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June 3, 2022

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Dear Sirs

Sub: Transcript of Investor/ Analyst Meeting- May 30, 2022

Further to our intimation of conference call with Investors / Analyst, we enclose the transcript of the conference call held on May 30, 2022.

We request you to take the above information on record.

Thanking you.

Regards

For SHRIRAM PROPERTIES LIMITED

D Srinivasan

Shriram Properties Limited

D. SRINIVASAN
COMPANY SECRETARY
FCS 5550

"Shriram Properties Limited Q4 FY 22 Earnings Conference Call"

May 30, 2022

MANAGEMENT: **MR. MURALI M., CMD - SHRIRAM PROPERTIES LIMITED**
MR. GOPALAKRISHNAN J. - ED AND CFO - SHRIRAM PROPERTIES LIMITED
MR. K.R RAMESH, ED, OPERATIONS - SHRIRAM PROPERTIES LIMITED

MODERATOR: **MR. ADHIDEV CHATTOPADHYAY - ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day, and welcome to the Shriram Properties Limited Q4 FY'22 Results Conference Call hosted by ICICI Securities. 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 '*' then '0' on your touchstone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Adhidev Chattopadhyay. Thank you, and over to you, sir.

Adhidev Chattopadhyay: Good evening, everyone. On behalf of ICICI Securities I'd like to welcome everyone with the Shriram Properties Limited Q4 FY'22 results call. Today from the management we have with us, Mr. Murali M., CMD; Mr. Gopalakrishnan J., ED and CFO; and Mr. K.R Ramesh, ED, Operations. First, I'd like to congratulate the management on a very good year overall, and I'd like to hand it over to them now for their opening remarks and the way forward for the company. Over to you, sirs.

M. Murali: Good evening, friends. This is Murali here. Thank you for all your support. As stated, we have made a fantastic turnaround year FY'22. We just declared the results and sure everyone would have seen the numbers. We finished the year with 3.76 million square feet of sales volume and sales value close to INR1,500 crore and the collections are about INR 1,263 crore and the construction has also been at an all-time high with INR 643 crore . Also, we ended the year with INR17.7 crore PAT and ended the fourth quarter with INR64 crore PAT. So, it has been a great year for us.

As I interacted with many of you during the IPO, whatever the guidance we have given, we have been able to deliver and in some of the areas we have even surpassed the guidance. Things are looking pretty good for us. And we are enjoying this new journey of being a listed company, which gives us lot of strength and courage after having achieved our own targets, our own guidance. It gives us a lot of strength, confidence, and courage to take this company to the next level.

The year ahead, FY23 is looking very, very positive for us. First two months indicated a decent performance. I expect, there are quite a lot of good things that happened in the year FY22. We have done highest sales volume, construction output, collection output, which together resulted into good positivity. Not only that, in the last three years, we have sold over 10 million square foot. Based on that, ovet the next 3 years, close to 70% of the project revenues should come from projects which have already been sold till FY22. And 60% of the DM revenues should come from the projects already launched till FY22. Fundamentally, it's just not good FY22 results we have been able to deliver, there is a clear visibility of earnings for the next 3 years.

Not only that, FY23 is going to be a great cash flow generating year for us. We are likely to generate good amount of cash flows as we speak from couple of projects which we've been highlighting to you. So that's very much visible now. So, all that will lead to significant debt reduction. As you all know, we have one of the lowest debt-to-equity ratio in the sector, which is about 0.3, and that is likely to come down close to zero from the current projects today in the next 12 to 18 months' time.

So there is a clear visibility. The ongoing project cash flows will help us in becoming debt free of all the current projects today in the next 18-month time. Further, we will generate good amount of cash flows which will be available for growth. So we are looking forward to a great journey. And FY'23 we had set a target for ourselves to do sales volume of about 4.5 million square feet and PAT number will be at least more than triple or four times of the number what we achieved in FY22. So that's where we are now.

I will hand over to Gopal and I'm available for any question and answer later.

Gopalakrishnan J.: Thank you, Murali. Thank you, Adhi, for hosting this call. I believe there's some disturbance in between. I hope I'm audible. Adi, am I audible?

Adhidev Chattopadhyay: Yes, yes, sir. You can please go ahead. Yes.

Gopalakrishnan J.: We have uploaded the presentation on BSE site and being an audio call I'm going to refer the page numbers of this presentation and continue my brief conversation around the financial performance and the outlook that we have for the company. And then I'll try to complete that in about 20 minutes and then I'll stop for Q&A session as appropriate. I hope all of you have had access to the presentation.

