

**Eldeco Housing and Industries Limited**  
**Earnings Conference Call**  
**November 09, 2020**

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**Moderator:** Good afternoon, ladies and gentlemen. I am Faizan, moderator for this conference. Welcome to the Conference Call of Eldeco Housing & Industries Limited, arranged by One IR, to discuss its second quarter results ended September 30, 2020.

We have with us today Mr. Pankaj Bajaj – CMD, and Mr. A.K. Dhandha – Group CFO, who will represent Eldeco Housing & Industries Limited on the call.

As this moment, all participants are in the listen-only mode. Later, we will conduct a questions-and-answer session. At that time, if you have a question, please press "\*" then "1" on your telephone keypad. Please note that this conference is being recorded.

I would now like to hand over the floor to Mr. Pankaj Bajaj– CMD, for the opening remarks. Thank you and over to you, sir.

**Pankaj Bajaj:** Good afternoon, everyone. This is Pankaj Bajaj. I welcome all the participants to the Earnings Conference Call of Eldeco Housing and Industries Limited for the second quarter financial year 2021. I hope you are all keeping well and staying safe.

For the first time attendees, EHIL is a leading real-estate developer in Lucknow for more than three decades, with a proven track record with excellent delivery of over 40 large and medium sized projects. Although we have a large, diversified real-estate portfolio in Lucknow, spread over group housing, townships and commercial building, our business model is more concentrated towards horizontal real-estate residential development, townships. These consists of row houses or plotted developments in an integrated format. We feel, Lucknow, is one of the fastest growing Tier 2 cities with high demand for quality real-estate. Being the state capital of the most populous state, there is a constant influx of migrants for government and private jobs, with continuous infrastructure development and the actual customer demand is expected to remain robust in this region.

Now, I would like to take you through the company's financial performance for the quarter. And then we will follow with the Q&A session.

The company reported robust performance in Q2 FY 2021. In terms of consolidated financials, our revenue for the quarter increased significantly by 74% to Rs. 40 crores as against Rs. 23.10 crores for the same quarter last year. This is mainly due to completion of one of our major

projects, the Eldeco Regalia and revenue recognition therein. The consolidated EBITDA stood at Rs. 21.13 crores for the quarter as against Rs. 11.4 crores in the same quarter last year. This shows an improvement of 85% year-on-year. EBITDA margins improved to 53% in Q2 FY 2021 from 49% in Q2 FY 2020. Net profit almost doubled to Rs. 15.78 crores for the quarter as against Rs. 8.04 crores for the same quarter last year. Profit after tax margin improved to 39.33% for the quarter from 34.82% in the same quarter last year.

For the year ended September 2020, the company reported consolidated revenues of Rs. 60.10 crores, which represents year-on-year decrease by 10.28%. EBITDA increased by 24% year-on-year to Rs. 31.27 crores and EBITDA margin improved to 52.03%. Net profit increased by 34% to Rs. 23 crores in the half year FY 2021 from Rs. 17.15 crores in the half year FY 2020. Our company has always maintained a strong balance sheet. As on 30th September, 2020, our net worth was Rs. 233.73 crores and cash and cash equivalents of Rs. 123.43 crores. We feel this is a strategic edge in the current distressed market, and we intend to use it wisely.

The COVID-19 pandemic has accelerated demand for houses in Tier 2 and Tier 3 cities due to work from home in white collar jobs, availability of better value based pricing and government's push for industry and infrastructure development. Lucknow is among the top Tier 2 cities of India. We are seeing a revival of sales, especially in mid-income category, post the easing of lockdown. Demand is expected to strengthen further in Lucknow, driven by rapid urbanization, infrastructure upgradation, improving connectivity by highways and expressways and record low interest rates. We are a leading and established real-estate developer in Lucknow with a strong brand equity and a track record of timely execution of projects. We are further taking land banks to scale up our project pipeline.

Our construction has been generally in line with our commitments. We are confident that we will continue to deliver steady performance to create value for all our stakeholders. On this note, I would like to conclude my remarks. Now, I would like to open the floor for Q&A. Thank you.

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Priyanka Baliga from KR Choksey Shares and Securities Limited. Please go ahead.

