
February 07, 2023

Rustomjee®



MANAGEMENT: MR. BOMAN IRANI – CHAIRMAN AND MANAGING
DIRECTOR – RUSTOMJEE
MR. CHANDRESH MEHTA – DIRECTOR – RUSTOMJEE
MR. PERCY CHOWDHRY – DIRECTOR – RUSTOMJEE
MR. SAJAL GUPTA – CHIEF FINANCIAL OFFICER –
RUSTOMJEE

MODERATOR: MR. SAMAR SARDA – AXIS CAPITAL LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to the Keystone Realtors Limited Q3 FY '23 Results Call hosted by Axis Capital Limited. 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 zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Samar Sarda from Axis Capital Limited. Thank you, and over to you, sir.

Samar Sarda: Thanks, Aman. Good evening, everybody, and thank you for taking the time out. We are pleased to host the maiden and the first results conference call for Keystone Realtors Limited, famously known as Rustomjee. From the management, we have the senior team representing it led by Mr. Boman Irani, the Chairman and Managing Director: Mr. Chandresh Mehta, Director: Mr. Percy Chowdhry, Director: and Sajal Gupta, the Chief Financial Officer.

I would now request Mr. Irani to take the floor for his initial comments. Over to you, Boman.

Boman Irani: Thank you, Samar. I hope everyone can hear me clearly. Good evening, friends. Welcome to the first conference call of Keystone Realtors Limited. We are known as Rustomjee. First and foremost, we'd like to extend our sincere gratitude to our investors who have shown trust in the company and management, leading to a successful IPO. Thank you again.

Today, I would like to give an introduction to Rustomjee for the benefit of our new investors. We, that is Chandresh, Percy, and I, began our journey in 1996. We started off with the idea of making spaces that redefine living. 26 years later from the four member team, Chairman to watchman, we have now grown to about 650 employees, numerous development partners, over 29,000 shareholders and more than 15,000 happy families residing in the Rustomjee homes.

We remain as passionate today, as enthusiastic about our work, as on the first day when we started. Today, Rustomjee is a prominent name in the Mumbai metropolitan region. We have 20+ million square feet delivered and a pipeline of over 35 million square feet today. We have projects across various price points, catering to all segments of the population. Affordable, which is categorized as less than INR 1 crores. Mid/Mass, which is characterized as INR 1 crores to INR 3 crores. Aspirational, which is characterized as INR 3 crores to INR 7 crores and Premium, which is categorized as INR 7 crores to INR 15 crores. And Super Premium, everything above INR 15 crores.

Our development capabilities span a wide range of projects from standalone development, gated communities to fully integrated townships, developed through greenfield and brownfield initiatives. We partner with societies, other landowners and developers to deliver residential, retail, and commercial properties that meet the highest standards of quality. Our extensive experience in this field ensures that we are well-equipped to deliver projects that are both innovative and successful.

I would like to mention that these are good times. Home buyers are buying real estate, thanks to a combination of the increasing household income, soaring aspirations and reasonable prices that make purchasing a property a very viable option. Given that 80% of new supply in the established micro markets in Mumbai comes from redevelopment projects, there is a huge opportunity for us.

As a result of this, we are witnessing a lot of the developer community gravitating towards the MMR market from various other cities in the country. We are the largest organized developer in the redevelopment segment. We have an established track record and having delivered more than 1,400 homes in the redevelopment space; we are also the largest in this redevelopment field. Rustomjee as a matter of fact has established itself as a leader in these micro markets in the redevelopment segment that we are strong in.

Coming to our financial results. Q3 of financial year '23 performance, we have added three new projects, Basant Park, Vivekanand CHSL and Kher Nagar. Projects that have been added in this quarter have a total saleable area of approximately 0.7 million square feet, and a gross development value of INR 17.5 billion, namely INR 1,750 crores.

In the financial year or in the nine months, up to December, this number stands at five projects. Four of these projects are redevelopment and one is a joint development. The nine-month period ending December 2022, the project added total to about 1.3 million square feet of saleable area and a gross development value (GDV) of INR 34.25 billion, that is about INR 3,425 crores. The notable project that we've added in the last nine months include a joint development in Mahim, which has a saleable area of 0.5 million square feet with an estimated GDV of INR 11.5 billion, that is INR 1,150 crores, and the other is a redevelopment of a golf course facing Basant Park Society at Chembur West, with a saleable area of 0.5 million square feet and an estimated GDV of INR 12.5 billion, namely INR 1,250 crores. Our acquisition strategy focuses on being close to infrastructure, green spaces, sea views and established micro markets, where Rustomjee is a recognized brand and has a strong presence.

In line with our focus of continually growing our presence in the fastest growing Mid/Mass and Aspirational segments, 85% of our new additions in terms of gross development value are in these segments. We have a robust pipeline of projects that are primarily guided by our strategy. Pre-sales and collections for the year-to-date financial year '23 have been INR 11.31 billion, that is INR 1,131 crores and INR 11.63 billion, that is INR 1,163 crores, respectively.

