



# “Shriram Properties Limited Q4 & FY23 Earnings Conference Call”

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**Moderator:** Ladies and gentlemen, good day and welcome to the Shriram Properties Q4 FY23 Earnings Conference call.

A Disclaimer:

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As a reminder, all participants' lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "\*" then "0" on your touch-tone 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.

**Murali M:** Good afternoon, ladies and gentlemen. It gives me immense pleasure to be here with you after a very encouraging year-end with a sustained turnaround momentum since our listing. As you might have seen, we have finished FY23 with 4.02 million square feet with 25% growth in sales value as well as higher realization. We had some successful launches and had to push a couple of them to the current year.

On Financials, our revenues have grown 57% compared to last year. Our net profit is at Rs. 68 crores, reflecting 3.8x growth from Rs. 18 crores in FY22. This is extremely encouraging and gives us confidence to reach our FY24 targets comfortably with some large cash flows expected to come in. Apart from the operating cash flows, our debt levels are likely to come down significantly in the next 12 months' time, which has been one of our key focus areas.

I would like to reiterate that there is strong visibility of our earnings over the next 3 years. Nearly 75% of our project revenues coming from volumes which are already sold till FY23 and 60% of the DM revenues from our projects launched till FY23. Reliability on these earnings is only going to get better and better with our strong performance quarter on quarter for which we are comfortably placed having built a very strong project pipeline.

We have delivered well on our performance as guided to the market since IPO December 2021 and are confident of sustaining our growth and delivery of to our stakeholders. I hope you all see the financial year '23 performance as just the initial first step towards a stronger outcome in the coming years.

With this, I request our CFO – Mr. Gopalakrishnan, to discuss the performance with you all. I'll be happy to answer any questions you might have thereafter.

**Gopalakrishnan J:**

Good afternoon, ladies and gentlemen. Thank you very much for taking time off to join this call. I hope you have received a copy of the presentation which was either emailed to you or available on the company's website as well as that of stock exchanges. I would prefer to use that presentation and refer to those page numbers to be able to drive you through the conversation.

**“Review of Performance for FY23”:**

Looking at Slide #7 of our presentation, which is online, I would like to draw your attention to both operational and financial metrics. Overall, it has been an encouraging year for us. Over the quarters, we have seen sustained growth, improvement across various KPIs that we track.

**From an operational perspective,** our sales volumes have reached a new high at 4.02 million square feet for the full year. This is the highest ever sales volume and sales value for us. We have reached Rs. 18.46 billion or Rs. 1,846 crores as the sales value, which reflects a 25% year-on-year growth. Realization growth has been encouraging, 8% higher realization compared to where we started the year, and that too on top of an 8% growth that we saw during 2H FY22, which is when the price momentum picked up. So, overall, a 16% growth in the portfolio's average realization in the last 18 months is an encouraging positive from the Company as well as industry's perspective.

Our sales machine has been working well and it is reflected in the fact that our recent launches have actually delivered well for the year as a whole. Out of all the launches that we did (7 launches we did last year), two of them are towards the end of the year and therefore I'm looking at 5 launches that were in works for more than 90-days during the year. Our sales-at-launch was around 44% on average for these launches, which is very encouraging. Strong collections, and sustained construction momentum - all of which lead us to believe that the foundation is well laid well and hence we will have a promising earnings outlook for the next couple of years.

**From the execution perspective,** it's been another record year for Shriram. We have handed over 2,000 units and plots during the year, meeting our expectations. We completed 7 projects and moved them from “ongoing” to “completed” category, and aggregating to about 3.8 million square feet of development area. Consequent to completion of these projects, registration momentum has picked up. A couple of large projects came for recognition this year. *Southern Crest* in Bengaluru and *Grand One* in Kolkata came up for registration post OC, and they drove revenue recognition during the year.

Our ongoing portfolio is on track. We believe that based on the progress we have seen on-ground, these projects are well within the RERA timelines in terms of completion and handover. From the BD perspective, we added about 10 projects during the year about 8.1 million square feet of

development area. Pipeline today has about 51 projects, 53 million square feet of development potential. Please note it includes 24 million square feet across 26 projects as part of ongoing portfolio. If I take that out, we still have about 30 million square feet of pipeline. Of this, some of them are still taking more time and we see park them aside for now, live portfolio is at about 44 million sqft, both ongoing and upcoming together. I'll explain that again in another slide.

The ASK co-investment platform that we set up during the year was a big progress or a milestone for us. The platform has taken off well. First project in the platform has already been launched and the second project is under finalization for launch during the first half of this year.

LOGOS deal is progressing satisfactorily, though pushed by couple of months. We targeted for FY23 completion, but now expect it to get closed during FY24. Xander Gateway Office Parks, which is a very large office complex that we are building for Xander Funds. That project was supposed to deliver a large cash flow in the form of DM fee. The project is now completed, earning Rs. 135 crores of DM fee roughly. We got about Rs. 60 crores in Apr'23 and some more after April. All-together, Rs.750 million or Rs.75 crores have been received. The project is completed and is beginning to deliver the fee income that was expected to be delivered.

Slide #8 captures exactly the same data points in a graphical form.

**“Sales-at-Launch Trends”:**

I move to Slide #9 – Our sales-at-launch trends, as I said few minutes ago, was very encouraging. We had some challenges or setbacks if I can call it. We were targeting to launch 9 projects during the year in FY23, out of which 2 projects got postponed to FY24 for certain delays in getting regulatory approvals - one in Chennai and one in Bengaluru. They've been deferred and are poised for launch during the current quarter. Two other projects were supposed to launch in Q3 but got launched only towards the end of the fiscal. So, these 4 delayed launches had some impact on our volumes, which otherwise could have been much stronger during FY23.