**Priyanka Baliga:** Sir, my first question is, what are the probable areas for expansion in North? And the second question is, if you can detail on your growth strategy.

**Pankaj Bajaj:** So we have answered this question before, we have been building our balance sheet for the last few years. And as of now, we are negotiating several deals in Lucknow itself, which we feel, as I said in my opening remarks, is a great city, has a great future. And because the market is consolidating, we feel that we have a clear run rate in Lucknow for a few years. So we have given some updates in our investor presentation, I hope you have a copy of it. So we are

working towards building our pipeline. I don't know if you were there in the last conference, as an experiment, we have ventured out of Lucknow and invested in a project in Bareilly. So that experiment is also going well. Depending on that we will take up maybe other cities in UP.

**Moderator:** Thank you. The next question is from the line of Karan Gupta from KP Synergies. Please go ahead.

**Karan Gupta:** Mr. Bajaj, just wanted to ask you, what is your plan for the company with regards to your capital structure? During the last call, you had mentioned that you are seeing land deals change a little bit in the structure, as in, the sellers are not looking for full payment upfront, there is more opportunities for JVs etc. And given the no debt and the large amount of cash on the balance sheet, do you plan on raising any debt, given the low interest rate requirements? And how do you plan on deploying capital going forward?

**Pankaj Bajaj:** So, even though landowners are more flexible now in terms of when we need to do a project on their land. Earlier they were all seeking upfront payments, and now they are more open to a deferred payment structure. But that's a reduction in capital requirement in order to turn around a project, neutralized by overall higher capital requirements and executing the project. Because of RERA you have a larger requirement of capital and we are also seeing a trend towards the ready-to-move-in kind of inventory. So, we find that we need to invest a lot of money upfront to bring a product to a stage where it will become very attractive to the market. So, to some extent it is compensated by the landowners becoming flexible.

To answer your second question, whether we plan to raise debt, it is not that we have vowed never to raise debt. It is a happy thing for us that we don't have any debt on our balance sheet now. We don't feel the need to raise debt right now, because obviously there is capital on the balance sheet. But as I answered in an earlier question, we are looking at several projects. And if the size of the project is such that we need to raise debt, surely we will raise debt and especially on the construction side of it. That depends on the size of the project. And one more thing related to that is, we generally do large projects as Eldeco Group. So, I do foresee that in the coming year, not only will this capital get deployed, we may also be raising debt because we are close to clinching a few deals.

**Karan Gupta:** Okay, excellent. Sir, what is the capacity for the group or, I guess, the listed company in particular, how large a project book can you bear with given the current capacity, both in terms of manpower as well as the execution capacity of the companies in terms of million square feet perhaps or number of projects?

**Pankaj Bajaj:** If I may, let me answer that in terms of the time required to execute the balance works. So, typically one would like a real-estate company to have a pipeline which is enough for the next five years. But these days, in this company, our pipeline is probably good enough only for the next two years. So we have less projects, we are aware of that, which is getting reflected in the

balance sheet also, as far as the cash has gotten accumulated. If we had accumulated projects instead of cash, then we would have had a longer pipeline but less cash. In terms of capacity to execute, I think the company is operating at maybe 60% capacity, we can easily scale up by another 50% or 60% from it, without significant addition in our capacity in terms of manpower resources and the like.

**Karan Gupta:** Okay. So does that translate into like annual construction of about 10 lakh square feet?

**Pankaj Bajaj:** If we look at our net consolidated run rate, it's about Rs. 140 crores, Rs. 130 crores, Rs. 150 crores for the last few year, and our average realization is about Rs. 3,200 per square foot, so it is more in the region of 5 lakhs square feet right now what we are doing. But to answer your question, we can easily do 1 million square feet. That depends on whether you should have projects of that nature right now, which we are trying to have.

**Karan Gupta:** Okay, excellent. And then secondly, I just wanted some clarity on the Eldeco brand name itself. I understand there's a listed entity and there's a privately held company, where you are also a promoter. So where does the Eldeco brand name lie?

**Pankaj Bajaj:** In the unlisted entity.

**Karan Gupta:** So the listed entity has some kind of a...

**Pankaj Bajaj:** Yes, it has a brand licensing agreement, which is a long-term and irrevocable kind of agreement for the territory of Lucknow.