Ignoring the effect of a one-time institutional sale of INR 6.31 billion, that is INR 631 crores in the financial year 2022, pre-sales and collections have improved by 17% and 27%, respectively, on a year-on-year basis.

For pre-sales, I would like to bring to your notice that contribution from Mid/Mass and Aspirational segment have been 66% of the total nine months financial year '23 pre-sales, as compared to 32% a year back. We have ramped up our construction spends in our projects by more than double for the nine months of financial year, '23. It is at INR 5.74 billion, that is INR

574 crores, as compared to the same period last year being INR 2.53 billion, that is INR 253 crores, this is indicative of a higher construction activity at our site.

Operationally this year, we have been active with the launch of two new towers for our Virar township, and one in our Thane township. The total area launched is 0.5 million square feet with a gross development value of INR 5.45 billion, that is INR 545 crores. We have an ambitious launch plans over the next 12 to 15 months. In quarter three, we have received OC for two wings of the Virar project, totalling to 0.2 million square feet of construction area, of which only 14% remain unsold as of December '22 in terms of the built-up saleable area.

The financial highlights.

For quarter three financial year '23, net revenues are at INR 1,265 million, that's INR 127 crores. EBITDA at INR 178 million, and profit after tax at INR 58 million, and for the period ending nine months financial year '23, net revenues are at INR 3,413 million, that is INR 341 crores, EBITDA at INR 329 million, and profit after tax at INR 55 million.

Financial highlights for the nine months of financial year '23 were tepid due to lack of major project completions. The only significant revenue recognition event was the completion of the four wings of Virar township, and increment sale and revenue from completed inventory. However, we anticipate an increase in revenue and margins in Q4 with the completion of some of our projects.

Despite a lower revenue of INR 3,413 million, we are happy to report that our EBITDA of INR 329 million demonstrates our ability to absorb fixed costs at lower volumes. It's important to note that the current EBITDA percentage may not accurately reflect the financial performance due to lower volumes. As you know, accounting of revenue and profits under the Ind AS accounting standards for real estate is recognized basis completion of the project that is as per project completion method.

As a result, the revenue in a particular period may not be comparable to the past period. In such scenario, pre-sale, collection, and operating cash flows are better measures of business performance. Operating cash flow (OCF) surplus of the quarter and year-to-date have been INR 1.1 billion that is INR 110 crores and — INR 2.8 billion, that is INR 280 crores respectively, as compared to INR 0.62 billion, that is INR 62 crores, and INR 0.91 billion that is INR 91 crores for the corresponding period last year. The increase in OCF is primarily attributed to the higher pre-sales and collections.

Debt, during Q3, we've made net repayment of INR 4.16 billion that is INR 416 crores, including INR 3.42 billion that is about INR 342 crores from the IPO proceeds. Our gross secured debt as on December '22 is INR 5.17 billion and our net debt is ~INR 1 billion. Our debt-equity ratio is 0.32:1 at the gross debt level and 0.06:1 at the net debt level.

As a result of the above efforts, I'm happy to report that the ICRA has assigned a credit rating of A- to the company in the month of February '23. This should further enable us to improve

our cost of funds in the future. We anticipate significant savings in the finance cost in times to come, because of the debt reduction, a healthy debt equity mix, and a higher credit rating.

Last but not the least, I'm delighted to welcome several seasoned executives to our Senior Leadership Team. Yes, we have grown. These members come from a variety of backgrounds and expertise, and each participant, each person will play an invaluable role in helping the company, drive forward to new heights of success. With the collective experience and enthusiasm, we have in the team, we are sure we'll be able to capitalize on opportunities that lie ahead and realize our vision of the continuous growth.

With that, I thank you again for attending our first analyst call. I now open the floor to questions.

- Moderator:** First question is from the line of Pritesh Sheth from Motilal Oswal. Please go ahead.
- Pritesh Sheth:** First question is on the debt. If you can help me, I mean, if you can help reiterate what was the end of September debt we had? And how we have got down to INR 100 crores kind of a net debt level? And does it exclude any JV debt which you have mentioned at the bottom of the row? That's my first question.
- Sajal Gupta:** Yes. Pritesh, this is Sajal. Pritesh, Our gross debt basically is INR 516 crores, but we have a cash and cash equivalents of about INR 418 crores, that is how the net debt is INR 98 crores. Regarding the second part of your question that whether it includes the JV debt? No, we have one JV, in which we have a debt of about INR 177 crores. We are a 51% partner in the JV, it's our JV in our Thane township, where Keppel is our partner, and the Keppel is a 49% partner. Our share of debt is about INR 84 crores in that INR 177 crores, which is there in the JV.
- Regarding your third question related to how much is the payment over debt which has been made. During the last quarter, we have made the repayment of INR 416 crores, of which INR 342 crores was from the IPO proceeds. As a part of the DRHP and the RHP that we filed, the use of the proceeds the INR 342 crores was kept aside for the repayment of our loan, and that has already been done. So, the reduction in the debt is basically INR 342 crores out of the IPO proceeds and the balance in the ordinary course of business, based on the repayment schedule that we have.
- Pritesh Sheth:** And just if you can remind me what was the net debt as of September 30, the previous quarter? That will help me reconcile the debt reduction.
- Sajal Gupta:** So, given that we have repaid INR 416 crores and after the repayment of INR 416 crores our gross debt now is ~ INR 500 cr, what was the number, at the end of September? Yes, just give us a second. We will give you a number.
- Pritesh Sheth:** Sure.
- Boman Irani:** Can we come back to you in a bit with the exact number?

