"Ganesh Housing Corporation Limited Q3 and 9 Months FY '23 Earnings Conference Call"

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MODERATOR: MR. RAJAT GUPTA - GO INDIA ADVISORS

Moderator: Ladies and gentlemen, good day and welcome to Ganesh Housing Corporation Limited Q3 FY '23 Earnings Conference Call hosted by Go India Advisors. 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 this conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rajat Gupta from Go India Advisors. Thank you and over to you, sir.

Rajat Gupta: Thank you, Nirav. Good afternoon, everyone, and welcome to Ganesh Housing Corporation Limited Earnings Call to discuss the Q3 and 9 months FY '23 Results. We have on the call with us today Mr. Rajendra Shah – Chief Financial Officer, Mr. Neeraj Kalawatia – Vice President Finance, and Mr. Ravi – Corporate and Financial Advisor.

We must remind you that the discussion on today's call may include certain forward-looking statements and must be therefore viewed in conjunction with the risk that the Company faces.

We now request Mr. Rajendra Shah to take us through the Company's business outlook and financial highlights. Subsequent to which we will open the floor for Q&A. Thank you, and over to you, sir.

Rajendra Shah: Thank you, Rajat, and good afternoon, ladies and gentlemen. We thank you all for joining us on this call today to discuss our Quarter 3 and 9 months financial for FY '22 - '23 operational and financial performance.

I would like to begin by sharing my thoughts on the current real estate environment, especially in Ahmedabad. The current market trend is very favorable, and we believe that upcycle in the real estate market is going to continue demand and upgrade to large homes' price hikes across the sector has been very well absorbed by the consumers even in a rising interest rate environment. The salaried class and the users are driving the demand in mid income segment.

The luxury market also continues to do well in, and history tells us that luxury real estate market generally picks up in up market cycle. The GIFT City has seen increasing demand from foreign investment, and there is a high degree of interest from the banking and financial sectors. We have occupied more than half of the city's commercial real estate.

Coming to our quarterly performance:

We are happy to report another quarter of robust performance. Our aspiration and focus for last few quarters were to deleverage our balance sheet, and we are very happy to announce that the Company has become a net debt free in Quarter 3 financial year 2022-23 from a peak debt of over INR 6,500 million around three and a half years back.

On gross debt side:

We have a minor debt of only Rs. 143 million as we speak which after cash balance and fixed deposit is a negative debt position for the Company. The Company continues to maintain an extremely healthy debt equity profile and other parameters when it comes to deleveraging the balance sheet.

Coming to our financial performance for Quarter 3 and 9 months ended December 2022:

Our revenue for Quarter 3 '23 came in at Rs. 674 million versus Rs. 761 million in Quarter 3 for the financial year '22, slightly lower on account of high sales velocity from our project Maple Tree during that period.

During the nine months ended for financial year 22-23, our revenue grew at 91% and came in at Rs. 4,378 million versus Rs. 2,293 million in nine months ended financial year 21-22. Our EBITDA grew at 48% year-on-year and came in at Rs. 475 million for Quarter 3 financial year 22-23 versus Rs. 322 million in Quarter 3 ended financial year 21-22. During the nine months ended financial year 2022-23, EBITDA grew at 82% and stood at Rs. 1,514 million versus Rs. 831 million in nine months ended financial year 2021-22.

Our PAT for Q3 financial year 2023 came in at Rs. 303 million versus Rs. 248 million ending in Quarter 3 financial year 21-22 registering a growth of 22% year-on-year in nine months ended financial year '23. PAT increased at 38% to INR 627 million versus INR 454 million in nine months under financial year 21-22.

Our finance cost was reduced by more than 60% or stood at Rs. 179 million in nine months ended financial year 22-23 compared to nine months ended financial year 21-22. Additionally, our collections for the quarter stood at Rs. 307 million.

On the project update:

Both our projects namely – Malabar County 3 and Malabar Exotica currently under development were 100% booked. In Malabar 3 project, we have received RERA approval and permission to commence Construction in February 2021. During 22 odd months actual construction post these approval, we are happy to announce that we have completed 100% construction in this project across six towers. It is also a reflection of underlying value in the Company given that we have achieved construction milestone well ahead of scheduled timelines. We have applied for building use permission, which is the Occupation Certificate and expecting the same to get from Ahmedabad Municipal Corporation during this quarter itself.