Slide 1 of the presentation talks about the macro-outlook for the sector as well as the landscape at which we operated in the last fiscal. Most of you are familiar with the industry landscape. It would suffice to say that the markets have been conducive and favorable for all large, branded players. Housing market remains strong, quarterly sales have been highest since 2015, launches continued and everyone had successful launches. Many large players had launches. More importantly, launches outpaced pre-COVID levels despite the fears of third wave. More encouragingly for us, the market showed that the mid-market and the affordable housing have been better performers relatively, and that's an encouragement for us. Market was also conducive enough to improve pricing. And that has been a good support in terms of overcoming the cost impact that we have seen in the market.

But if I look forward, positivity of the sector looks very encouraging and it should continue to result in a favorable demand outlook for the next couple of years. Improving job security and robust hiring from some of the key sectors in our core markets like IT, ITeS, financial services should auger well from a demand perspective. Affordability remains at a multi-decade high, notwithstanding a small increase in bank rate or a resultant increase in home loan interest rates. Consolidation is continuing and therefore large, branded player like ourself should continue to have a strong operating platform or strong canvas on which we can continue to grow and face a more robust and more positive outlook going forward.

Turning operating highlights. Slide 4 gives you a snapshot of key operating metrics. Our sales volumes, as Murali mentioned in his opening remarks, grew by 25% year-on-year to 3.76 million square feet for full year FY22. Quarterly numbers were equally encouraging at 1.2 million square feet for Q4. Consequently, sales value has grown by 19% year-on-year to INR1,482 crore. Our collections were at a new high as well, up 42%. From a low base of the previous year where we suffered due to labor migration issues, construction spend has grown more than 1.5 times to INR643 crore. Same is explained more in detail in Slide 5.

It suffices to say that our performance was at an all-time high on most of these KPIs or the key parameters that we look at in this business.

Our full year sales was highest ever, as I said, 3.76 million square feet. Our gross as well as net collections as highlighted in slide 5 has been at the record high as well. Our average monthly collection consistently reminded above INR100 crore per month through the entire journey of Q2, Q3 and Q4. Our construction spend, as I said, was a record high as well, INR643 crore we spent compared to INR250 crore that we spent in the previous fiscal.

Our labor strength currently is around at 5,000 people on the ground compared to 4,200 we had in the pre-COVID environment, which clearly shows the focus on execution has gained momentum and is continuing for the last several quarters now, overcoming all the COVID-led impact that we had in the previous fiscal.

As you all know, DM has been a thrust area for us. And DM projects have stabilized. I'll explain that in a subsequent slide, but from a key performance metric perspective, DM accounted for 28% of overall sales volume during this year. That's a very encouraging number for us. Such strong performance, both from the market perspective and execution perspective was supported by a very successful launches that we had. For the full year we had about 12 launches. And as you know, we have talked about, consistently about a metric called sales-at-launch. Our sales-at-launch has been fairly robust and encouraging for the entire year.

In Slide 6, you can see all launches we had during the year. On average we had about 38% of our launched project inventories have been sold. And that's a very encouraging number for us as we have been aspiring to stabilize between 35% and 40% consciously over the last couple of years. And despite the third wave concerns , we have been able to achieve a 38% sales-at-launch, which is encouraging , and gives us a comfort on our ability to identify right product mix and a project mix for micro-markets as well as efficiency of our sales machine.

Interestingly, slide 7, our pricing trends have been very positive. In the month of September , we wanted to actually move-up looking at the market conditions and favorable demand situation. And we have actually been able to achieve an average price hike of almost 8% by March '22, compared to the levels that we were selling in September'21. So second half is where most of the price hikes have happened.

And the chart on Slide 7 shows the price difference between September '21 and March '22 for some of our large volume contributing projects. As you could see, price improvements have been in the range of 4% to 20% . On an average, it has a resulted in an 8% increase in price during second half. The chart below on Page 7 talks about average realization for the whole year FY'22 versus '21, nearly flat from an apartments perspective that primarily shows how the prices have been moving during first half. And plots is obviously a combination of which projects we launch which will determine the average price realization in plots. But suffice to say, second half has been an encouraging for us and we believe we should be able to continue that momentum during current year that should help in overcoming the inflationary impact that we are seeing in some of the construction materials. I'll talk about it in the subsequent part of the presentation but suffice to say our large part of the inflationary impact can be easily offset by rising average realization.