- Pritesh Sheth:** Sure. No problem. My second question is, can we know the near-term launch pipeline that you probably envisage over next six to 12 months, what is the kind of launch pipeline that we have in mind?
- Moderator:** Ladies and gentlemen, it seems that we have lost the line for the management. We'll request all participants to please remain connected while we reconnect them. Thank you. Ladies and gentlemen, we have the line for the management reconnected. Pritesh, may I request you to please repeat your question.
- Pritesh Sheth:** Yes. My question was on your near-term launch pipeline. So, over the next couple of quarters or one year, what launches can we expect to happen?
- Boman Irani:** So, Pritesh, let me tell you about the launches in this quarter itself, the ongoing quarter. We've got three projects.
- Pritesh Sheth:** For the fourth quarter? Okay.
- Boman Irani:** Yes. We've got three projects that we are launching, they are in Juhu, they are in Bandra East, and they are in Thane, totally amounting to 0.62 million square feet and with a gross development value of about INR 1,000 crores.
- Pritesh Sheth:** And just lastly, in a good quarter for business development as well, in general, what has been our run rate in terms of project additions? And what is the pipeline that is in advanced discussions going ahead in terms of business development. And in general, for redevelopment projects, how much time it takes to enter into a first part of negotiation and finally closing the deal?
- Boman Irani:** So, like I mentioned earlier, Rustomjee has been a dominant developer as far as the redevelopment goes. We keep ourselves engaged in pockets which are highly advantageous to us, given our brand presence in those markets. We have two philosophies. One of them is to focus on green views and blue views, given that the future will depend on — you'd like to live closer to the greens, which is the garden areas and closer to the sea, which is the blue.
- The second is that we focus on gated communities, where community development can be taken as a key living index for people. And in this, we have been extremely successful, having created projects with more than 350, 400 homes in one single location. We usually focus on projects in which we are invest about 10% of the gross development value of the project before we go to market for sale. And we look at projects where our gross margins would be in the range of about 35%, and we are very focused on these markets.
- Rustomjee is a dominant developer. We are not starting off today, like most of the other entrants are, but we have been in this business since the year 2000. When we started off with the Bandra building, where only 12 members were redeveloped. We realized this is a business where it's not only the money, but it is the ability to understand people's issues and now given that we've re-housed 1,400 rehabilitation apartments, we would say that we've got a fair understanding of the kind of issues that are faced in redevelopment. This is what I feel is going to be the differentiator, while lots of horses are there at the starting line, we feel only a few will continue

towards the finish line. And given our experience we're definitely going to be leading in that race.

Sajal Gupta: If I may take the opportunity to answer that previous question, which was asked by the gentleman from the Motilal Oswal, about the debt level at the end of September? Our debt level at the end of September was close to INR 900 crores, INR 891 crores to be precise, and the net debt level was INR 823 crores.

Pritesh Sheth: And just to clarify, this INR 823 crores included the JV debt?

Sajal Gupta: No, I'm talking apple-to-apple. So, apple-to-apple what was INR 891 crores is now INR 516 crores. And what was INR 823 crores is now basically INR 98 crores.

Pritesh Sheth: So, we have basically reduced INR 800 crores in this quarter, out of which you said INR 400 crores was from the proceeds, INR 200 crores of additional cash surplus we have, compared to like quarter-to-quarter.

Sajal Gupta: INR 416 crores we have paid, and I will explain how. One is, the cash surplus that I've told you for the quarter, INR 110 million. And second is, the cash surplus I have from the IPO. From the IPO proceeds, basically after having paid INR 341 crores, still we are left with INR 220 crores. That is how our net debt is down now to INR 98 crores.

Moderator: The next question is from the line of Rithvik Sheth from One-Up Financial.

Rithvik Sheth: Sir, I have two questions. Firstly, on the ongoing and forthcoming projects, would it be possible to quantify the construction cost to be incurred?

Boman Irani: I can tell you that there is no simple answer to that, given that we built everything from 14 floors, all the way up to 70 floors. And depending on where the project is located, there would always be a difference in the prices, both in terms of the height of the building, at the same point of time, the amenities provided, also in terms of the car parking requirements, etc. So, Pritesh, I'm sorry but I don't have a one-stop shop answer for you with regards to the cost. What I can tell you is that the cost had increased terribly or terrifically whichever way you want to choose, between March of last year and up to December of last year, when things started petering down.