From a launch efficiency perspective, as you can see from the table below, all 5 projects that have been in operation for more than one quarter during the fiscal have delivered a meaningful sales-at-launch results. Overall, we have delivered about 44% of the projects' saleable area as sales during first 90-days and that's encouraging development. As you are aware, we have historically been trying to stabilize this in the mid-30s levels because that de-risks projects. And with a minimal working capital requirement, we will be able to complete. In that context, the current results of 44% delivery efficiency has been very encouraging for us.

**“Price Trends”:**

Moving to Slide #10, about price trends. Markets have been doing well. Underlying demand has been strong. Consolidated industry environment, peer group is actually able to improve the price realizations across.

At a portfolio level, we have got prices up by about 8%. It ranges from 2% to 11-12% for most of our projects, in some cases about 20% as well. At a portfolio average level, 8% growth has to be seen on top of an 8% that we achieved during second half of fiscal '22. That's when the price momentum picked up post COVID. So, 16% growth in pricing all in about 18 months period is a very encouraging development and hopefully addresses the investing community's concern that they had over the last couple of quarters about impact of cost hike that we saw in Q1 and part of Q2 in fiscal '23. We believe the cost hikes have now come back to normal levels, and therefore, these price improvements should help in realizing superior margins on these project as and when we recognize these revenues.

**“Performance in a Quarterly Trend”:**

Slide #11 talks about our quarterly performance. We have seen a gradual improvement in quarterly trends in terms of volumes as well as realizations and resultant sales value. We believe that positive trends will continue in the coming quarters as well.

**“Financials”:**

Shifting focus on Financials, Slide #13 and #14, the year has been very good as well, meeting our expectations and what we have been guiding all of you in the past. It's a strong earnings growth story. Healthy improvement in our performance since IPO or Q3 FY22 when we reached initial turnaround point.

Operating leverage is improving. Project execution has been supporting. Along with rising share of DM, overall financials have actually benefited nicely. Revenue recognition momentums remain strong. Our ongoing execution and handover has helped in achieving better revenue recognition during this year and should gain further momentum in the coming years. I'll explain that in the subsequent slide.

Overall improvement in financial leverage and cost of debt, which is an encouraging positive for the year. And we believe all these are, as Murali said, is a pointer towards a stronger financial year to come in the coming years.

Looking a bit more in detail about the financials for full year;

- Slide #15, you would see the overall revenues have gone up 57% year on year to Rs. 8.14 billion or Rs. 813 crores if I can say. New projects that reached revenue

recognition threshold helped us. Two projects actually contributed to a large part of this revenue recognition this year. One is Shriram Southern Crest in Bengaluru and the Second one is Shriram Grand One in Kolkata. Both these have contributed significantly towards the revenues that we recognized.

DM remains a key contributor, delivered about Rs. 62 crores of DM fee recognition during the year, could have been slightly higher, but for the impact of delay in launches, both 2 projects from Q3 to Q4 or end of Q4 as well as 2 projects moved from FY23 to '24. These 4 projects could have added some more DM fee, but I guess it's a missed opportunity now. Hopefully, that will strengthen FY24 earnings further.

- Nearly 80% of the revenue from operations have come from both Southern Crest and Grand One as well as ongoing registrations in two other projects, as highlighted in Slide #16.
- Operating expenses grew 88%, but I need to explain that 2 factors here. One the higher cost of revenue on a year-on-year basis is primarily driven by a low base of FY22. During last year, we recognized income because we launched and sold a plotted development in Bengaluru which is in Whitefield where the property value is much higher, and the land was in the Shriram books for a long time. So, we had a very high operating margin there. It's called Shriram Earth Whitefield in Bengaluru. This high-margin JDA as well as another high-margin own plotted development in Chennai, both together had a higher revenue contribution last year and a low-cost base, and therefore, year-on-year growth seems very high.
- But if you look at the actual gross margins realized during the year, which is healthy, the cost of revenue at Rs. 453 crores reflect a gross margin of close to 30% which we believe is a level of sustainable gross margin that we can expect in our business. And therefore, it's a more low base of last year which is creating the distraction. The second factor for this distraction is the other expense.
- Out of Rs. 99 crores of other expenses, there are certain provisions that we have taken this year in the form of overdue receivables and deposits mostly in JDA projects. And therefore, this one-off or a non-recurring cost in other expenses has actually contributed towards this as the second factor. These 2 factors actually drive the year-on-year growth, but fundamentally, the overall margins are still satisfactory if you look at from an absolute perspective.
- EBITDA margins at 22%, EBITDA at Rs. 182 crores. We believe the improving operating leverage and cost control efforts are still paying off, and we believe it will gain further momentum, and we remain confident of sustaining the EBITDA in the mid-20s as we have consistently been guiding you.

One big positive improvement in the financials this year was the interest cost.