In Malabar Exotica project, we have received RERA approval and permission to commence construction in July/August 2021. During a 17 odd months' period, we have managed to complete more than 40% of the project, and we have been progressing ahead of the scheduled completion. Our planning for the new project is nearly completion, and we will be able to launch these projects very shortly.

As of December 2022, we have no inventory in ongoing project. Also ending December 2022, we have unsold completed inventory of 0.1 million square feet, which we value at around 40 million.

On the strategic initiative of partnering with Tishman Speyer for development of SEZ first phase, which would be a commercial development of around 1.2 million square feet of gross leasable area. The master plan is under progress, and we will soon be rolling out our plans in relation to this project including layout plan and floor plans.

We have, as we mentioned earlier, Tishman Speyer's first project in Ahmedabad which will enable us to collaborate for the SEZ development, property and lease management in phased manner. Having worked with global giants like Meta, Amazon, LinkedIn, JPMorgan, Accenture, Nike and some of the very, very notable Indian Blue-Chip companies, Tishman would bring along with them practice of international standard for benchmarking, monitoring project progress and quality assurance. They will also liaison with various agencies in project development, design and leverage its wide international network for development and marketing of SEZ project.

To conclude my remarks, real estate sector prospect remains very strong with a cohesive improvement in demand, supply and prices. Continuing investment in Ahmedabad and surrounding areas in manufacturing, IT and other sectors coupled with emergence of GIFT City as a global financial services center has contributed to attracting international talent resulting in rise of property demand. We are confident about this trend continuing in Ahmedabad, and with our superior execution track record and strong project pipelines, we are confident of achieving significant profitability in coming years.

With this, I request the floor to be open to questions and answers. Rajat, can you take over, please?

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Puneet from HSBC. Please go ahead.

Puneet: Thank you so much and congratulations on good numbers. My first question is with respect to your project ongoing and plans. So, you said there is only 0.1 million square feet which is unsold. So, what are you going to do for the next, you know, a couple of quarters?

Rajendra Shah: Thank you. See, though we have, we don't have much of inventory which is left in completed or ongoing project. However, we are planning to launch a few projects. I will just give you a brief about those. About four and a half lakhs square feet of residential project called Retreat is underway. And apart from that, we will be soon launching SEZ project, which is in partnership with Tishman Speyer which will have about 1.2 million square feet of gross leasable area minimum. This area may increase, but 1.2 is the minimum for what we will be constructing over there. So, these two projects are there in the immediate pipeline. Apart from that, there are other projects which will come in, but these two things are for immediate development.

Puneet: So, what is the stage of approval for Retreat now?

Rajendra Shah: Retreat we are approaching last leg of approvals meaning Raja Chithi or permission to start construction is something which we are expecting. Once that comes in, we need to apply for RERA and start with construction.

Puneet: So, what kind of timeline are you looking to launch this?

Rajendra Shah: About conservatively, I will say two, maximum two, two-and-a-half months, but it can start in a month's time also.

Puneet: Is RERA giving approval so fast?

Rajendra Shah: Yes. RERA generally takes about a week after you apply to them.

Puneet: That's good to hear. And on the SEZ project, can you help us understand the business model, what's happening there? I mean, would you sell it? Would you lease? And what kind of investment will you need to put in? And what kind of money will Tishman put in ultimately?

Neeraj Kalawatia: I will take the question. The SEZ comprises of both processing and non-processing zones both. At this point in time in the processing zone, we are looking at more on the lease model along with Tishman Speyer that they will be constructing, and they will be leasing out the entire property. And for the non-processing, it will be the residential. That will be on a sale model basis. This is the first one is only for about two towers at this point in time, like what Mr. Rajendra just spoke, but going forward, it did not necessarily be the same model even for processing zone. It can be a mix of both leasing as well as sale out.

Puneet: So, two towers worth 1.2 million square feet, right? Is that understanding correct?

Rajendra Shah: Yes.