**Karan Gupta:** Okay. So it's irrevocable on the part of the private company.

**Pankaj Bajaj:** Yes. So, as long as the terms of the licensing agreement met because I think there is some royalty fee which needs to be paid. So as long as that is getting paid, Eldeco Housing has the rights for Lucknow. The unlisted entity cannot enter Lucknow as the rights are with the listed entity.

**Karan Gupta:** And then thirdly, I know you have been listed on the Bombay Stock Exchange for a long time, but have you ever explored listing on NSE?

**Pankaj Bajaj:** I think I will ask Dhandhaji to answer that.

**A.K. Dhandha:** Good afternoon. Actually, we certainly want to get listed in NSE, but problem is there are certain criteria to be listed in NSE. And unfortunately, we are not able to match those criteria at the moment. So we are in discussions with our consultants. But yes, certainly our focus is to get it listed in NSE once we fit the guidance, and maybe in next year or two we might get listed.

**Karan Gupta:** Okay, thank you. Can you throw some light on what kind of criteria are we talking about? Because there are smaller companies that are actually listed on NSE.

**A.K. Dhandha:** The minimum capitalization, etc., that is the condition. Number of trades, capitalization, experience, sort of that.

**Moderator:** Thank you. Our next question is from the line of Arjun Lamba from Guardian Advisors. Please go ahead.

**Arjun Lamba:** Just two questions from my side, one more on a macro demand sort of a picture in Lucknow, and in other parts where you operate in the private entity also. And are you seeing any trends emerge, or still too early to call? And also, if you could throw some light on the Bareilly project, towards the new project, what's been the uptick there? That's about it. These are the two questions I have.

**Pankaj Bajaj:** The first question, obviously, the lockdown period was a washout for almost everybody, we are not in essentials I guess, all construction had come ground to halt. For the first couple of months there was no construction but after that we commenced construction and demand has gradually come back, to the extent that September and October has been the best month ever, it's been that good. Now to call it a trend, I would hesitate to call it a trend, I am conservative by nature Whether this is going to last, whether it's a long-term trend that there is a structural shift in people's demand towards houses, I feel a lot of pundits say that there's a structural shift, and people do realize the importance of houses. And housing is going to take a disproportionate share out of people's wallets going forward. It probably will. But I am not a soothsayer so I don't know whether this is going to be true. But I feel that this may last. So that's why we feel like the tide has turned for at least residential housing. For commercial real-estate, there is obviously a little bit of uncertainty, given the uncertainty regarding working from home and all. But even there, one feels that working from home and growth in residential housing will go hand in hand. It's not that commercial real-estate is going to go away, it's not going to be like that. So overall, it seems to be good times for real-estate.

Your second question was Bareilly. As part of that, we launched that project in September, we have a total of I think 470 odd units there, and about 130 of them are blocked by the Local Development Authority, because they want us to get completion certificate before they release, as part of their policy before they release them for sale. So we opened about 340-odd units for sale and we were sold out in three weeks. And this is when work has not commenced in right earnest at the site. I can put that to the brand of Eldeco, I can put that to a great design, location, product. Or it could just be that there's a secular demand coming for housing in Tier 2 towns. So, I hope that answers your question.

**Moderator:** Thank you. The next question is from the line of Jagdish Choudhary, individual investor. Please go ahead.

**Jagdish Choudhary:** Thank you for your excellent results you have provided. I am a shareholder from last few years. And just I was listening your con-call. So you were telling that you have the project of only two years at the moment?

**Pankaj Bajaj:** Yes, that's right.

**Jagdish Choudhary:** So are you planning things for the future, because after two years what will happen?

**Pankaj Bajaj:** So it's always a balance between having too many projects and having too little projects. I would say that a happy place to be is in the middle. So many of the real-estate companies take too many projects and they find it unwieldy. But as I said, the right number of projects is four to five years, we are at two years right now. So it's not that we are going to sit on our chair for the next six months and not add projects. If we are not able to add projects in Lucknow, we are going to venture out. We are going to make sure that the capital of the shareholder is always profitably deployed. I hope that satisfies you. It's not that after two years you going to be paying the management and people just to sit idle. We are going to work and make sure that the pipeline is always full.