- Some of you have been pointing this out consistently in the past interactions. We have managed to complete substantially of our refinancing program. We moved away from large part of NBFC focus to a bank focus.
- That has helped us in bringing down the interest cost at a portfolio level; weighted average cost of debt to 11.8% during the year compared to 13% and a 14% pre-IPO level. That reduction partly is captured because it was done during the year as we have been emphasizing and highlighting it during our quarterly interactions.
- On a full-year basis, interest expense is down 21%. Other finance cost is higher primarily because we write-off the unamortized processing fee from the previous loans as and when we do a refinancing as per the accounting standard, and therefore, the other finance costs are higher and that's primarily delivering moderation in terms of overall finance cost. Unwinding impact which is a non-cash charge is primarily associated with the 4% non-compete royalty that we are supposed to pay to government of West Bengal for Bengal projects and that's being provided in the balance sheet, and therefore, there's an unwinding effect comes every year.
- In a nutshell, overall finance cost is down 11%. But what you need to see is the interest expense, which is a recurring cost, which has come down by 21% on a Y-o-Y basis.

The share of profits in JV is modest number, Rs. 2.9 crores. But it reflects a combination of 2 things. We were able to recognize income in one of our joint venture projects in Chennai called Shriram Park 63 which is JV between Shriram Properties and Mitsubishi Corporation of Japan. And this Resi project allowed us a gain of Rs. 14 crores as an income, however, is masked by the fact that few of other JVs are still not reached revenue recognition threshold. They are still in construction mode, and therefore, marketing cost and sales expenses and admin overheads associated with these projects at 50% JV level. Shriram Properties recognizes 50% of this cost as a loss, and therefore, the impact got masked and we were able to show or report only a Rs. 3 crores net income from the joint venture.

Reflecting all of this, PBT is at Rs. 71.6 crores, 119% year-on-year growth, and net profit is at 68 crores compared to the Rs. 18 crores earnings that we reported for FY22, reflects a growth of almost 3.8x or 279% which is an encouraging number for us, and we believe it's a sign of things to come.

We believe the earnings momentum will continue in FY24, and over the next couple of years.

I'll move to Slide #17, which just shows the overall trend in our revenues as well as how the earnings and PBT & PAT have shaped up over the last 3-4 years.

And it is interesting to note that we have now reached annual EPS of about Rs. 3.9 per share, which positions us favorably compared to our listed peers. On a 12-month trailing basis, on the past 12 months' earnings basis, we are trading at around 17x past earnings for significantly lower than some of our peers in the marketplace.

And hopefully we believe the analysts and investor community looks at their overall earnings prospect and are able to reflect that over time in the market capitalization.

**“ROCE”:**

Looking at our overall balance sheet on Slide #18, our ROCE is in the 10% range and we believe that the rising trend will continue. As we have consistently been saying, over the next 24 months – say FY'24 to '25, we believe we should be able to stabilize the ROCE in the mid-teens and EBITDA in the mid-20s and we believe we are on track and current year is endorsement of that.

At 10%, our ROCE compares favorably with some of our listed peers, which is shown in Slide #18, which I'm sure all of you are familiar with. We just thought it will be appropriate to draw attention to that fact as well.

**“Cashflows”:**

As you're aware or most of you are familiar with the residential real estate or the real estate development is a cash flow business. Therefore, we thought it is important to show how our cash flows have shaped up over the last year or so.

Slide #19 talks about our annualized cash flows. For FY23, we realized Rs. 115 crores cash from operations unlocked by projects that are getting completed. The cash flow from financing has been pretty muted. The loan draws and repayment, primarily large part of it reflects the refinancing work that we have done. We have raised new loans through refinancing program to repay the old ones for the purpose of rate reduction. I'll talk about it in a minute. And after paying interest expenses, the overall net cash flow from financing has been very small, 1.4 crores inflows.

Overall free cash flow in the company has been at around Rs. 116 crores, significantly higher than what we have seen over the last couple of years, and it has improved consistently over the quarters.

Against that, we have made some new project investments, primarily to acquire a project called Suvilas. We acquired the company and have just launched the project as “The Poem by Shriram”, which was erstwhile called as Suvilas Palms. This project as well as our share of investment in a plotted development project that we dropped as 1<sup>st</sup> project in the ASK co-investment platform. These two have taken a large part of this Rs. 136 crores investment that we have made, and



therefore, the net free cash flow has been (-)20 crores, which we have reduced from our cash and cash equivalent.

We believe the free cash flow momentum will improve even further, both at the pre new project investment level as well as post new project investment level over the next 24 months, based on what we have lined up as part of our business plan for FY24, as well as the monetization's that are being thought through in terms of land monetization's. Therefore, we see a very strong cash flow momentum that should help aid growth engine even stronger going forward.

**"Debt Profile":**

Slide #20 talks about the debt profile. Net debt is about Rs. 432 crores as we close the year. Thereafter, we have repaid one loan aggregating to about Rs. 103 crores. So, the June quarter will show even lower net debt and the cost of debt has declined to about 11.9%, as I mentioned in the opening remarks. It compares favorably to 12.5 % that we witnessed last year. More importantly, it is a big drop from 13.7 % to 11.9 % in the last 24 months is despite 2.5% RBI rate hike impact effected by lenders in the market, which basically means , effective cost reduction of 400 to 500 basis points, which is an encouraging positive for us. This combination of dropping or a falling net debt as well as falling rate has been the key contributor to the declining interest rate that you saw a few minutes ago.

Shifting Gears, slide #21, of course, talks about some of the accolades that we have won.

But more importantly, if I will shift gears to what we see as an outlook for '24, without getting too much of financial numbers to be laid on the table at this point of time.

We would like to highlight the fact that overall outlook remains very positive. The broad contours of our multi-year growth strategy remain unchanged. We are confident that the delivery will be meeting what the guidance that we have given to people and giving to people.