And today, the annual wholesale price inflation rate in India has declined to 4.95% in December from 5.85% in November. This is the lowest figure since February '21, and a slowdown into the prices of manufactured products is also being seen now.

Rithvik Sheth: Sir, actually I'm not trying to get a per square feet construction cost, but rather I'm trying to get an absolute construction cost to be incurred by us, over — for the ongoing and the forthcoming projects?

Sajal Gupta: So, what we've tried to give a guidance, as part of our presentation, we have about 12 ongoing projects which has the total saleable area of 5.1 million square feet, and we have also given an estimate of the value of the unsold inventory. Similarly, we have also given a sort of estimate on

the 22 forthcoming projects , with an estimated GDV, which may vary from time-to-time. We have not given, and we, at this moment, do not want to put that number...

- Rithvik Sheth:** Okay.
- Sajal Gupta:** The overall pipeline, which is comprising of forthcoming and ongoing, which is INR 32 million, with a total GDV of about INR 40,000 crores.
- Rithvik Sheth:** Right. Yes. The reason I'm asking is that a lot of companies give this data and only the construction cost is missing on our presentation.
- Sajal Gupta:** It is not only the construction cost, there are whole host of cost, construction cost, approval cost, land cost, the overheads, the interest burden, so on and so forth, maybe what we can do that, we can get you more...
- Rithvik Sheth:** Sure. We can take it. Yes. Sure, sir. Sure. No problem. Sir, my second question is related to the launch pipeline. The previous participant asked for the next quarter, I would — would it be possible to give a rough estimate for FY '24, given that our unsold inventory on ongoing projects is on the lower side, it's about INR 3,500 crores, what would be the ideal launch pipeline for FY '24.
- Boman Irani:** So, let me start off by saying that the launch pipeline is ranging from everything again from affordable homes, all the way up to the premium and super-premium. And they are from Bandra West and, a lot of projects in Bandra East. There is Mahim, then there is Virar, there is Dombivli, there is Thane. All of these put together, we have a launch pipeline of about 2.5 million square feet, and the expected gross development value of the same would be about INR 6,400-odd crores.
- Rithvik Sheth:** We are going in FY '24 with the healthy launch pipeline?
- Boman Irani:** Yes. If I may I just add a little bit further, our normal replenishment of existing location stocks is roughly in the region of 1.5 times to 2 times. By example, if I'm completing 100,000 square feet in a particular location, I'm looking at 150,000 square feet to 200,000 square feet to be replenished in the same location and this process is something that we have continually decided to carry on in the future.
- Rithvik Sheth:** Right. So, basically, if we are — like selling up INR 1,500 crores per year, then we would be looking to add about INR 3,000 crores of new projects acquiring in that particular year approximately, would that be a fair assessment?
- Boman Irani:** Mathematically, absolutely right. But given the fact that we are talking about various price points, this may vary between INR 2,500 crores and INR 3,000 crores. Yes.
- Rithvik Sheth:** And sir, my last question is on the pre-sales value, it seems that nine months, we have declined, and so we have declined in Q3 because you've mentioned some institution sales last year. What

kind of number, would we be for FY '23, would we be de-growing that FY '22 base? And then FY '24 onwards, what kind of growth rate do we aspire?

Boman Irani: I will not make any forward-looking statements because I'm still learning the ropes of these calls, I hope you excuse me for that. But what I can tell you is the pre-sales compared to last year same period was because of a one-off sale, that institutional sale that took place. And, like I had mentioned in my opening remarks, the pre-sales have been INR 11.31 billion, that's about INR 1,131 crores and collections have been about INR 1,163 crores.

And if you take away the one-time institutional sale of INR 631 crores for last year, we've actually seen an improved pre-sale by 17% and collections by 27%. So that is the reason where we are, I mean, we are where we are. And our pre-sales will continue, and generally, the fourth quarter is also generally strong.

Moderator: The next question is from the line of Gopal Agarwal from Aagman Advisory.

Gopal Agarwal: Sir, I would just like a rough idea, regarding a mix between JV, JDA, own development, and redevelopment sales for this till nine-month FY '23. And going forward, over the mid-term to longer-term, how do you think this mix will finally play out, and what will be your target?

Boman Irani: Thank you for that question. Because it's important to state that when we did come to the market for IPO, we pointed out that almost 80% or 79% of our entire development was in the JV/JD space: and about 11% was in the redevelopment space. But even then we actually informed all those who were our probable investors that the redevelopment space is where Rustomjee will continually grow. And given that, Mumbai is an Island City, and highest value of our developments come from Mumbai City itself, redevelopment happens to be major thrust area for our future growth.

So going forward, of the five projects that I mentioned that we've acquired in this year, or the nine months of this year, four has been redevelopments and one has been a joint development that we have undertaken, so that should give you an idea of the kind of thrust that we are giving towards redevelopment. Again, for reasons, where we are an established redevelopment company. We understand the nuances of this market. We believe that we are well-bolstered now to take on more redevelopments and we are a preferred developer wherever we go, primarily because our presentations have little more depth or all encompassing.