As at the year-end, as shown in Slide 8,we had about 51 projects, roughly about 51 million square feet of development potential. Two things, which is very important here, from the time we filed RHP we have actually gone up almost 10% net addition to the portfolio. We added almost 13 million square feet. We cleaned up some of our projects where it was taking longer time to get approvals and get the processing done compared to initial expectation. So, we moved some of those projects. Despite that the net edition has been to the extent of 10% in our overall portfolio. Well spread between ongoing and upcoming projects, 27 million out of 51 million is ongoing, out of which 25 million has been launched and almost 18 million feet has been sold. So we have a very low unsold inventory from ongoing projects. We have zero or near zero inventory in completed projects. So these are positive side of our business model. Basically the thrust on mid-market, affordable housing has helped us in ensuring good velocity and therefore zero inventory in completed projects. And we have about 75% of our launched ongoing projects have been sold. So that basically the most of our ongoing projects are derisked in that sense.

Moving to financial performance on Slide 10, high level messages are that, we are encouraged by the turnaround we achieved in FY22 . As you recall, Q3 is when we started witnessing the turnaround, and Q4 trend has been pretty encouraging. Overall, for the year, we turned around into positive net earnings in line with the guidance issued to investors during the IPO roadshows. Improving margins and earnings is another message that we had left with investors during the roadshows. We were very confident that improving operating leverage and rising share of DM income should help us turnaround in terms of overall profitability and move closer to or above the industry average profitability and return.

We believe we have reached there or at least on the right path to stabilizing our ROCE at a much higher level. From a low base, number that we used to have in the past, our ROCE has also improved consistently over the last three years and stands at 11% for FY22. And this basically gives us a confidence that we are on path to the targeted level of mid-teen ROCE in the next two to three years. We are very confident that we'll reach there, supported by strong pipeline, launch momentum and the execution growth, which we are witnessing. I'll explain some of this in subsequent slides.

Debt reduction has been another big outcome for us during the Q4 FY’22. Post IPO, we used most of our IPO proceeds for repayment, voluntary prepayment of our existing loans. And also we have continued focus on refinancing of some of our loan portfolio from NBFC thrust to a banking thrust. Combination of all of this has helped us achieve a 24% quarter-on-quarter drop in finance costs from Q3 to Q4. And we also have seen an encouraging fall in debt to equity and we believe the trend is certainly a beginning of a new trend. We are working towards bringing down our cost funds as well as overall deposition even further going forward in FY’23 onwards.

Slide 11 talks about some of the quarterly highlights. Slide 12 talks about the the drivers of the quarterly financials. Between the two of the slides I would like to draw your attention to the fact that, our overall aggregate revenue has grown well during Q4, primarily because we have started income recognizing in some of our newer projects like Grand-1 in Kolkata, where we have received OC and started recognizing revenue on completing and handing over the project and therefore eligible for revenue recognition. Income recognition gained the momentum also in some of our projects in Bangalore, like Shriram Earth (Whitefield), as well as Chirping Woods and Panorama Hills, another project in Vizag where the completion and handover gained momentum. Combination of these four projects, we have been able to improve our revenue recognition capability during Q4 big way, and also transfer of development rights or the co-development agreements on two of the projects, one in Bangalore and one in Chennai with our partners.

Third driver has been our remarkable growth in DM fee. Our DM fee income grew by almost 40% quarter-on-quarter. Some part of the large final set of earnings from our gateway project in where we are supposed to receive DM fee from Xander that got settled as well. As of now we have nine DM projects up and running compared to much smaller numbers in the past three years and combination of these have helped us achieve higher DM fee.

Our revenues would've been much stronger, but for delays in couple of projects. We had income recognition delay in Grand-1, which originally was supposed to start in January. We unfortunately got that process started only by mid-March, and therefore, we could only commence the recognition in Mar’22. Also, a project in Bangalore called Shriram Southern Crest where the OC is delayed from Q4 to H1’23. These two projects would have added much stronger revenue growth for us. Unfortunately, both these impacted, but despite that our Q4 has been reasonably strong. I talked about the interest costs already.

And so I'd like to now to actually summarize this quarterly into annual performance.

If I look at Slide 13 and 14, full year revenues grew by about 3% or so, despite postponed revenues, as I said, from Southern Crest and Grand-1 that came only toward the end of the fiscal. Six projects contributed to 84% of revenues, Panorama Hills in Vizag, Shriram Earth Whitefield, Shriram One City in Chennai, Luxor, and Chirping Woods both are Bangalore-based projects of Shriram. Revenue recognition from these projects accounted for 84% of revenue. And Grand-1 is a new addition would had a very small impact because we started handing over only toward second half of March.

We witnessed high gross margins, also high EBITDA margins. We believe our sustainable EBITDA margin would be about mid-20s. Current year's high margins as you would see from Slide 13 is a reflection of revenue recognition from some of our plotted development projects that are more profitable because these land banks have been with us as a project investment for the last couple of years. Shriram Earth Whitefield is a plotted development where we have held this land for some years, and they were sold and income recognized this year on completion and handover of these plots. And therefore they bring high margin. Similar is the case in plotted development in Chennai, which is also our own land held in the past. Also income recognition from development rights of two projects have also helped.