We are very confident of delivering on our promises. Overall, we continue to expect a 20% growth in our overall KPIs – the volume, value, collection, construction, and earnings. We believe our improving trend in earnings and margins and returns will continue. We remain confident of stabilizing our earnings profile at mid-teens EBITDA levels and a shade about 10% to 11% in terms of PBT margins. And we are confident of, therefore, mid-teens ROCE guidance that we have been consistently giving to markets.

Looking specifically at FY24,

- Markets are looking good. We believe we are standing on the right path. We are standing firm on our growth path, and therefore, we are confident of achieving our targets for FY24.

- We just need to leverage the existing sales and execution machine more efficiently to deliver our targets that we have set for ourselves. We therefore believe that FY24 is a more promising year than '23 for us. FY23 itself has been an exceptional strong year for us and we believe FY24 will be even more promising for us as we see from where we are standing now.
- Markets are positive. We have a very strong growth from the launches that we have had recently, and therefore, we believe we should be able to achieve our volume targets as we have shown in Slide #23 expecting around 20% growth in sales volume, 26% growth in our sales value to at around Rs. 2,300 crores of pre-sales or sales value. Our collections should rise strongly to about Rs. 1,600 crores. And we target spending about Rs. 750 crores for construction to fuel this entire cycle that we have set for ourselves in terms of collection, construction, and handovers.
- Slide #24 gives you a more granular look of our targets. Encouraging outlook with a growth of 17% to 18% in our sales volume. We think we will be able to deliver next 3 years a CAGR of about 20% in volume. Sales value growth of about 23% and with collections growth at around 24%, and construction growth in the 40% growth levels. Overall, it's a very strong growth profile that we have set for ourselves as a target and we are confident of delivering this.

**Launch:**

Slide #25 gives you a granular approach to our launch profile because that has been an issue that I highlighted that we had in the last quarter of FY24. But I think things are back in control now with at least 11 to 12 launches that we have set for ourselves. 7 million square feet of saleable area is targeted to be launched in FY24 over the quarters. Given where these projects are in the approval process or launch preparedness process, we are very confident of realizing the launch that we have set for ourselves as a target. And we see a good visibility and reliability of these launch timelines planned through the quarters. Nearly 50% of our launch will happen during H1 giving ample time to a well-oiled sales machine now to achieve the sales-at-launch that we have set as a target for ourselves internally, and therefore, we see a comfortable ride over the quarters in FY24.

**New Markets:**

We have talked about looking at new markets. We continuously exploring apart from strengthening our position in our core markets of Bengaluru, Chennai, and Kolkata. We are also looking at the new markets that we have talked about in the last couple of quarters to you. Hyderabad has been an interesting market but haven't really reached a definitive project profile that meets our risk expectations or risk appetite. Simultaneously, we are also looking at markets

like Pune which largely reflect and mimic the demand profile and the customer profile of Bengaluru market and Chennai market, and therefore, that's the market where we see a connect for Shriram DNA there and we believe we should be able to explore these 2 markets and successfully enter at least one of these markets during the year.

Bottom line, we have a greater visibility of launch profile, we have a greater comfort on project preparedness in this launch profile supported by strong opening inventory that we have in our existing portfolio. We see a very good comfort in achieving our 20% growth in volumes. I must quickly clarify that we have zero inventory in our completed projects. In the ongoing portfolio, nearly 75% of our projects are sold. So, the opening inventory comes from the balance 25% of our ongoing projects, several of them got launched in second half last year, and therefore, there is a sufficient headroom for us to continue what we call is the sustenance sales momentum as well.

**“Outlook”:**

Shifting to the same outlook on earnings profile, Slide #26 gives you the comfort that we derive from. We are very confident of our next few years' outlook. We have consistently talked about where we get our earnings visibility.

Because of Ind AS 115, we recognize income only on completion and handover of units. So, what we sell today comes to us as a revenue only 3 years down the line. And it is due to the same fact that we are having a better visibility on our next couple of years' earnings profile based on what we target to complete and hand over. Nearly 70% of the projected revenues in FY24 come from 4 projects that are already progressing well, and 80% of FY24 revenues will come from DM projects that are already ongoing. And a 3-year outlook equally has a greater visibility.

As I said earlier, based on Ind AS 115, we recognize income only when we hand over, and therefore, based on volumes that have been sold till March '23, the 70% of aggregate revenues for the next 3 years will come from these volumes which are sold already, and completion and handover will be the criteria or a key to recognizing these incomes over the next 3 years. 55% of our DM fee comes from volumes, projects that have been launched already, and we expect nearly Rs. 3 billion free cash flow over the next 3 years at the enterprise level. So overall, we see a very strong earnings profile and a greater visibility, as you can see from Slide #27 as well.

**“Pipeline”:**

Looking beyond '24 and looking at whether we have sufficient inventory to sustain our growth momentum over the next couple of years, Slide #28 gives you our project pipeline profile.

As you know, we talked about 52 million to 53 million square feet of pipeline, including 24 million ongoing projects. This is after eliminating the completed projects that we have completed.

During the year, we completed about 7 projects aggregating to 3.8 million square feet. After adjusting for that, we continue to have an ongoing portfolio which is about 24 million. Of this, about 21 million square feet belongs to Shriram and the remaining three belongs to a low share which we may sell, but it basically belongs to the landowner's share of these projects. Out of 21 million, we have sold almost 17 million to 18 million square feet already. And that's why I said we have a de-risked ongoing portfolio.