Puneet: So, fairly large towers here.

Neeraj Kalawatia: Yes.

Puneet: And what is the economics here? I mean, who is going to bear the construction cost? And what is the percentage sharing between you and Tishman?

Neeraj Kalawatia: There is no sharing as such between Tishman and us. The entire thing belongs to GHCL only, Ganesh Housing. The construction cost is therefore to be borne by Ganesh Housing only. They are helping in two things majorly, and that is the construction itself. That is, you know, they will be the DM there, as well as that is the development management, and on the leasing it are also. They will be getting large because they have experience in leasing out these kind of properties all over India and of course the world. And therefore, they will be helping in getting the lease of all these premises. So, that's their contribution for which they get paid, but the entire revenues and profitability is of Ganesh Housing only.

Puneet: So, this in a way will become your annuity portfolio, 1.2 million square feet.

Neeraj Kalawatia: Absolutely correct. Absolutely correct.

Puneet: And what are the rentals you are looking at?

Neeraj Kalawatia: Well, it's been flexible at this point. It is very difficult to say, but it can be much higher. At least 10, 15% higher than the normal rentals which are prevalent in this market because of the kind of building that we are planning, as well as because Tishman Speyer is involved in this.

Puneet: So, what number can one generate?

Neeraj Kalawatia: I think it would be around Rs. 60 per square feet or so. Around that. It could be little higher too, but we are being little conservative at this point in time. Once we see the traction, you know, in the first few, then we will be able to tell you the exact numbers even with more confidence, but 60 seems to be definitely fair which is as I said much higher than the normal rentals.

Puneet: And apologies, I am not very familiar with where this land parcel is. If you can, you know, guide us.

Neeraj Kalawatia: Yes. This is a new, this is the place where actually the entire development is happening in Ahmedabad at this point in time. It is called the Vaishno Devi Circle. It is on the S.G Highway, Sarkhej - Gandhinagar Highway. And the city has been moving towards that now. So, a lot of development is happening in around there. So, that's the new CBD because Adani's Shantigram is close by. We hear Reliance is coming with a corporate office that side, and a lot of Zydus Hospital is, I mean, Zydus office is just on the circle itself. So, that's the place where the CBD is moving, and then that's where this SEZ is. And therefore, we believe that, you know, it would be booming very soon that area itself.

Puneet: And will it be competing with GIFT City in any way?

Neeraj Kalawatia: No, no, it cannot be compete, actually, it is complementing GIFT City. It will not competing with them. GIFT City is quite far from them. You want to add anything?

Rajendra Shah: I just wanted to add here. See, if you see the primary motive for the GIFT City is basically to promote the international finance trade, and predominantly the beneficiary for that will be the BFSI and your exchanges as well as foreign controlled AIF funds. And if you see the numbers which are increasing there year-on-year continuously are from these three segments only. And that's very much like once they setup, primarily our target market will not get impacted because of the booming piece and the GIFT City.

Puneet: Understood. That's very helpful. Thank you so much and all the best.

Moderator: Thank you. The next question is from the line of Avinash Ghosalkar from Perfect Money Security. Please go ahead.

Avinash Ghosalkar: I think, I wanted to understand, you know, the ongoing projects, sir, which are going in Ahmedabad. If you could give some color on the kind of average prices, you know, which you are getting? I mean, just to get a flavor of how the real estate market in Ahmedabad is fairing, you mentioned in your opening remark that despite rising interest rates, you know, demand is not affected. So, if you could give some idea about what are the kind of average rates are prevailing currently? And what is the kind of outlook for the next say two to three quarters?

Neeraj Kalawatia: Thank you for your question. See, if you see in our projects where we are operating, our current prices are ranging from somewhere around 3,800 to 4,500. That is how we are pricing our projects. On an overall if you see from an Ahmedabad prospective during year 2022, the average pricing in Ahmedabad was somewhere between 3,000 to 3,200, which is basically because of they are low pricing pockets are also there in Ahmedabad plus they are the medium segments are also there which are operating. If I average out, these are lying between 3,000, 3,200. So, even if you compare with a city like Bombay, 3,800 to 4,500 is pretty cheap in terms of the pricing of any real estate sector. So, that way we are seeing the absorption also is coming very nicely even with the price hike during last calendar year.