As I talked earlier, DM revenue growth is another key contributor to the overall financial performance. Now, we are able to stabilize the DM fee in the INR100 crore per year mark. Xander would be the last year of income recognition this FY'22. But FY'23 onwards, based on 11 DM projects already on ground. We have 20 DM projects signed up, I will explain that in the next slide, but out of 20, 11 are launched. DM fee from these 11 projects should help us stabilize the DM fee in the INR100 crore annual income going forward at least over the next couple of years. And against the strong revenue growth that you see over the years, we have seen mixed trends. FY'22 has been a meaningful revenue. Operating expenses have, despite the higher employee expense on Y-o-Y primarily because we're comparing on a pre-COVID versus post COVID reduction base, the lower base from a COVID reduction. But otherwise if you look employee on a pre-COVID level, it is still 13% below FY'20 levels. Lower base of '21 was, as I said, is due to COVID-led pay cuts and headcount reduction.

Overall, operating expenses grew relatively lower and that actually has helped in taking EBITDA at around INR181 crore. This is despite the postponement of revenue recognition in two projects, and therefore, it is more encouraging for us internally. EBITDA margin 35%, but as I said, this is partly reflects the nature of projects that came in for income recognition during the second half of this year. We spoke about this in Q3 as well. So Shriram Earth Whitefield was there in Q3 as well as in Q4. And so overall improving operating leverage, rising share of DM income have been the contributors to the superior profitability. We believe we should be able to stabilize profitability in the mid-20s even in the future. And together with increased impact of lower finance costs, we should have a much stronger growth in PBT and PAT is the coming years. I'll explain that in subsequent slides.

Interest cost, as I explained in the quarterly slide, savings is less prominent on full year basis, primarily because the whole impact came in Q4. That's why on a sequential basis Q4 witnessed 24% drop in interest burden to INR19 crore and other finance costs were flat at about INR1.6 crore. The unwinding effect, so that impact gets muted little bit when I look at full year number INR96 crore of interest costs compared to INR102 crore that we had in the previous year. The non-cash charge is related to unwinding effect of the Bengal royalty payment that are due is shown in our balance sheet as a liability, but the balance sheet reflects the NPV value of these liabilities that are due to be paid to the government. And therefore as the passage of time, we need to adjust for the time value of money. And therefore this unwinding cost of about INR20 crore as a non-cash charge will come into the P&L. We believe that will continue at least for the next two years in our P&L till we reach a closure on this 4% royalty payment due or otherwise.

Share of JV income remains negative. I must clarify, our share of current costs are picked up. We have four joint venture projects and three out of these projects are not yet ready for income recognition. And therefore, the current cost are getting picked. One of the project will come in for a more prominent revenue recognition in the coming year and the other three projects will take some more time, at least two projects will take some more time. They'll take 18 to 24 months. So until that time, the next effect of current costs are holding it negative. And that's fundamentally the story behind why JV income remains negative.

Overall, we have been able to turnaround supported by strong Q4. Our nine-month PAT negative was INR46 crore. I hope you recall that we did show our expectation that Q4 will be a strong quarter. And therefore, we were confident of turning around. For the full year, we have reported positive net earnings of about INR17.7 crore that translates to ROCE of about 11% for us. We believe there is still a further upside in ROCE over the next couple of years. We are fairly confident of stabilizing our return in the mid-teens over the next 12 to 18 months' time.

Slide 15 talks about our cash flows. All of you are fully familiar with this. This is an operating cash flow statement. And overall it just suffices to say that the Q4 has been fairly robust as well as the full year. We thus ended the year with the cash from operations of about INR85 crore. Most of our negative cash flow for financing came in from the voluntary prepayment of loans. As you would see, we have repaid INR334 crore. A small portion of loan drawals is because as you know we have project loans for each of the projects separately. So each project has an FCV and they have their own financing arrangement or financial closure. And therefore, on one side we may be drawing in from some projects and some other projects we would be repaying their scheduled loans. INR200 crore out of INR334 crore is a voluntary repayment. Rest is actually scheduled repayments. So, on a net basis there is INR 32 crore outflow towards financing costs, financing cash flows. Despite the negative cash flow from financing activities, which is a good message, we still have a free cash flow operation of about INR53 crore and ended the year with liquidity -- cash and cash value equivalents of about INR140 crore.