**Jagdish Choudhary:** So anything you are in talks for buying some land or projects or any pipeline is there?

**Pankaj Bajaj:** As I answered in one of the earlier questions, we are in talks with a number of landowners in and around Lucknow, and we are hopeful of finalising something maybe in the next three months or six months.

**Jagdish Choudhary:** Pankaj ji, how do you think market will respond? Because five, six years are very, very bad for real-estate. I think its turning up now. Next three, four years should be good for real-estate, you think so?

**Pankaj Bajaj:** I do think so. But, as a philosophy, the Eldeco Group is not very bothered. If you even look at our performance with what the market trends are, we make sure that our product is fundamentally a product for which there is a demand in the market. Obviously, it helps if there is a general buoyancy in the real-estate market that helps our product sell faster, but we choose, design our product and execute it in such a way that even when there is a downturn in residential real-estate or any other segment of real-estate, there should be demand for our kind of product. So you said that the real-estate market has been down for the last five, six years, does it show like that in our annual reports? Not at all. So we are going to work and irrespective of where the...

**Jagdish Choudhary:** You are good guys, I have noticed that your sales were good and you have delivered on time, so your brand image is very good also.

**Pankaj Bajaj:** If real-estate market goes up, and lead indication are that it is going to turn up now. And it's not only that, I have spoken to a number of other developers as well, the market has turned up, everybody's doing this business. It is going to start showing in the number of listed companies and real-estate reports shortly. But the news on the ground is that the footfalls and conversion are at a much higher level than they were in the last many years.

**Jagdish Choudhary:** You see increase in prices also in next one, two years?

**Pankaj Bajaj:** Absolutely. How else can we explain the EBITDA and profit after tax margins of this company? We bought these lands earlier and now the prices have been increasing. You look at our investor presentation and you look at the average realization that you are getting, it is just increasing quarter-on-quarter.

**Jagdish Choudhary:** So, any big project in pipeline at the moment?

**Pankaj Bajaj:** Nothing that we can announce on this call right now, Jagdishji.

**Jagdish Choudhary:** Okay, sir. Thank you. Any dividend planning to give?

**Pankaj Bajaj:** Dividend, yes, we have a steady dividend track record, as a shareholder for many years you would have noticed that and you would have enjoyed those dividends. So we are hoping to continue to be very regular in our dividend payments and hopefully increase it in the future.

**Moderator:** Thank you. The next question is from the line of Priyank Gupta from Guardian Advisors. Please go ahead.

**Priyank Gupta:** Firstly, congratulations to the whole Eldeco team for spectacular results. I have just a small question, Pankaj. Not related to the company as such, but you mentioned in the call that post RERA, obviously, the requirement of capital has increased. Does that mean that for the industry and specifically our listed company, also, the return on capital employed in future will be a little less than what we are used to from Eldeco?

**Pankaj Bajaj:** Very difficult to say, Priyank. Because that's an interplay of a number of factors. But other things remaining the same, definitely. If you assume that everything else remains the same, it's just a simple calculation, that if you are deploying more capital with the same return, the return on capital is going to be lower.

**Priyank Gupta:** So my question is, do you think that the industry will be able to pass on the excess capital requirement cost to the buyer, maybe in future and compensate for the return we have seen in past?

**Pankaj Bajaj:** Priyank, that's a million dollar question, that depends on the overall competitive scenario in the industry. And the earlier question was, is the real-estate segment going to see an upturn.

As of now, it does seem that there is an upward price correction in endorsing. If that happens, somehow it will get compensated by higher margins. But in the long run, I don't feel that real-estate prices, and I hope that they do not keep rising, because in the long run they do tend to be counterproductive for the industry. I hope prices don't rise too fast. So if they rise too fast, obviously, we will be able to pass this on to the market. But then we find that such price rises do not come to a good end. So I would be more interested in a long-term sustainable, respectable decent return on capital employed. Which, in any case, I think we are hopeful of returning.