Having said that, we've got a very simple rule, we follow our investment guidelines to the tee, and we do not get tempted only by one factor or the other, the entire package has to make sense, only then, we will enter. Otherwise, we'll happily say no to a redevelopment, which we believe may not be getting the kind of returns that should be made from the redevelopment, given the nature of redevelopment business itself.

Gopal Agarwal: And sir, given the current environment, wherein interest rates are rising, and we expect another 25 bps in this week or next. There is supposed to be some kind of hike. So, are you personally seeing any kind of demand slowdown impact, or do you think this kind of interest rate is still

sustainable for the kind of demand that you've been seeing and at what rate do you think you'll start worrying?

Boman Irani:

So, good question. I mean, I have two-three points over here and again, this was something that was brought up, while we were on our road shows as well. The one thing that I pointed out time and again, and this is market's peak. Since May the '22, there has been almost INR 7,000 increase in the EMI costs. But, in contrast, we've seen that sales have continually grown from May to December, right? Even this 0.25% increase will only bring us up to the 2019 level interest rates. But thankfully, our economy is much stronger today than we were in 2019.

Further, from our understanding of how a customer treats his home loans, generally, a home loan is between seven to nine years in terms of its lifecycle. and in this life cycle, I'm sure, most people understand that there will be ups and downs in terms of the interest rates.

So, on an average, the interest rates would remain more or less same no matter in which period you enter this market. Those that understand this. And you know, and there are plenty of educated customers who understand this extremely well and given the fact that most of the bankers or financial institutions are duty-bound to kind of explain their entire interest rate cycle to the customer, they are also seeing the ability to continually invest not bothering where the interest rate cycle is.

And again, another point, which is very, very important, is that real estate acts as a natural hedge to inflation. So, those that have bought today, even with the, let's say, highest interest rates of it being even at the 2019 levels, would still be better-off than waiting of this decision for another six to nine months and then buying at that point of time, when the interest rates would come down, because on an average that customer would have been affected by not more than few percentage points.

So, we've also seen that, in the year 2022, there has been launch of about 1.49 lakh units as against 1.08 lakh, that's 1,08,000 in the calendar year 2021, that's a 38% growth we've seen year-on-year. Absorption in calendar year '22 was 28,500 units, as against 18,000 units in calendar year '21, again a 58% year-on-year growth. All this points towards homebuyers seeking or looking for, not the lowest price deal or at the lowest interest rates, but actually value determination for the purchase that they are doing. Again, this is where we see branded or organized developers stealing a march, even on the sales side compared to all the other developers that continue to be existent in this market.

Moderator:

The next question is from the line of Jeet Shah from PinPoint Asset Management.

Jeet Shah:

Hey, firstly, congratulations on a very successful IPO. My question was on the pre-sales number that we report, is this adjusted for our economic share in these projects or is this a consolidated number?

Boman Irani:

Jeet, thank you very much for congratulating us. I appreciate that. I'll let Sajal take this.

- Sajal Gupta:** So, this is our economic share. Wherever, it's a joint venture, let us say, Thane we have a joint venture, Bhandup we have a joint venture, it is a complete a pre-sale, because it's a profit distribution, there is no area distribution. But our JDA projects, where there is area distribution like The Crown we have or any other project that we may have, then it is only our economic share, basically in that area that we account for in the pre-sales.
- Jeet Shah:** And my second question was on the inventory breakdown that have been given in terms of an estimated GDV of what is yet to be unsold. I wanted to ask, are these units already been brought to the market and not sold as of today or some part of this is under-lease inventory as well?
- Sajal Gupta:** So, we have given you a breakup in two-parts, one is for the ongoing projects. In the ongoing projects, there is an inventory, which has already been sold and we have some sold receivables against that. So ongoing projects are total 12, and the total sold receivables that we have against that is about INR 2,300 crores. We have also given unsold inventory value, which is about INR 3,600 crores. So, in the ongoing projects, a significant amount of inventory is sold depending on which part of the lifecycle the project is. But as for the forthcoming projects, the overall value whatever we said, obviously, everything is the value of the unsold inventory.
- Moderator:** The next question is from the line of Harish Shah from HS Investments.
- Harish Shah:** I would like to ask some questions. Have we witnessed any price hike or price rise rather in some of our projects? Any specific locations?
- Boman Irani:** Harish, thank you very much for that question. Look, areas like Bandra East, which have got great connectivity, like Bhandup, where the prices are extremely affordable, like Thane, which is a very large market, everywhere we've seen steady-state growth in terms of prices. One.
- Two, is also as part of our sales strategy, we usually launch projects and sell, let's say, about 30% of the volume, depending on the type of project, in the launch phase, after which we sell a certain percentage during lifecycle of the project. And generally, there is always an increase in the prices between when it was launched to the completion part. And obviously, finished goods inventory is always priced a little higher because that is ready inventory for the consumer.
- Harish Shah:** Correct. And if I need to like know the sustainable EBITDA margins and PAT margins for considering our project mix, what would be your estimates for FY '24-'25?
- Boman Irani:** I can only say, I'm sorry. But again, I'm going to speak about from experience. EBITDAs are between 27% and 28% and PAT margins are roughly between 17% and 19%, again on the type of projects. Please excuse me for not making any forward statements, because like I said, am new to this and I will take some time to understand what exactly I can or the level at which I can go out to.
- Harish Shah:** No. Thanks for that. And a couple of more questions like are you planning to venture into any additional segments, like for example, warehousing?