Slide 16 talks about the balance sheet number. But more important Slide 17 is a more encouraging message where you would see the extent of reduction in debt as well as the current debt to equity ratio that we have. We have dropped our overall gross debt by about 27%. Net debt is lower even strongly. We ended the year with the net debt of about INR341 crore at a consolidated SPL level. That puts us at a consolidated net debt to equity at about 0.3 is to 1 which positions us as one of the relatively lower net debt company in the sector as Murali pointed out at the beginning of this conversation.

Shifting gears and moving to our overall thought process for FY'23 and beyond and where we see the increased confidence on delivering positive earnings and sustaining growth momentum. Next three, four slides I'll wrap up by saying, what do we see as our strategy and as our outlook for '23 and beyond, and what would be our strategy within this context. We believe based on what we have achieved, notwithstanding so many macro headwind factors through the NBFC crisis to COVID to post-COVID environment, our delivery of results clearly gives us a confidence that the machine is working well. The operating platform is now stable and well oiled. And therefore, we should be able to sustain growth momentum. And towards that end, our strong project pipeline will also help.

Operating leverage is kicking in already on the back of improving scale and improving efficiency. We believe the impact will be more prominent in the coming years. FY'23, therefore, to us is a very promising year. So, in turn, long-term fundamentals not only for the SPL, but also as we see as a positive outlook for the sector, we believe we should be able to benefit from this positive operating environment and our strong pipeline and the platform and deliver strong growth. What we are looking for over the next couple of years is very simple, sustained growth momentum target 20% plus kind of CAGR in our sales volume over the next two to three years, continue to emphasis on DM, sustain profitability in the mid-20s, ensure positive net earnings consistently, improve ROCE to a mid-teens levels and while doing all of this unlock value potential from Kolkata as well. As part of our growth strategy, we are looking at making a cautious entry into another southern market in Hyderabad.

Within that overall strategy framework, if I draw your attention to Page 20, long term strategy has remained unchanged, remain focused on mid-market, affordable, remain focused on south, focus on DM model and while building scale and enhance capability continue to leverage our relationship for achieving cheaper financing. Unlock value from Kolkata will be an added strategy to this. Within that framework, what we are confident is we believe we should be able to sustain growth momentum in the 20-plus percent growth and looking more closely on FY'23, we are looking to deliver about 4.5 million square feet in FY'23 as a sales volume.

Not just the volume front, we also have a very strong or encouraging visibility on earnings side. Without getting into specific numbers, I would like to highlight the drivers of where we see our conference coming from. We have, based on our projected earnings which shows very strong growth as Murali alluded to. 62% of our projected revenue will come from four projects listed on Slide number 21. All of these projects are fairly at an advanced stage in terms of completion and handover. As I said, Grand-1 we already received and delivery has also started, though, will gain more prominence in FY'23.Another project in Bangalore called Southern Crest where OC is awaited and those handover will enable us to recognize on this project, which is fairly large important project for us. Summit is a legacy project for us. That's also nearing -- the final phase of this project is nearing completion are awaiting OC now. And Park 63 is a project between Shriram and Mitsubishi Corporation based in Chennai. All these projects are therefore at a good stage in terms of control over the completion process and handover process. And they will account for 62% of our FY'23 revenues. Therefore, we have a good confidence on where the income recognition will come from.

We're looking to monetize a land bank in Chennai which is an approved for mall construction. We might find a strategic partner to develop this mall, and that if I add a likely closure of this mall transaction, Shriram does not intend to do on its own. So, this prioritization will help us, should ensure 83% of our targeted revenue is getting locked. I'm not bringing in any Bengal FSI into this current expectation. Despite impact of potential Bengal FSI sale, we should still be able to have a very strong revenue outlook for this year. DM revenues will add further the strength to. As I said, we have 20 projects in our portfolio now. 11 of them are already up and running. The projects that have been launched already will account for 60% of our projected DM income. And we expect DM to account for almost one-third of our volumes going forward. So all of these factor should help us provide us a good visibility.

Looking a little longer term, three years earnings outlook, we believe 70% of our aggregate revenues accumulative for next three years will come from volumes sold already as of March 31, 2022 and 60% of aggregate DM fee will come from projects launched already. So combination of these two, therefore, gives us a very strong confidence that as long as we're able to execute and deliver these projects, we should be able to recognize income as per plan over the next three years. We are looking to unlock INR3 billion of free cash flow in our books over the next couple of years. So it all boils down to our ability and comfort in terms of executing and delivering these projects.