Rajendra Shah: So, basically, just to sum up what Neeraj has said, despite of price rise, the price point is very attractive to customers at large. However, there are pockets where prices are very high, very high by Ahmedabad standard would mean somewhere in Bhopal Ambli, you can achieve rate of about Rs. 10,000 square feet on chargeable area, whereas in if you are at far off places like Adani Shantigram or somewhere around that, you would get somewhere about Rs. 4,500 to Rs. 5,000 square feet as a sell realization. So, I think this would give you broad range of price range in which market is operating in Ahmedabad.

Moderator: Thank you. The next question is from the line of Jay from Dolat Capital. Please go ahead.

Jay: Hi. Thank you for the opportunity. I have a couple of questions. So, first is both our residential projects are booked, and we don't have much inventory as well. I have seen players like Godrej emerging really strong, doing extremely good in terms of sales booking for their new projects in Ahmedabad and are very confident of upcoming projects in Ahmedabad as well. So, why are we not launching new projects and planning it for later down the year? So, first question is that.

Rajendra Shah: Sure. So, we are in process of launching our Retreat project, and once we have launched our SEZ project in processing zone, in non-processing zone we are underway meaning on our drawing board, there is a plan to launch a phase of non-processing zone, which will be mostly residential. So, in fact, there is under current, and we are planning to show. In a short time you will see one residential project in terms of Retreat and other residential project in terms of development of non-processing zone in SEZ which will be mostly residential is also underway.

Jay: And secondly, just wanted to understand, what would be the outright land sales cumulatively we might have done in last three, four quarters both in terms of area and value? Also, what are the locations where we sold this land? And what's the rationale behind selecting these location as land parcels?

Rajendra Shah: So, Jay, just to answer you, meaning like we have collected certain land parcels. And when you are aggregating certain land parcels, you generally see to it that those land parcels have to be contiguous so that it will give you a good plan for development. However, in the process when you are left with certain land parcels which are not contiguous and which are not part of your core development, you would like to monetize those land parcels. So, basically, these are those land parcels which are selected for monetization which have been sold in part two to three quarters. However, meaning quantum of how much area, which place these are sold, these are sold near Godavi is the area where these non-critical land parcels we were owning which have been recently sold.

Neeraj Kalawatia: Let me just add to that. See, the model, sorry, you are asking something more or should I go ahead and answer it?

Jay: No, please go ahead.

Neeraj Kalawatia: The business model of Ganesh Housing is to develop as well as have land parcel which can be sold. So, the buying happens at the time where the future growth potentially is seen, and therefore the buying happens at a very low price. And as and when the development happens around that area, and if that land is not for self-development, that parcel is sold. So, as a part of the business model itself, certain land areas are sold as land itself, and certain land areas are developed and sold to put projects onto that. So, the land sales which have been happening are in those areas which were bought when development was envisaged, and the moment the price around that went because it was not for self-use, it has been sold. So, this is a part of the business model that we keep following.

Jay: Got it. And just wanted a clarity on the area and the value of the land parcel in the last three or four quarters.

Neeraj Kalawatia: See, value will be around 300 to 350 somewhere. The area exactly we don't have a detail right now with us.

Moderator: Thank you. The next question is from the line of Amanjit Sethi from Oculus Capital. Please go ahead.

Amanjit Sethi: So, firstly, congratulations on the good set of numbers and becoming net-debt free. Sir, I am a little new to the Company. So, please, pardon me. Sir, just on this Tishman project, right, just wanted to understand how did this partnership come into being, like, so have they done other projects in India? Did they approach you? Or what were the synergies that you identified? And a little bit on the commercials that you mentioned. So, for the sales and marketing and the DM, what will be the basis of payments, sir? Like, in the sense, would it be a percentage of rentals? Or how would it be?