Boman Irani: Harish, all businesses are good businesses, but all businesses are not good businesses for all people. So, we follow that maxim quite well. As far as we are concerned, we will stay focused on what we do best, which is residential real estate development. I always tell people if you ask someone in Rustomjee what kind of homes will sell in which market, we can go down to basically habitual existence of the people, and what exactly they need and design our homes and we continually improve designing our homes in that market.

I don't think we should jump into warehousing just because all reports read that happens to be the new age business. Yes, we do look out for newer types of businesses, but we do not jump-in. I mean, we much rather wait, watch, understand, build our own ability, and then kind of first dip our feet, like they say and then decide if we want to get into that market. But today, we're not getting into any warehousing or datacentres at this moment. I hope that answers the question. Thank you.

Harish Shah: And one last question from my side. This would be a kind of bookkeeping one. How much of a debt was paid-off from the IPO proceeds that we have received? And what kind of debt-to-equity ratios are you targeting for the coming financial years?

Boman Irani: Thanks for that. Also, out of the IPO proceeds, we've paid out INR 342 crores -- INR 341.6 crores to be precise. As of right now, our debt-to-equity ratio is 0.32:1. But going forward, I mean this gives me plenty of headroom to be able to debt for projects, which I am about to launch.

And again, keeping in line with our investment philosophy, we plan to take construction funding, majorly and because of our new ICRA rating and then, of course continuous improvement that we will do, we believe our debt costs will further reduce. And though our debt-to-equity ratio would be 1:1, our overall cost of debt to the project would definitely come down. As I mentioned earlier, ICRA has given us a rating of A- as of right now.

Moderator: The next question is from the line of Amit from MIT Engineers.

Amit: Congratulations Mr. Irani for the good set of numbers. My question is, the Finance Minister in the budget proposed to limit deduction from capital gain on investment in residential houses under Section 54 and 54F of INR 10 crores. How it will, the heat our luxury home sales and have you noticed the hyperactivity to take tax advantage like Damani and other deals, right now, going on in Bombay?

Boman Irani: So again, thank you for that question. Because, I say, in every adversity lies opportunity. But let me clarify. First of all, as Rustomjee, we are based across Affordable, Mid/Mass, Aspirational and Premium, as well. So, I would think that we are largely serving all segments of the market. So those that have capital gains, and the value is up to INR 10 crores, they would still continue to gain an advantage out of investing in real estate with us. As far as the day this news did — the day the FM made this statement, we quickly did a deep dive into all the apartments that we have sold in the INR 40 crores, INR 50 crores category.

What we observed was, out of the 20-odd sales or plus that we have made in that category, there was only one that was actually a capital gains purchase. So, given that, I am further enthused to say that other than the fact that contribution of our Mid/Mass and Aspirational segment is 66% today. The fact that we had Premium also, so people can continue investing up to about INR 10 crores or adjust their capital gains up to INR 10 crores. And the fact that even those that sold in the INR 25 plus crores bracket out of the 20 plus deals, there was only one that was a capital gains person. But yes, I also read the papers and I see that there is a lot of heavy buying as far as these capital gains purchases are. And I guess, that will continue till such time as it's available.

Amit: And sir, after the many new players like Mahindra and all these corporates in redevelopment, and Adani also coming in Dharavi. So how well our company is positioned to protect our share and increase it, particularly redevelopment in the overcrowded Mumbai market?

Boman Irani: I love this question, because it gives me a chance to actually tell you that a leader always welcomes other people into the business, because it gives him a larger share as he goes along, or her a larger share as she goes along. I respect the fact that every one of these branded names that you mentioned, have entered this market that only goes to show the advantage of being in this segment, right?

So, the more people that come in over here, the larger this market will become is my way of looking at it and in this growing market, my share will continue to increase because I come with credibility, I come with ability, I come with history, I come with a lot of references. And none of these are available as chips on the shoulder to any of the new entrants. Yes, that is why they tom-tom on about the rest of their developments.

But again, look at Rustomjee, we've done every kind of development from standalone buildings that is say 1,000-meter plots, going all the way up to townships there are 217 acres plus. We have built more than 20 million square feet, 280 buildings completed, not one building left in the lurch, anywhere. Not one redevelopment or one sold flat left incomplete.