And beyond FY23 that we have closed already, we see already another 20 million square feet of potential from about 18 projects which are at various stages of launch preparedness including projects prepared for FY24 launches.

On top of this, another 8 million square feet are projects that have a good certainty but is likely to take more time. So we are kind of dividing the portfolio into two parts where projects have good visibility already. Another 8 million square feet what we are looking at as they are probably likely to be deferred for future, which means they may take more time than next year or two because they are at various stages of land acquisition and conversion and approvals.

Therefore, a 44 million square feet of live portfolio and 53 million square feet of overall portfolio gives us the confidence that we can actually move ahead very quickly and monetize them and sustain growth momentum.

Next couple of slides actually you are familiar with, which talk about how robust our DM growth engine is. Kolkata, how robust the portfolio progress has been. I'll probably address them as part of the Q&A if that's okay. And with this I will summarize saying good corporate, well-governed company, trustworthy, and a very strong brand equity created, proven track record, and being reinforced further with continuing strong performance with a very strong pipeline and a very strong execution plan, and therefore, we see a strong growth outlook. Delivery track record has been built nicely and we believe a stronger growth is yet to come and hopefully stakeholders like yourself will take a look at our promising prospects and hopefully will become investors in the coming quarters.

With this, I pause and I will probably take Q&A along with Murali and rest of my colleagues in this room. Thank you and over to you, SGA team.

**Moderator:**

We will now begin the question & answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

Our first question is from the line of Chaitanya Deepak Shah from Silverlight Capital. Please go ahead.

**Chaitanya Deepak Shah:** My question is regarding Slide #19 which is the cash flow slide. I see the collections have dipped actually this year and the sales value has gone up by 25%. I just want to understand why the collections have gone down. And my second question regarding the same slide is about the marketing and admin cost. Don't you think that Rs. 148 crores marketing and admin cost on a collection base of Rs. 580 crores is too high? The number is quite low for most of the other peers if I compare. Your answers on this.

**Gopalakrishnan J:** I will address the collection point to start with.

As you see in Slide #19, cashflow statements show only SPL CFS collection. The overall collections are around Rs. 1,200 crores as you rightly pointed out. It's a combination of two things. One is the collection from sustenance sales. The projects that have been launched already, projects that are progressing, so milestone-based collection. Those collections have been strong, growing year on year. Where we slowed down is in new sales led collection.

If I break down that number, Rs.1,000+ crores collection out of Rs. 1,200 crores is from sustenance sales and that reflects a growth of almost 24%. Primarily, the new sales led collection has been below what we thought we would achieve due to postponement of a couple of launches that we suffered from Q3 to Q4 end. Almost the launches happened in March. That's where we lost almost half a million square feet of sales that we should have got as well as the collections, and two projects obviously got postponed to FY24.

If I can summarize, it's basically a delay in these 4 project launches, both within the year as well as to next year, has hit at least Rs. 230 crores to Rs. 240 crores of collection. Second is also the fact that the project mix also has an impact. When you sell more of plotted, your collection will also be lower on a year-on-year basis. But despite that, I agree with the fact that it's relatively lower growth or a stagnant number between the years. And that's primarily because of this launch issue.

On the Marketing & Admin cost question, I suppose you are looking at all costs together. Marketing cost for us is about 6.5% roughly. Historically we operated at around 5.5% and has been our target in past and are working towards reducing it further from current levels. But linking this to collection might be challenging because compared to some of our regional peers, we are still evolving. Our volumes are on a rising curve. We are currently booking all costs, but revenue base is not there, collection is just the early stage. So, when you are on a rising curve from a volume perspective, it takes some time to reach the construction momentum to reflect the full cost. The full cost is charged to the P&L straight, whereas both the revenue recognition as well as cash flows will take some time to gain momentum. We think over the next 18 to 24 months, you will see a more stable sales & marketing cost as a percentage of overall

performance. But I agree with you that there is a meaningful scope to work on improvement on that cost ratio.

**Chaitanya Deepak Shah:** My logic of comparing it with collections is because you mentioned earlier that real estate is a cash flow business. At the same time, the cash flow should match at some point of time.

**Gopalakrishnan J:** It should. It's just an aberration and will be there when you are on a rising volume curve because you are launching more and more projects. So, the initial stage of the outflow will be a lot higher. If I have a portfolio which has a large share of construction milestone linked collection as well supporting the same, then it gets moderated. That's what I meant as a stabilization over the next 18 to 24 months. In FY24, you will see much better ratios, I would imagine.

**Chaitanya Deepak Shah:** One more question on the same slide that I have is that the interest expense of around Rs. 64 crores and if I add the financing cash flows, it's around Rs. 70 crores still. And on a net debt base of Rs. 440 crores, it still seems to be pretty high. Just want to understand what is the timeline that we should look at? Because, it's still coming out to be some 15% to 16%.