Rajendra Shah: So, thank you, Amanjit. Basically, see, Tishman Speyer is known as a reputed, one of the very well-known global brand to construct AAA-graded commercial buildings. They have done umpteen number of projects in U.S. and other geographies. And their clients, as we mentioned, are who's who of world. So, basically, if you see as compared to Tishman Speyer, Ganesh Housing has been a conservative developer who is based out of Ahmedabad, and we have completed very large development of real estate in Ahmedabad.

However, as far as dealing with globally reputed meaning occupants, we wanted some sort of support from any global player who would be networking with them. So that we found Tishman Speyer. And Tishman Speyer, when they wanted to come to Gujarat, they wanted a strong local developer, because they have very good execution capability. However, a person who is owning some critical mass of land at a very, very significantly located project and land is something which they were looking in us.

So, basically, who approached, who is not so very significant, but these are synergies which get us together. And I think we are looking at a very, very long-term relationship with them.

Amanjit Sethi: Is it a feasible relationship?

Rajendra Shah: They are already present in Pune and Hyderabad and doing work. And they have to their credit some of the notable Indian blue chips, which are their client, apart from global giants, which they already cater to. So, basically, all in all, it will be a win-win for both Ganesh Housing and Tishman Speyer.

Amanjit Sethi: Sir, what is the exclusive partnership that was helped for Ahmedabad?

Rajendra Shah: Pardon me.

Amanjit Sethi: Sorry, sir. Just, I'll let you complete the previous answer, sir.

Rajendra Shah: And coming back to you said, meaning, what kind of development management fees or lease management fees they would charge us, it is negotiated based on certain mass of development, the DM fees and leasing, lease management fees actually is a function of what kind of lease rental we are going to receive. So, I think I have answered your question. If you have any further question or one second, Neeraj wants to add something.

Neeraj Kalawatia: Just to add here, if you see, we are occupying around 64 acre of land in SEZ area. Since this will be going to the first phase, it is always in the interest of the Company from a longer prospect also that we kick off the first phase itself with a very reputed player, so that the unlocking of the land from the rest of the area will be easier for us, in terms of commanding the better rental also, in terms of developing the balance area.

Amanjit Sethi: Got it. I appreciate it sir. Sir, is this like an exclusive relationship, in the sense, can we enter with any other player in the region in Ahmedabad? Or is it like an exclusive tie-up that you have?

Rajendra Shah: No, right now, they have, or we don't have any exclusivity. But it is understood, and it is ethical practice to have generally eliminate your relations with one or two large developer which is meaning that kind of unwritten but understanding is they are between both the parties that, yes, once we have tied up with Tishman Speyer, we would not generally enter into development management arrangement with somebody else. And once they have entered into DM relationship with Ganesh Housing within good radius of area, they would also not enter into these kind of arrangement with other local developer.

Amanjit Sethi: Got it. Sir, and just any rough idea on the timelines of this 1.2 million launch?

Rajendra Shah: Next three to four months, because we would like to invest longer time in planning and make it so much meticulous that execution becomes very smooth. That is our experience. So, if you see with Malabar County 3 and Malabar Exotica project, which we could complete ahead of time only because of our meticulous and thoughtful planning.

Amanjit Sethi: Sir, what would be the construction period do you envisage once you launched it?

Rajendra Shah: We would expect somewhere about 30 months to complete at least 50% of gross leasable areas. That is about 600,000 square feet. And for launching of another 600,000 square feet, we can't tell you date right now, but we will see as the things go ahead.

Amanjit Sethi: So, sir, we can see revenue coming in from this projects, you can say probably the end of FY '24 or early FY '25.

Rajendra Shah: Yes. I think earliest could be '24. Earliest could be '24. However, even if that pre-leasing or LOI can get signed earlier, yes.

Amanjit Sethi: Sir, you mentioned your current realizations in the city are about 3,800 to 4,500. So, what was the similar number, say, last year, just to get a sense of the appreciation that has happened?

Rajendra Shah: So, when we launched, it was about 3,300. So, 3,300 it has ramped up to almost past Rs. 5,000 now. So, because it was 4,500 when we sold it last, however, prices have continuously increased post that. So, right now, if we were to sell similar properties, it would fetch you more than Rs. 5,000.