We've got an enviable track record and we make sure that wherever we are absolutely keen on getting in on the redevelopment, we make sure that people know of this and in the markets wherever we forayed, of course, there is competition and it's healthy, and it's important that there be, because that will only improve our understanding or our depth in this business. We still stand to be winners overall. And we've been extremely successful even now, the four properties that I told you that we took as redevelopments. There were competition from all these names that you are mentioning.

Amit: Sir, all your customers, vendor, partners are very happy with you and your team. Hope, all the shareholders will share the same sentiment in the coming years.

Moderator: The next question is from the line of Naman B, as an Individual Investor.

Naman B: I just wanted to understand. There was an article recently that mentioned you partnering up with an AIF Mt K. Kapital, that will invest specifically in your redevelopment projects, if you could just speak a bit about that?

Boman Irani: Naman, again, thanks for that question. See finance is the blood line of the real estate development business and the one thing that a good company does is it keeps on raising money not when it's needed, but when we can, right? So, this AIF that you speak about is actually sponsored by Keystone Realtors.

We are 20% committed to the size of this business. And as a matter of fact, the good news is, we've already done our first close of INR 350 crores. We also have State Bank of India as one of the investors among some very marquee family offices and individuals who put their money in the AIF. And yes, the investment philosophy for this AIF-funded projects is, that we will go everywhere where we can complete the project in four years to 4.5 years that is the end-to-end cycle.

We've already incubated three projects in this — for this AIF. And in the next quarter itself, we should be able to launch or rather move ahead to launch. I would say in the next financial year, to be honest, we would be able to launch two of these projects that we've incubated. And we are looking at more as we go along. It is an extremely, I would say, efficient way of raising capital for the long-term use, and being able to leverage the brand and our ability to be able to have a larger development or redevelopment portfolio in the City of Mumbai.

Naman B: And sir, you'd also mentioned I think during the road show that there were 20 redevelopment projects that you were in talks with. And you've announced four so far this year. So, for the remaining, if you could tell us, which are in the advanced stage or if you've gotten into more negotiation?

Boman Irani: Yes. Thanks again for that, because it's good you brought that question, so I can tell you that redevelopment or pitching for projects is a continuous process. More importantly, every project I bid for, I will not get. As I mentioned earlier in my talking that, we are very focused, that only if the development makes business sense, will we go for it. We have no desire to try and say we want to build the most marquee project and therefore this location should be taken. We believe Mumbai is going to change from just being location-specific, of course locations will play an important part, but more become development-specific.

So even if, today you consider an entire Lower Parel area that has been built, it has come out of nothing, the BKC area that got developed came out of nothing. I say, it is the kind of developments in the future that are going to matter. 20 projects that we've been in, we don't want to take more than six or seven, four have already been taken, but we continue to bid for other projects at the same point of time. And wherever it makes sense we take the project, where it doesn't, we wish them very best or we congratulate the people who've taken it, because I believe it will take — it just bolsters me or makes me stronger in that particular market.

I would also like to state that my business development team has been bolstered further with new members, and we continue to have the internal IC, wherein we have to strongly, let's say, I like a project, I still have to sell that project to my other two partners, my CFO, and my Sales and Marketing Head. And of course, the brand custodian of Rustomjee, where we put across all the numbers, we put across the reasons why we believe that's a great project.

And then, there is an internal selection process. So, this allows us to look at those areas that people individually could have missed out, because collective knowledge is always greater than individual knowledge, and we take full advantage of each one of our 26 years of experience in this business, which collectively makes it for more than eight decades. So that is the long and short of it. I'm happy, you asked that question. Thank you.

Naman B: Thank you. Sir, just one last question. There is an article that says that you entered into partnership for a 2 million square feet affordable housing project in Kalyan, and I don't see that mentioned in the presentation, so if you could just tell us something about tentative launch or something about that?

Boman Irani: We were actually mentioning Kalyan, Dombivli belt. So, it is Dombivli where this project has been entered. And as we speak, there is a lot of on-groundwork going on over there. We are in the process of regulatory approvals; it takes some time. We are in the process of getting those approvals. And as I mentioned in the new financial year, we will be launching that project as well. So, it's actually Dombivli — Kalyan-Dombivli belt.

Moderator: The next question is from the line of Anushka Mahajan, as an individual investor.

Anushka Mahajan: Thank you for the opportunity. Sir, firstly, congratulations on a very good set of numbers. Sir, I have two questions. One is, sir what is the outlook for JV with regards to new project acquisitions over the next one year? And do you think this field is becoming more competitive from a bidding perspective?

Boman Irani: First of all, I'm very happy to have you on. So, when I say ladies and gentlemen, I know, that you are there in the audience. Very quickly let me answer your second question first. It is competition that builds us and makes us better. A. B, it is very important to have the right competition. So today, at least, all the bidders that we mentioned — mentioned by the earlier questionnaire, are financially sound parties. And I am confident whether they make or lose money, at least the projects will get completed. I'm hoping that we all understand that basically in real estate 99% is not 100% complete and it's worthless.

It is only when it is 100% complete that it has some value. And the one thing that has badly scarred our business has been, in the past, people coming into redevelopments, not having the financial wherewithal or the line of sight of how they will complete a project, but still making bids which are unrealistic, thereby making the entire market unviable.