Slide 22, exactly addresses this point. As Murali started off in his opening remark, you may all recall that we have sold almost 10 million square feet in the last three years. These are all projects now getting executed. We have almost 24 projects or 25 projects, including phases of ongoing projects, under various stages of implementation. These projects will all be getting completed over the next 24, 30 months. And therefore, they would provide the scope for timely completion. We are targeting to handover at least 10.7 million square feet over the next three years. And those annual handover volumes to the extent of our 3 million plus over the next couple of years will ensure income recognition on these 3 million. And therefore back of the envelope, I'm sure we can reach INR1,500 crore kind of revenues, is our revenue recognition potential that we're running on, on an annual basis. So that's a big comforting position for us. And therefore, we would like to reiterate our commitment that we will continue to grow at over 20% per annum in terms of volume, enhanced margin to the mid-20s EBITDA margins and 15% ROCE is a targeted level that we want to achieve. And therefore, we see a good potential for continuing to deliver quality results in the coming years more so in FY'23.

Last message I would like to leave before I end would be, Bengal and DM project. In terms of Kolkata unlocking value potential, many of us have had the questions and we have discussions on this. As we said earlier, 10 million square feet we will develop ourselves, out of it 4 million is already launched, out of that we already started handing over Shriram Grand-1 starting March '22. So, FY'23 alone we will hand over 600 units at least. And therefore, that should set the momentum and should actually create those green shoots, which will actually accelerate not only the launch of subsequent phases, but also the sale of monetization of our remaining FSI potential that we had talked about. So out of 33 million development potential, 10 million will develop ourselves, 4.4 million launched, rest will be launching over the next couple of years and try to complete own development in about three to four years.

On the FSI sales side, which is about 20 million square feet or thereabout, as you may have noticed, we've already done one MoU we have signed with LOGOS for sale of up to 90 acres of land where due diligence is underway. LOGOS is a credible large name from Asia-Pacific in terms of warehousing sector. The transaction is progressing well. We expect to see a meaningful closure to this transaction during the second half of the fiscal. That should actually give us a large cash flow and also ability to unwind or monetize a large part of the targeted monetization that we have in this land bank or the only land bank that we have.

Last but one slide, development management, I think we have discussed this in the past, it just suffices to draw attention to the fact that today we have actually 11 ongoing projects, 11 ongoing projects, 6.4 million square feet is already up and running. In all, we have 20 projects, 15 million square feet, nearly a third of our portfolio is in DM. So the business model has actually stabilized well. It is now beginning to make a meaningful impact in terms of volume as well as our share of revenues. In the past, some of our revenues came from Xander, but we believe that process is now almost over, the Gateway office complex where we were doing DM for Xander funds. The final set of income recognition happened in FY'22. We believe we are almost there in terms of final OCs. And therefore, going forward nearly all of our DM fee will come from residential DM projects signed up already, and we are confident of sustaining DM fee in the billion-rupee mark or INR100 crore mark over the next three years as well.

The last slide that I have is to briefly talk about a potential transaction that we are working on, where we are looking to make a cautious entry into Hyderabad market. The characteristic of this market is very similar to the rest of the Southern Indian markets. And therefore, it's a market that we are familiar with. And we believe we have an exciting opportunity there. And the micro market supports very strong mid-market activity. And we believe we are sitting on a project which is exciting project to take off into a new city. And we'll make a more formal, more detailed announcement as we wrap up this whole thought process over the next couple of weeks. But it's suffice to say that in FY'23 we would probably expand our footprint into Hyderabad market and more so during the initial part of the year.

So, with that, I'll end by saying what's highlighted in Slide 26, very strong brand, very strong governance, a trusted brand, not just by the customers, but also by the landowner partners, now we have further reinforced our track record in terms of overall operations. We believe we have a very strong outlook, demonstrated ramp up and scalability already. And therefore, combination of our strong balance sheet, strong brand, and a strong exhibition platform, we are confident of delivering quality results going forward. And we look forward to support from each of our existing and potential investors and analysts in our new value journey.

With this,I will stop here. Murali, myself, and Ramesh are here on the call. We will be happy to take any questions that you may have. Thank you.

Moderator: Thank you very much. We will now begin with the question-and-answer session. We take the first question from the line of Adhidev Chattopadhyay from ICICI Securities. Please go ahead, sir.

Adhidev Chattopadhyay: Yes, sir. My question was, for your Kolkata where you've signed the MoU, sir when do you expect the thing to get concluded and what would be the indicative valuation? Is it close to what are the normal rates in the area? That is the first question. Secondly, from the project you are doing for Xander, now considering that and the Kolkata project, whatever cash flow, what would be our collection guidance for next year? I think we'd INR600 crore odd collection for full year. So what would be the sort of collections for next year and also the total construction and overhead outgo, which is around just over INR500 crore last year. So just elaborate on that. Thank you.

M. Murali: On this Kolkata land, as you know, we have signed the MoU. We expect to complete the transaction within next three months' time. And the plan price is at my market value or slightly ahead of the market value. We got a good price. So, we hope to conclude in next three months' time. Xander transaction is completed. It's at a final leg. We should have the cash flow anytime now.