Amanjit Sethi: Understood. Sir, is there any opportunity that we have in GIFT City as well? Sorry, I am not aware of the entire land parcels that you possess. But do we have any development opportunity there?

Rajendra Shah: No, GIFT City, we do not have. We don't own any land parcel. However, just to mention this SEZ project what we have, actually, locationally, it is very, very -- if somebody is aware of

Ahmedabad, he would understand. This is banked on Vaishno Devi 's Circle. So, accessibility from SP Ring Road and SG Highway is excellent.

Amanjit Sethi: And so in your vision, so you mentioned you are looking at 8 million square feet across various projects in four yours. So, if you could just help us get a sense of what will be your annual launch run rate like in terms of million square feet and a rough mix of this, so how much would be commercial, how much would be SEZ, just a broad regional breakup?

Rajendra Shah: So, basically, our mix is something which will be driven by market dynamics. Once we are able to launch part of our SEZ, thereafter, it is up to us as to what kind of non-processing zone area we want to launch, or what kind of processing zone area we want to launch. We would time and plan our mix in such a way that it is optimal for that market's consumption. However, if somebody wants to give you some sort of idea, our next planned projects will be roughly about 40% commercial, roughly about 60% residential.

Amanjit Sethi: Sir, and on the residential bit overall, so what is your approximately you think the launch dates? Because as you said, we don't have any inventory anything unsold or completed. So, will you be trying to become more aggressive in terms of our launch date just to give visibility?

Rajendra Shah: No, no. For visibility, we don't need to launch even a single new project. Because by other means and other revenue streams, we have been managing our revenue and bottom line very well. However, it is our passion for doing construction and going ahead with delivery of fresh players and our new products that we will be launching new projects. So, as I have told earlier, in next one or two months, we would be launching with our Retreat, which is the residential project. And about two to three months, we would be launching our commercial development of SEZ. Mr. Ravi would like to add. Just a moment.

Ravi: So, it's a matter of time when the ball starts rolling. When we say that certain projects are announced, let's say, the SEZ, both commercial and residential. Once the approval comes, they will come for bulk approvals, right? And we will be launching one after the other. So, from the next two to three months, let's say, the kind of a project launch and also capitalizing on that and monetizing on various aspects will be a continuous exercise as we see for the next five to seven years because there are more than two, three projects which are in the pipeline. As he just mentioned, the planning takes more time, and once a plan is done, the execution happens. So, from the time these things will start executing, it will be a roll on for a continuous period of time one after the other.

Amanjit Sethi: Understood, sir. Thank you so much for answering all my questions.

Moderator: Thank you. The next question is from the line of Ashish Kumar from Infinity Alternatives. Please go ahead.

Ashish Kumar: Sir just wanted to understand a couple of things. One is that, while you have done a good job in terms of becoming net debt free, what will be the peak capital requirement for your IT SEZ, because obviously you are building it for that thing? And what will be the peak capital requirement for the project?

Rajendra Shah: So, we expect that each phase of meaning 600,000 square feet, which we are going to launch immediately, would cost somewhere about Rs. 300 crores. There we may need, meaning even if we have debt equity ratio of say 60-40, we may need somewhere around 100 crores as new meaning capital to be invested, and we have enough resources to meet even that.

Ashish Kumar: Sure, sir. And just to understand on the residential project also, do you expect a peak capital requirement? Because I am just trying to understand the cash flows.

Rajendra Shah: No, no.

Ashish Kumar: Because from your current two projects, I think because you have received 100% of bookings. I think your future cash flow may be only 50 crores, 60 crores.

Rajendra Shah: Yes, for Resi, we hardly require any meaning any financial support or any debt, because as we speak, meaning we have kind of investors who are kind of waiting as to when we will be launching a new project, and they are ready to pre-book or book. Pre-booking is something which we generally discourage. And internal accruals will take care of I think entire project cost.

Neeraj Kalawatia: Also, just to add here, if you see both the projects are 100% booking. But the collection happens over a gradual manner depending on how the construction progresses.

Ashish Kumar: How much is the fresh collection, sir, cash flow, cost required? Because most real estate companies actually give that depreciation, but how much is the fresh cash flow that you expect on the remaining period? Obviously, because the revenue recognition for everybody is different. So, I would appreciate if you can give us some estimate from next investor presentation that how much is the collections required, and how much is expected, and how much is the costs expected to complete the project?