**Gopalakrishnan J:** Net debt is not the right metric to look at interest, gross debt. Our gross debt at the beginning initial as you would have noticed....[interrupted by Mr Shah's supplemental question]

**Chaitanya Deepak Shah:** The sheet shows net interest expense. That is why I took net debt.

**Gopalakrishnan J:** Cash and cash equivalents don't earn anything meaningful these days. 2% to 3% kind of returns. I am not disagreeing with your facts. I'm just trying to put it in a different way. The interest is mostly all on gross debt which as you know is coming down gradually from Rs. 700 crores gross debt to about Rs. 500 crores now. This year I think now post April, it has dropped further. During this fiscal, we should have a gross debt of about Rs. 450 crores and a net debt of around Rs. 250 crores or so is our expectation. You will see an impact of the actual decline because the gross debt has been coming down gradually over the quarters as we refinance and as we go down. This reflects still the mix of old cost and a new cost. As we exit the year, we are at around 11.8% to 11.9% on a consolidated basis both SPL and all the JV debts together. Therefore, that 12% should be the starting point for this year, and therefore, I see it meaningfully coming down in FY24 itself. Plus if you look at out of Rs. 106 crores of finance cost in Slide #15, Rs. 10 crores roughly is other expenses out of which I think unamortized processing fee paid off should be about Rs. 5 crores to Rs. 6 crores at least. There are non-recurring costs because the refinancing program is almost over. We don't have much existing loan that has a refinancing potential. Therefore, I think FY24 will truly reflect on your question of when can we expect a meaningful reduction, I think '24 itself we will see a meaningful reflection of reduced interest rate on the overall outflow.

**Chaitanya Deepak Shah:** My second question is regarding the guidance that you provided. I was looking at the investor presentation just 2 quarters back and the guidance for.... I understand this year a few launches

were delayed to the next year, that's okay. But the guidance for FY24 two quarters back was around 5.5 million square feet. That seems to be trimmed down to 4.8 million square feet. That's almost 10% to 12% below what you had guided just 2 quarters ago. What is the reason? And the reason I'm asking this is because since you also mentioned about the stock price, the stock price has underperformed the Realty Index by about 40% since you did the IPO. It seems like there's some disconnect there. I just want to understand why this guidance has been cut and what is the disconnect that is happening?

**Gopalakrishnan J:** As you know, we talked about 4.25 to 4.5 million square feet for FY23. Having burnt our finger, we want to ensure that FY24 guidance is more conservative. We are still working towards a number which is meaningful, but I think it is a high confidence number that we wanted to put it on the table instead of trying to for the purpose of maintaining the guidance and then again trying to explain over the quarters to say will it be 5.5 or not? So, this 4.8, we thought will be appropriate and say is a high-confidence number.

**Murali M:** Overall market sentiments are good and demand is good, particularly for our projects, mid-market housing and affordable housing. And we are confident of achieving much bigger growth. But as you all know that regulatory challenges and a lot of state-related subjects, there could be some delays on the approval front. Hence, we wanted to be conservative. Overall, in the next 2-3 years' time, the growth looks very stable and very positive. And as you know that we have got a good pipeline of projects which we should be able to deliver good numbers. With respect to the capital market question, again since listing, we have been producing results quarter on quarter. Very positive encouragement for our own self. When we look at the mirror, we feel very proud about what has been done to the company and the stakeholders. Hope in the coming year that we will start rewarding the performance.

**Moderator:** Our next question is from the line of Dhananjay Kumar Mishra from Sunidhi Securities. Please go ahead.

**Dhananjay Kumar Mishra:** We have given guidance of launches of about 7 million square feet and I assume that we also mentioned that 50% will be done in H1 and then again the fact that two of the projects deferred in Q1 FY24. This I ask for the next quarter or Q1 and Q2, what kind of sales volume number or pre-sales value you are looking? Of course, you have given a guidance of on a full-year basis. But I think because of this deferment and then 50% we are launching in the first half itself, normally we do about 40% sales. What kind of numbers you are looking in Q1 and Q2?

**Gopalakrishnan J:** I would address this in 2 ways. One is, yes, there is a seasonality to it. We won't be able to break that market seasonality. So, we will continue to have second half being stronger than first half, as in the past. Overall, we will definitely be meeting our run rate that we have been trying to deliver over the last several quarters. I would expect the 1 million run rate would continue. Q1 will be stronger than last year's Q1 is what all I can say. Very difficult to break this down by quarter by quarter because some of the launches are also still waiting for RERA and other

approvals. When you launch during the quarter will determine how much volume. All I can say is we are targeting to have 5 launches in the first 6 months out of **(Inaudible)** already in a very good shape. So, they will take off during this quarter. So Q1 will have the launches in Chennai and as well as one in Bengaluru. Those things will take off. Difficult to crystallize into giving a quarter-wise guidance, but I would say we will definitely have this average run rate maintained and seasonality will continue even in FY24.

**Dhananjay Kumar Mishra:** Just a follow-up on the first question. What kind of investment we are looking for to put the business development? We have done about 10 new projects. To put them on launch stage, what kind of investment we need and how you are going to fund?

**Gopalakrishnan J:** Acquisition-related costs are all already done. These new launches don't need that large capital for securing these projects; those are not there. The operating costs will be incurred as we go through the launches, both from a launch expenses perspective and advertising & marketing, all of that. For the purpose of new business acquisition, yes, there will be capital investment during the year, but these projects I think we are done with the capital outflow basis for the FY24 launch-related maybe barring 1 project that I can see in front of me as a list. Remaining projects have all been secured already. Therefore, there's no capital investment for current year launches other than operating investments. The capital investment that I talked about in my presentation from a free cash flow slide when I discussed, this will be towards further accelerating our business development pipeline is where we might make new commitments and new investments.

**Dhananjay Kumar Mishra:** Rs. 130 crores investment we have done this year for new. This number will be much lower for FY24, right?