**Moderator:** Thank you. The next question is from the line of Sanidhya Jain from E. Choksey Advisory. Please go ahead.

**Sanidhya Jain:** Congratulations for the good set of numbers. I would like you to detail you something on the guidance for revenue for like two years, three years down the line. Where can we see ourselves with respect to top-line and bottom-line? And vis-à-vis, what can be the further improvement in the overall EBITDA margins? So, in summary, I would like to understand three to four years of story good forward.

**Pankaj Bajaj:** I can see next year, maybe I can see next year and a half, because we know what the projects that we have in hand and the pace at which we are executing. And barring something unforeseen, some court case, something which we don't see anything on the horizon, we should be able to continue with our current performance for the next year, year and a half. Beyond that, I would not like to make an irresponsible statement. That depends on how quickly we are able to add projects. As I said that the market is big, Lucknow is big. And we have execution capability of going at least double, if not more. So it depends on a number of factors. But I should not make a wild statement that four years from now this is going to be the top-line. I would resist on doing that. But the current thing is going to continue at least for a year and a half or maybe two years. Beyond that, it depends on how quickly our new projects, which are in the pipeline, actually will see the light of the day. I am sorry, I haven't given you a clear guideline.

**Moderator:** Thank you. The next question is a follow-up question from the line of Karan Gupta from KP Synergies. Please go ahead.

**Karan Gupta:** Pankaj, one quick question. Again, it's a little overarching, but can you just walk us through a typical timeline for a project from the time you closed the land deals to, how long it takes to get the plans passed, the designing and then when it comes to market and when you actually start selling?

**Pankaj Bajaj:** Okay. So, from the time we closed the commercials to the time we actually do the due diligence, the definitive agreements, and actually are ready to apply for the licenses, that takes about six to eight months. A licensing itself, the mother license will take about four to five



months, which is the license, but then there are a number of other things which you need to do before you actually start executing, the chief amongst them is environment clearance, because if we tend to do large projects and all of them tend to have this requirement of environment clearance. I am leaving aside the parallel activities; in terms of Critical Line items six to nine months to close the land, another six months to get the mother license, and then four months to get the environment clearance, and then a couple of months to get the pollution NOC. So, from the time you close a land deal to launching is about one and a half years. Then typically the kind of projects we do, and we will do it in phases. So the first phase will get ready for completion certificate after three years from there. And then depending on the size of the project, you do multiple phases. And add another three years to the first one and a half year, which are pre-construction sales, that's four and a half years. Last year or so you have taken handing over the common areas and services to the association or lotteries. Typical project life cycle would be five, five and a half years. Regalia project which we have closed this quarter, I think we started in 2014. So it took us six years. That's what it is.

**Karan Gupta:** And according to current accounting standards, you start reporting revenue one you sell a particular flat or a property or once it's handed over to the...?

**Pankaj Bajaj:** So, the accounting standards have changed, earlier it was percentage completion method, you could recognize revenue in proportion to the percentage, which you completed in the project. But now, it is only after you get the completion and you hand over possession.

**Karan Gupta:** Okay. All right. And then when do you plan, so suppose you close a land deal, say, tomorrow or next month, when do you plan on making those disclosures to investors?

**Pankaj Bajaj:** Typically, when we are sure of the project, so we will not be premature in disclosing at the term sheet stage, but once you have definitive agreements with the landowner, when we know that we are going ahead with this, we will disclose. We have some term sheet actually out, but we feel it's premature to disclose, because the land could fail in due diligence, I mean, why disclose it. Once we start paying for the land, so sort of how it works is, you have a term sheet with some landowner, you pay some miniscule amount, do the diligence, make sure that everything is alright and you get into some sort of a definitive agreement. That stage is crossed in a couple of projects, but once we have definitive agreements, we will disclose.

**Moderator:** Thank you. As there are no further questions from the participants, I now hand the conference over to Mr. Pankaj Bajaj from Eldeco Housing and Industries Limited. Thank you and over to you, sir.

**Pankaj Bajaj:** Thank you, everybody. And wish you all a Happy Diwali. Stay safe and see you next time around. Hopefully, maybe we will have some disclosures to make that time. Thank you. Bye, bye.

**Moderator:**

Thank you. Ladies and gentlemen, on behalf of Eldeco Housing and Industries Limited, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.