Neeraj Kalawatia: See, in terms of the revenue recognition, if you see for a listed Company, which are now has to go through the IndAS requirement, revenue recognition happens post-BU only.

Ashish Kumar: I understand, I understand that sir. I think the question is that from a cash flow follows a very different policy as compared to accounting, right? And every project has different requirements in terms of cash flow when you ask for the money and when the booking amount comes. Some tend to sell more on different schemes on the project, right? What will be helpful is if you can give us from a cash flow perspective --

Rajendra Shah: Thank you for your suggestion. Yes, we will implement these from next presentation.

Ashish Kumar: So, if you can do that, it will be helpful, sir.

Rajendra Shah: It is a very good suggestion. We will definitely --

Ashish Kumar: So, that we know how much is the cash flow.

Rajendra Shah: Sure.

Ashish Kumar: The second thing was, sir, was there any reason because Ahmedabad from whatever line of Ahmedabad real estate market, the real estate market in last two years for Ahmedabad was booming. But we didn't have any launch. So, was there any reason why we decided to go slow on the launches?

Rajendra Shah: Two, three reasons.

Ashish Kumar: Because we have a very good land bank already, sir.

Rajendra Shah: Yes. Sure, sure. Two, three reasons which I would try and explain. One is next in launch is SEZ project, and SEZ is a project where some of the government policies were not clear at state level and central level. So, it has been recent development that what kind of FSI, what kind of flexibility will be an available in terms of occupants, and all those things have been recently provided.

Apart from that, you would be aware that recently, there was election in State of Gujarat which has affected approval process for almost about two-and-a-half to three months delay is caused only because of that, because since November, right up to recent development, which is end of December, because of taking over by new government, there were approvals which were not issued to any newer projects.

So, basically, all in all, these two things. And once SEZ is a sizably big project, which will give us visibility of next seven to eight years to come, because we will be launching projects in a phased manner in SEZ, planning for that and joining hands with Tishman Speyer who has given us changes in design feedback, which are very good and we wanted to implement with full kind of full-hearted way.

So, all in all, these three prime reasons are such that which has caused kind of a delay in launch of new projects. However, I am sure we will recoup this delay in launch of projects by faster execution because right now whatever planning we are doing is so meticulous which will save us very, very long time in terms of execution.

Moderator: Thank you. Next question is from the line of Gaurav from Korman Capital. Please go ahead.

Gaurav Somani: Sir, I just wanted to understand when you decide on the project, do you have any return metrics in mind like a target ROE which you think should generate over the life of the project, or any other written metric which you look at?

Rajendra Shah: No, return metrics is generally, meaning, is kind of deceptive at times, because if you are looking at leasehold property for development, your returns will be different. Again, see, project payback period is completely ignored if you are looking only at meaning kind of return on investment.

So, basically, there are many other parameters which are to be looked at other than only return on investment kind of peak investment required, peak debt, which is required, kind of turnaround time which this project will take, or meaning title to the land, what would be time which will be required to secure approvals and RERA approval are factors which are other than this which have to be considered.

So, all in all, one cannot give any fixed kind of I would take only projects which are giving me more than 30% IRR. Then I would be deprived of kind of rental projects which won't be giving me good returns. However, in terms of IRR, they might not be well. So, basically, we will have to look at all these parameters in order to select whether we will go ahead with acquisition of this project or not.

Gaurav Somani: So, we don't target any minimum return on equity say 15% for any project as such, sir.

Neeraj Kalawatia: While the past has seen -- has shown us that the equity return have been around the 25 to 35 ranges between that as because of the reasons you said. Yes, there is a ballpark number which is there on, in the mind, which should be like maintaining the targeted equity returns. And therefore, it translates to around 25% to 35% of return on equity has always been maintained all this while. And in the future also, all these projects which we are looking at, will continue to yield that kind of a thing. Whatever may be the parameters decided, we are sure that it will be within this range for sure. So, you can in a way say the targeted equity is around 25% to 35%.