**Gopalakrishnan J:** It depends. In a relative term, the number will be lower because the free cash flow coming in will be a lot greater, and therefore, we see cash and cash equivalents being much higher than where we are currently. We currently ended there with about Rs. 110 crores of cash and cash equivalents. We would be probably ending upwards of Rs. 200 crores in the coming financial year. The investment, I would imagine the current investment that we made were towards the 2 or 3 projects that we did acquire. Rest are all JD advances, and therefore, they are not very large. It depends on the project mix. If you get more of a JD and DM, then the actual outflow might be a lot lesser. That's why I am not able to crystallize the number. We have a planned number for ourselves, but that would be somewhat similar to what we have current year. But I would like to stay away from the actual acquisition cost investment that we might be making because it depends on the mix of projects that we might get in the BD. We are sure that our free cash flow will be greater than what we saw in FY23 both at the pre investment level and the post investment level.

**Dhananjay Kumar Mishra:** And last question with respect to new investor coming in led to 15% stake for this new developers. What was the thought process? Can you comment on that? And whether they found



any synergy or we are finding any synergy to work with them in some project? What was the thought process overall you can give some color?

**Murali M:** Naturally, there is lot of synergy. We could sense that. They have bought from Walton Street Capital and Starwood Capital and they have large presence, particularly on proptech field. We find, as you know, technology is going to play a very major role in shaping up the real estate growth what is happening. So, we find there could be a lot of synergy between both of us on we being a large player on the real estate development side and they having a strong foothold on the technology front. We see a great potential to create lots of value to the enterprise through the collaboration.

**Moderator:** Our next question is from the line of Amit Kumar from Determined Investments. Please go ahead.

**Amit Kumar:** My first question is, I just wanted to get a sense, in your reported financials, you report very large other income, about Rs. 53 crores on a consolidated basis in this particular quarter against a cash balance which is averaging about Rs. 120 crores to Rs. 130 odd crores. I just wanted to get a breakdown of this other income. What exactly is this?

**Gopalakrishnan J:** As we discussed in Q3, we actually monetized one of our projects and there are certain investments associated with that and there's a fair value change to the extent of Rs. 20 odd crores.

**Amit Kumar:** And what else is there in that line item?

**Gopalakrishnan J:** Besides this, other income would have two more divestments of our development rights in another project. These two together, technically they should have been an operating income because that's our business whether we sell retail or wholesale. And unfortunately, accounting standard forces us to put it in other income. That monetization value itself is about Rs. 40 odd crores out of other income. It should have technically been other operating income. That's a disconnect that I think we explained it in Q3 itself.

**Amit Kumar:** I'm sorry, it is about Rs. 53 crores. You said Rs. 20 crores from the ASK platform, Rs. 40 crores for sale of development rights. That's 60 crores already.

**Gopalakrishnan J:** The rest would be interest income and other routine income.

**Amit Kumar:** I'm saying 40 + 20 is actually more than the income that you have reported. Can you just give me a breakdown of this Rs. 53 crores? Rs. 20 crores you said ASK. What else is there in this?

**Gopalakrishnan J:** Yes, we will give it to you. Can we connect offline – directly or through SGA?

**Amit Kumar:** Just one small point. You have about 24 million square feet of ongoing projects, but when I looked at your presentation, over the next 3 years, you are looking to deliver about 10 million to

11 million square feet. That's a little bit of a disconnect. In what sort of time period are you looking to deliver the entire 24 million square feet ongoing projects?

**Gopalakrishnan J:** The ongoing projects will get delivered in about 3+ years.

**Amit Kumar:** But in the presentation, it says that FY23 to '25. One year is already gone that way. Understood. Not an issue.

**Moderator:** Our next question is from the line of Siddharth Oberoi from Prudent Equity. Please go ahead.

**Siddharth Oberoi:** On page #27 of the investor presentation, it's mentioned that you have handed over 2000 units in FY23 and you are likely to hand over 3000 in units in FY24. So, are we to assume that the revenues would be about 50% higher in FY24?

**Gopalakrishnan J:** The growth would be there. If you want a specific number, our overall revenue growth will be stronger. I'm just resisting myself from putting an FY24 financial number on table, but yes, the growth will be somewhat similar to what you are expecting.

**Siddharth Oberoi:** Generally, what is the net profit margins that the company works on an average? Because, in the last 5 years, the cumulative revenues that you have reported is Rs. 2,900 crores. And on that, there is a loss of Rs. 21 crores cumulatively last 4 years as well. Last 3 years cumulative revenues is Rs. 1,680 crores with a profit of Rs. 16 crores, less than 1% net margins. Is it that these revenues that have come on the books, the profits of that would now accrue in FY24 and '25?

**Gopalakrishnan J:** No. I think there is a little bit of history I need to take you back. If you have looked at the prospectus or IPO documents, you would realize historically we had certain legacy issues due to which the reported earnings would have been lot less because we had what is called as deemed interest burden. From the Ind AS days onwards, we have been carrying that on our shoulders where all the private equity investment got treated as debt as per Ind AS because of threshold concept which was in the shareholder agreement. All of this unamortized, those burdens, and the residual units which were unrecognized for revenue were all loaded as these deemed interest burden got loaded. So, every time when we recognize income, we would have recognized this burden, noncash charge as well. Therefore, the EBITDA margins were a lot lower. I think there is a full page describing this whole problem in the prospectus and I am happy to walk you through on a call at a convenient time to you and us. That is one part of it. Second part was historically we had certain problems in some of the legacy projects. When they came up for recognition, those projects had certain problems in terms of cost as well as timelines. Therefore, the earnings profile of some of those old projects have really hurt us during the last 2-3 years.