Gopalakrishnan J.: Yes. So, Adi, you talked about the overall collection outlook for FY'23. I think FY'22, I think you had a different number in mind. The net collection for FY'22 is INR1,183 crore. The grass collection was INR1,263 crore in FY'22. The collections will rise to, net collections will rise to about INR1,600 crore this year, somewhere around INR1,600 crore. The construction spend is what the number you mentioned. FY'22 construction was INR640-odd crore. That construction spend will go to about INR843 crore in FY'23.

Adhidev Chattopadhyay: Sir that's the Slide 15 of the investor presentation or 17 in the PDF at a consol level.

Gopalakrishnan J.: No, collection, Slide number 4 shows INR11, 835 million as a total collection and that is a net number. Slide 5 talks about grass collection of INR12,631 million -- will move to INR1,600 crore in FY'23. The construction will rise from INR643 crore done in FY'22 to roughly about INR845 crore in FY'23. This collection number excludes mall location from Chennai as well as excludes potential cash flow from Bengal transaction. So they exclude these two FSI sale transaction. So this core collection of INR1,600 crore primarily reflects the underlying operations that we have.

Adhidev Chattopadhyay: Okay, okay. Fine sir. That is pretty clear. Sir next question is on our construction speed, obviously, we're in the presentation, but in terms of margin if you could help us understand what is the impact on margin as a percentage of sales? And what sort of price hikes we will need to take to maintain our current margins?

M. Murali: Last year if you have seen, across our projects we have increased the prices between 8% to 10% and that trend is likely to continue in FY23. Also, we expect the prices to go up further because of the consolidation. And also there is a scope for us to increase our prices. So we are pretty confident in taking further price increase now. That's very much possible now. With respect to the cost, already now steel prices have come down. And three months ago, the steel cement prices were at its peak. Now, they've started reversing now. So the cost of construction will be in good control. We don't expect any major impact, maybe marginal impact, but major impact will not be there on the cost increase.

M. Murali: With respect to the collection, just to clarify that INR1,600 crore is only from the project cash flows without taking into account of the land sale in Kolkata, without taking into account of Xander transaction money coming in, without taking into consideration of how many FSI sale in Chennai. So, if these three happen, the collection could hit INR2,000 crore. So there is a probability all three will happen.

Moderator: Thank you very much. We have the next question from the line of Raghvendra Singh. He's an individual investor. Please go ahead, sir.

Raghvendra Singh: Hello. Thank you for giving me the opportunity and thank you management for going ahead with the price hikes. I wanted a bit more clarity on the project pipeline. I mean, we have had this Kannur project which has been deferred and Shambhavi and Chandapura is yet to be launched. So what are the expected timelines for these two-project launch and what is also the expected timeline for Hebbal One?

M. Murali: I'll address this Hebbal One. Hebbal One we started the construction. We expect to complete the project in next 18 months' time or less.

Raghvendra Singh: As it is under construction, why is it not there on the website?

M. Murali: It's an office building. It is not open for residential apartment. We are not selling the units. This will be built and leased hence it is not there on the website. The other project Shambhavi should happen soon. We are hoping that before this financial year-end, we try to bring that project into shape. Apart from that, we added that quite a lot of new projects. We added close to about 13 million square foot projects since filing RHP. And here we plan to launch close to about 17 projects for FY'23 out of which about 11 new projects and six are new phases in the old projects. So the pipeline is pretty strong. We have been able to garner our projects under the development management and joint development in the markets in Bangalore and Chennai and Hyderabad now. So we are pretty confident the supply is looking very, very impressive now. So, we should be able to comfortably achieve the guidance given.

Raghvendra Singh: Thank you, sir. And how much space do we have in Park 63 and Panorama Hills still left for launch?

M. Murali: Park 63, 1A delivery started. 1B, it's under construction, 2A is under construction. I mean, altogether about 4 lakh square feet is available. Vizag, everything is sold.

Raghvendra Singh: Okay, sir. And is this impairment loss related with Vizag, the 2.1 million square feet, the pending payment.

Gopalakrishnan J.: Not square feet, it's actually the financial provision. I'll explain that. So we have all these SPVs which are thinly capitalized. So SPL as a parent company gives loan to them and keeps charging interest to ensure arm's length. We keep charging interest on a cumulative basis that interest burden is a big burden. And as you know, Vizag project went through a little bit of challenge in the past and it's now nearing completion. It should be actually getting closed out this year. Therefore, this was an opportune moment for us to revisit the entire project life cycle cash and see recoverability of this interest. So most of the write-offs or the impairment that you would see in the standalone financials are related to wholly owned subsidiaries. And that's why you don't see them in consol and Vizag being the largest and mostly to do with the interest component, because out of the whole liability, principal is only INR30 crore. Rest is all accumulated interest that is payable to the parent.