Gaurav Somani: Sir, on this debt reduction of 50 crores, can you give a rough sense on how much has been done to cash flows? And how much has happened through land sales?

Neeraj Kalawatia: All land sales are cash flows, right? So, the question is, it's a combination, It's been over a period of two, three years. So, the entire debt has been repaid out of the cash accruals out the profits of the Company, and profits do consist of both the inventory which was there for the last couple of years before the COVID times, and the good parcels of land, which is a part of the business model. So, it's a combination of both.

Gaurav Somani: The question was, how much has happened through pure land sales and not through the project sales basically, the Lexington project which you have?

Neeraj Kalawatia: No. It all comes together. So, actually, the land sales have been a contributory in the last two, three quarters, little more than the inventory sales, let us say. And that's the reason where maybe the last two, three quarters, it could have been coming out of the land sales more. But over a period of time, the last two years, it's a combination of profits from the entire three verticals, whether it is the new development launch projects, which gives a surplus cash flow or the inventories which were there, which has given the surplus cash flows or the land sales, which had given us the cash flows.

Gaurav Somani: Sir, what is the cost of debt?

Neeraj Kalawatia: Cost of debt, 13?

Ravi: Somewhere around 12%.

Neeraj Kalawatia: 12%.

Gaurav Somani: Thank you, sir. That's it from my side.

Moderator: Thank you. The next question is from the line of Rushabh Shah from Anubhuti Advisors. Please go ahead.

Rushabh Shah: Hi. Thank you for the opportunity. I just wanted clarification that you mentioned that for the first phase of SEZ, we will be having a cost of around 300 crores for 6 lakh square feet. So, that comes to around Rs. 5,000 per square feet, the development cost. So, isn't it on a very higher end compared to what we are doing for the residential projects earlier?

Rajendra Shah: So, yes. Thank you, Rushabh. First of all, this is going to what we are, meaning, what we are trying to construct here is a Grade A building, which has not been seen in Ahmedabad. And this will have flat slab construction with more than 3 meter clear floor-to-floor height with spread-out beams, which will give a floor plate of roughly about 30 odd thousand square feet. These kind of construction Ahmedabad has not seen. We would have commercial buildings, which are called, meaning, superior commercial buildings, but kind of construction what we are envisaging would take that kind of construction cost, and we are going to have this at least as a gold or platinum-rated buildings, so that we could attract globally known players to Ahmedabad.

Neeraj Kalawatia: This is for commercial, right?

Rajendra Shah: Yes. And it is not right to compare cost of construction of conventional residential building to Grade A commercial building, because costs would be very, very different, kind of still requirement will be very different than what are generally used in residential. So, I think Rs. 5,000 a square feet is a good reasonable number of cost per square feet, kind of specification which you want to achieve or kind of what we are envisaging.

Rushabh Shah: Got it, sir. Is it possible that because it's just the first phase, the cost would be higher and when you launch the second phase, this can eventually go down also? Is it a possibility there?

Rajendra Shah: No I think consistently, it will be at least about Rs. 5,000 square feet.

Rushabh Shah: Got it. And my second question was with respect to the townships. Is there any update regarding the Godavari township that we are planning since long? Any timeline or approval which is there in place? I mean, if you can guide on that?

Rajendra Shah: It is in the planning stage. However, since we are kind of bit conservative, I would not like to or say any timelines to this. But as we go along whatever is their immediate in pipeline is something what we have discussed, but for township, right now, we do not have any plan to meaning, we do not have any a specific date for launch.

Moderator: Thank you. Due to time constraint, we will take the last question from the line of Saurabh from Arya Advisory. Please go ahead.

Saurabh: No, I don't any questions right now. All my questions are answered.

Moderator: Thank you. We think that was the last question. I now hand the conference over to the management for closing comments.

Rajendra Shah: Thank you, ladies and gentlemen, for showing interest and joining with us on this Quarter 3 and 9 months for financial year '22-'23 operational and financial performance call. See you again. Thank you so much.

Moderator: Thank you very much. On behalf of Go India Advisors, that concludes this conference. Thank you for joining us. You may now disconnect your lines.