**Siddharth Oberoi:** How much of this legacy is still pending?

- Gopalakrishnan J:** I think we have said this in the earlier call. The legacy issues are completed now. FY20 is when all of the old burden disappeared except for a small burden still outstanding in Kolkata, I think about Rs. 80 odd crores on a 30 million square feet of income to be recognized. So, it will be about Rs. 20 to Rs. 30 per square feet of the accumulated interest burden still there. Other than that, the legacy is over. That's where Shriram has actually reset itself a couple of years ago. We needed to see how the new pipeline profile looks like. That is what is going to be the reflection of our earnings in the current year '23, '24, '25, all these are newer projects are getting recognized. We currently operate with broad metrics that if at the project level it needs to make at least mid-20 EBITDA margins and at least a 10% to 11% PBT margin is what we think we should be able to sustain this business model given the portfolio mix that we have and that's what we have been trying to guide people.
- Siddharth Oberoi:** Because, even in the last 2 years after your legacy was kind of past behind, the total revenues were Rs. 1,246 and with a PAT of 84. Again, it's a 6% net margins. But what you are saying now is in the future, what is the PAT margins or PBT margins you can guide?
- Gopalakrishnan J:** 10% to 11% PBT margin is a very reasonable and sustainable margin in the resi business and you would see it is somewhat similar to other listed players as well.
- Siddharth Oberoi:** So, basically, if you take full PAT is like about 8% PAT margins?
- Gopalakrishnan J:** It could be slightly higher than that.
- Siddharth Oberoi:** And most of this now would start to accrue in FY24 and '25. Is that correct?
- Gopalakrishnan J:** '24, '25, '26, yes, 3 years would be a reflection of what we have sold already, the recent portfolio. We have sold about 13 million to 14 million square feet in the last 3 years. That's where the whole Shriram as we call it Shriram 2.0, the whole new version of Shriram Properties came in only in the last 3-4 years is where the volumes have really ramped up and the economies of scale have kicked in only now. That's what is going to drive this over the next 3 years and we think, therefore, these next 3 years would be a monetization of or recognition of income from these sold units. That's how we think 3 million square feet annualized would be an average year-to-year, obviously, it will be very different. It will be moving up and down, but on an average, 3 million to 3.5 million square feet is a volume that we should be delivering, and therefore, income recognition can happen on those enlarged volumes. This year, I think, FY23 the total income recognition volume is about 2.4 million square feet.
- Moderator:** Our next question is from the line of Aditya Sen from Robo Capital. Please go ahead.
- Aditya Sen:** Just 2-3 quick questions. What is the value to be launched in FY24?

- Murali M:** FY24, we are looking at launching close to about 30 million square feet, out of which about new supply will be about 5.8 million square feet.
- Aditya Sen:** What's the size of land bank that we have in terms of value?
- Murali M:** We don't have any land bank. As you know, we are an asset-like company. We have only 1 land parcel in Kolkata. Rest all either joint development or on DM or joint venture. That's the portfolio what we have. That's also an advantage for us being an asset-like company.
- Aditya Sen:** In the opening speech, we were talking about some land monetization. Is this the same land?
- Murali M:** In Kolkata, we have 1 land parcel which we have been working on monetizing back. That has got some good breakthrough and we will make some progress this year and get some buy out of it.
- Gopalakrishnan J:** Only other land bank that we have is a retail mall land which is approved as part of our Resi complex which is a joint venture between Shriram and Mitsubishi Corporation. That's another one which we might monetize. We talked about it in the past as well. So, there are only 2 lands that are available. Rest is all project acquisition we make, convert, launch the project, sell, and monetize, and move on.
- Aditya Sen:** What's the value of the mall land?
- Gopalakrishnan J:** Value will be very difficult to discuss in a forum like this. On area-wise if you look at, Bengal has beyond the 10 million square feet that we have set for ourselves as development. We have close to 200 acres of remaining area that can be monetized. A part of that is being targeted for monetization under the LOGOS deal. In Chennai, it's a land which is capable of building into less than half a million square feet of mall area. As you would appreciate, it will be difficult to discuss the value of those properties on a call.
- Aditya Sen:** What's the unsold value from the completed and ongoing projects?
- Gopalakrishnan J:** We have no inventory in completed projects. Inventory only in ongoing projects. Completed project inventory is zero out of 10,000 or 11,000 units that we have completed so far. From an ongoing portfolio, the total unsold area is about 5.7 million square feet is the opening inventory that we have including the projects that have been launched late last year.
- Moderator:** Due to time constraints, that was the last question of our question & answer session. I would now like to hand the conference over to the management for closing comments.
- Murali M:** I would like to thank all the participants in the call and listen to it. As I said earlier, we are looking at a very progressive growth for the next 3 years' time. The last 3 years have been really a good time for us. We have at an average of about 3.5 million square feet plus pre-sales last 3

years and this momentum to continue further. Next 3 years, we should be able to achieve average sales volume of 5 million square feet in the next 3 years' time. And as you have seen, revenue recognition of the projects which are sold which will take place in FY24 to '25. We expect to make a good profitability in the next 3 years' time. Overall macro situation is very good in the country. The country is making a good progress across all regions. Housing is one major industry which is doing phenomenally well, particularly middle-income housing. And the growing urbanization and the growing demand for mid-market housing is just settling further. On the other hand, consolidation in the industry is helping large corporate developers like us to capitalize this growth. We are looking forward to a great journey ahead. Thank you all for your great support in holding hands walking this growth journey.

**Moderator:**

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