And then finally, landing up by the wayside and becoming NPAs, if I may say that. And leaving so many people in the lurch, whether it was those whose homes they were redeveloping or the

financial institutions that they work with, or even the purchasers of their new homes. So, competition is good and competitions from the right quarters is even better. Having said that, we believe that the advantage for Rustomjee is its long history. It's been 22 years that we've been in this business of redevelopment.

As I mentioned earlier, we understand the nuances of this business. We are also someone that has over a period of time, due to the performance, built a great amount of trust in those minds that are giving up their homes. We always make it a point to inform the people that there is a difference between the best offer and the highest offer. The highest offer is definitely not the best offer, because it will get waylaid at times. It is those that have the experience, ability, history, and references that have been developing-redeveloping projects that one should kind of put their homes in trust with, so it works out quite well.

With regards to your JVs and JDs, yes, opportunities have again opened up out there. As I mentioned, a lot of developers may have gone ahead and made huge acquisitions for land as such and are today looking at people who can monetize that land. If you take Dombivli for instance, that is a JDA that we have worked out not so long ago. And again, over here, it's not like the land developer would not get other developers to kind of work with. But word-of-mouth reference has actually helped us get into the Dombivli JDA at probably a lower realization for the landowner.

But the landowner is totally satisfied that what has been promised to him will be given no matter what. So, this really works a lot and reputation is something that is most important like I tell people. Trust is the currency that reduces the price of the transaction. And I'm very happy to be part of a creation of a brand which is trusted by a lot of people in the homebuying space. Thank you.

Anushka Mahajan:

Sir, I have one more question. Sir, do you have any plans to expand beyond the MMRDA region, like you did in Virar and Thane?

Boman Irani:

So, let me put it this way. The MMR market as per some of the reports, was about 40% plus of the total recognized residential real estate realization in the last year. So being in a market where you are 40% of the total value of the country, should give me great strength and belief that the deeper I go in this market, the more there is that I stand to gain. And given the fact that real estate is also a very big brand led business, it is important that we continue to enhance our brand in this MMR area. Thane, Virar, now Dombivli all these are MMR, all these are covered in the MMR region.

We will continue to be in this market. I am not in any hurry to move to any of the other markets. I am a dominant developer of this market. Everyone entering this market treats me as the competition or the benchmark. And I'd much rather stay in this very fertile segment rather than go to the same places where the other developers are coming from. I hope that satisfies your query.

Moderator: Thank you. The next question is from the line of Rithvik Sheth from One-Up Financial. Please go ahead.

Rithvik Sheth: Just one question on the Mt. K. Kapital AIF, you mentioned that we are 20%, we contribute 20% of the fund. Did I hear that right?

Boman Irani: Absolutely. The Mt. K. fund is a very interesting concept, where we believe that investors who want to have a larger play directly in a particular type of development should be allowed to participate. Again, given the fact that Rustomjee stands by i.e Keystone stands by what we do as a company, we decided to commit 20% of our own money in that business. So, we will earn the same kind of returns that business will earn up to a certain threshold.

Beyond that, of course, we stand to gain substantially, because of the way the Mt.t K. Kapital has been structured. It is a win-win situation that I always believe is important to create in the long run, as there are no shortcuts. And I'm glad that over the next three to four years, the kind of returns that will be made by the investors in Mt K., would lead to tremendous growth of the AIF platform and thereby of your company as well.

Rithvik Sheth: Right. So, equity all the partners will be looking to invest. And then we will be looking to develop the projects, right? So, we would be getting some kind of DM Fees as well, so that would be a broad understanding?

Boman Irani: So, it definitely is the understanding that up to a particular threshold the money would be made by all the investors first, thereafter Rustomjee would be disproportionately gaining as the company, other than getting returns on the 20% that we have invested in Capital as well.

Rithvik Sheth: And you mentioned that we have put in INR 350 crores already, in this.

Boman Irani: INR 350 crores is the first close that has happened, so by that by virtue, we've invested 20% of that.

Moderator: Thank you. Ladies and gentlemen, that would be our last question for today. I now hand the conference over to the management for their closing comments. Thank you, and over to you.

Boman Irani: So, thank you once again, it's been very interesting. Your questions always lead us towards let's say greater answers for the future. I thank each and every one of the participants out here. We truly believe that we are at the beginning of a very exciting journey. We would like to take this opportunity to invite each and every one of you participants to visit our projects, to understand the kind of quality offerings, and our execution capabilities. I'd only be too happy to organize these site visits for you or the study trips for you.

On behalf of the Rustomjee management, I thank you for joining us today. In case of any queries, we are always available. Please reach out to us. We're very happy to keep sharing all information as transparently as needed. Thank you very, very much. Good evening.

Moderator:

Thank you very much. Ladies and gentlemen on behalf of Axis Capital Limited that concludes this conference. Thank you all for joining us. And you can now disconnect your lines.