Moderator: Thank you, sir. We take the next question from the line of Siddharth Oberoi from Prudent Equity. Please go ahead, sir.

Siddharth Oberoi: Yes. Hi. So, I had missed this, your opening remarks, but your interest cost for the year is about INR120 crore, but on a gross debt of about INR500 crore. So, what else have you added in the interest costs?

Gopalakrishnan J.: Yes, I'll explain that. So the interest burden, if you see the slide 13, INR 96 crore is interest burden, INR20.5 crore is the unwinding of interest is classified. So fundamentally what happens is the, there is a 4% royalty burden sitting in our books related to Bengal land. Whenever we construct and realize revenue, 4% of the revenue goes to Government of West Bengal. And it was actually a non-compete fee with Hindustan Motors, but we had agreed to give it to West Bengal Government instead of giving it to Hindustan Motors. There are two aspects to this story. One is we are obviously challenging the non-compete fee now because it was supposed to be only for six years. Now, the land acquisition is more than 10 years now and Hindustan Motors themselves were monetizing their land banks so there is no question of non-compete. Be that what it may. The second aspect of the story is, because there is no final clarity on it, we are making provision for it. So the balance sheet shows the overall liability, which is capped at INR190-odd crore plus interest or at 6% beyond a particular stage, so about INR250-odd crore would be the liability in the balance sheet that is payable over a period of time. And therefore, NPV value of that liability is shown in the financial statement as a amount payable to Government of West Bengal. So as the timeline process, the present value keeps changing. The time value of the money has to be provided in your P&L. And therefore INR20.5 crore last year, all of this relates to the time value of money. So it gets charged to the P&L and the loan amount, the balance sheet amount gets restated upwards to that extent and therefore it is a non-cash charge. So when you see the overall funding cost, I would imagine you should take INR96.4 crore plus other finance costs, which is the processing fee and all that, so INR3.3 crore. So INR99 crore has to be seen against whatever the loan outstanding at the average, at the beginning of the year we have INR760 crore for gross debt. That's only getting repaid over a period of time. So the average loan realized we have to see. To cut it short, if you ask me, what is the actual cost of funds, it is 13.7% the average cost of debt that we have in our balance sheet for the current year, for FY'22. We are continuing our restructuring and refund and refinancing activity, and therefore, we expect the interest rate to drop further. And we think we will be at least 200 basis points below compared to where we were earlier last year. I hope that gives you clarity on the cost of debt.

Siddharth Oberoi: Yes, it does. And so I have another question. You said that there is a potential, revenue potential of about INR1,500 crore each year that may come on the books. So, does that include the DM fees as well?

Gopalakrishnan J.: No, I'm actually talking about, if you look at Slide 22, the numbers would, I'm taking a three-year combined volume. So I'm just trying to simplify and give you an indicative number. I'm taking average handover is about 3 million square a year. So, 3 million square feet a year with INR5,000 average realization gives you the INR1,500 crore.

Siddharth Oberoi: Yes. But then some of it would be JVs then other things as well, right?

Gopalakrishnan J.: I understand that. That's why I'm talking about overall revenue recognition potential average, annual revenue recognition over the next three years should be in the range of about INR1,500 crore. Yes, few variation will always be there depending on how much of this is JV and how much is our own books.

Siddharth Oberoi: Yes. How much is JV, then 33% is DM. So, I mean, this we need to slash it down accordingly to, then literally will come in the books, right?

Gopalakrishnan J.: I'm sure we have to slash that, because otherwise we'll have to walk through the entire revenue model or the entire predicted P&L on this call. That's why I gave an indicative number. You can safely assume we will be somewhere within INR1,000 crore, INR1,200 crore revenue in our own books. JV will come as a share of JV profits. We pick up only the share of costs or profit.

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

M. Murali: I'd like to thank everyone of you for supporting us. And as I said, I would like to summarize and conclude, we have got a great year ahead. The market has been getting into big consolidation. The consolidation helps large, branded players like us to achieve bigger growth. And as we have mentioned during IPO roadshows, we'll be in a position to grow this company 20%+ CAGR for the coming years comfortably. And the project pipeline is pretty strong today and last year was a turnaround year and next three years we are looking at a great journey ahead. So we'd like to thank all of you once again.

Gopalakrishnan J.: Thank you. Thanks Adhidev for hosting this call and we really appreciate all the support.

Moderator: Thank you, sir. On behalf of ICICI Security that concludes this conference call. Thank you for joining us. And you may now disconnect your lines.