



Godrej Properties Limited

Q4 FY2015 Earnings Conference Call Transcript

May 01, 2015

Moderator Ladies and gentlemen good day and welcome to the Godrej Properties Limited Earnings Conference Call. As a reminder all participants' lines will be in the listen only mode. 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. Anoop Poojari of CDR India. Thank you and over to you Mr. Poojari.

Anoop Poojari Thank you. Good afternoon everyone and thank you for joining us on Godrej Properties Q4 FY2015 Earnings Conference Call. We have with us on this call Mr. Pirojsha Godrej – Managing Director and CEO and Mr. Rajendra Khetawat – CFO of the company. We would like to begin the call with brief opening remarks from the management following which we will have the forum open for an interactive question and answer session. Before we begin this call I would like to point out that some statements made in today's call may be forward-looking in nature and a disclaimer to this effect has been included in the conference call invite email to you earlier. I would now like to invite Mr. Godrej to make his opening remarks.

Pirojsha Godrej Good afternoon everyone, thank you for joining us on Godrej Properties Q4 FY15 conference call. I begin by discussing the highlights of the 4th Quarter and FY15 and we then look forward to taking your questions and suggestions.

In terms of financial performance, our Total Income for the year grew by 54% to Rs. 1,927 crore and our Net Profit grew by 20% to Rs. 191 crore. In the 4th Quarter, our Total Income increased by 65% to Rs. 718 crore, our EBITDA increased by 36% to Rs. 112 crore and our Net Profit increased by 6% to Rs. 51 crore. Our Total Sales for FY15 stood at 3.9 million sq.ft. worth Rs. 2,681 crore. We are happy to note that despite a very weak market for residential real estate we have registered our best ever year for residential sales with a growth of 69% in volume terms and 58% in value terms as compared to FY14. In a difficult market like Gurgaon we have sold over 1 million sq.ft. in FY15. We believe we can further improve on this performance in the year ahead given our exciting launch pipeline for financial year 2016.

Disappointingly, the introduction of the new development plan for Mumbai dampened our sales in the 4th Quarter as we had to delay important project launches in Chembur, Byculla, and Vikhroli. The silver lining to this situation is that we have a very robust launch pipeline in Mumbai for the current financial year. The one new project we were able to launch in the 4th Quarter, Godrej Infinity in Pune witnessed a very strong response. We sold 207 apartments measuring 200,000 sq.ft. with a booking value of Rs. 120 crore in just 10 days. There continues to be

good sales from this project in the current quarter and it's good to note that we launched this project within 12 months of signing the development agreement, which has been the case with most of our new projects.

From a business development perspective, we have had strong results for the last several years and the year ended on a positive note with us adding two new projects, one each in Kolkata and Bangalore. The Kolkata project has a development potential of approximately 3 million sq.ft. and is well connected to key areas of Kolkata like Alipore and Park Street. The Bangalore project will yield a saleable area of a little under 1 million sq.ft. and it is located in the well-established area of Whitefield. Both these projects are under the profit sharing model which remains our preferred strategy along with the residential investment platform and the development management fee model. So FY15 we have added five new projects with a saleable area of approximately 8 million sq.ft. Our deal pipeline for new projects across the country's leading real estate market looks robust and we expect further positive news on this front in the months ahead.

On the operations front, we successfully delivered 3.5 million sq.ft. in FY15 which includes 2.7 million sq.ft. of residential space and 0.8 million sq.ft. of commercial space across five cities. Over the last three financial years we have sold real estate worth nearly Rs. 8,000 crore. It is extremely important that we keep building our internal capabilities to make sure that we do not falter on the delivery front. We expect the cycle of growth in deliveries to increase substantially going forward.

I am happy to announce that Godrej Properties received 24 Awards in the 4th Quarter, 59 Awards in the FY15 and over 100 Awards in the last three years. We also had another quarter with five projects receiving green building certifications. This is in line with our commitment to develop every Godrej Properties project as a green building.

Though a lot of accomplishments were registered in FY15, the year was not insulated from disappointments. From a new project to launch perspective we had a subdued year as many of our planned launches were held back due to delays in regulatory approvals, several due to the new development plan in Mumbai. This is extremely frustrating given the fact that the projects we are launching are consistently doing well. Though we did see some sales in our Kolkata commercial project and at BKC, commercial sales was another area of disappointment in FY15. We are confident of a pickup in momentum on the back of an encouraging lead pipeline and an improving commercial real estate market. This is an important priority for the Company as it is the critical lever for us to unlock cash that can be redeployed more effectively in other projects.

One important update arising out of our Board Meeting yesterday is that the Boards of both Godrej Properties and Godrej Industries have approved a merger scheme whereby the economic interest GIL currently holds in our project 'The Trees' in Vikhroli, will be merged with Godrej Properties. This merger will give strong value towards Godrej Properties and Godrej Industries. From Godrej Properties perspective this merger will give a big boost to both our short and medium term earnings while also allowing us to conserve cash. Godrej Industries will benefit from its entire interest in real estate being held directly through Godrej Properties.

Our performance for the year underlines the effectiveness of our resilient and differentiated business model that is anchored by the strength of the Godrej brand and the ability that gives us to attract partners and customers across the country. We believe that the Indian economy is gradually but steadily improving and interest rates will continue to decline in the year ahead. The combination of better GDP growth, lower interest rates, and improved consumer sentiment could lead to a

hugely improved outlook for the real estate sector. Our national presence, strong brand equity, and large number of new projects leave us in a good position to fully capitalize on this opportunity.

On that note I conclude my remarks and would like to thank you all for joining us on this conference call. We would now be happy to discuss any questions, comments or suggestions that you may have.

- Moderator** Thank you very much sir. Ladies and gentlemen we will now begin the question and answer session. We have the first question from the line of Sandipan Pal from Motilal Oswal. Please go ahead.
- Sandipan Pal** My first question is related to the Vikhroli deal. How exactly going forward the land payment which is due to Godrej and Boyce will be treated? Primarily right now that is entirely Godrej Properties responsibility, just wanted to clarify that first? And secondly, definitely there will be some increase in the promoter stake above 75% post this new share issue. So wanted to understand what is the regulatory requirement to bring down to kind of 75% again, what is the timeline due to you after the transaction is concluded?
- Pirojsha Godrej** The merger scheme does involve the entire economic interest as we discussed for the project coming to Godrej Properties. Godrej Properties was already funding the land payments to Godrej and Boyce for the LLP, so that will continue after the merger is completed as well. On your very valid point that we will have to ensure that the promoter shareholding does not increase above 75% as a result of this merger, the actual requirement though is going to be quite small. So it's only about a couple of percent. Something like Rs. 200 crore that we might need to raise and we will probably do that directly into the Company, so that cash will come into Godrej Properties. But those details are being worked out and we will have to complete that prior to the merger scheme coming effective sometime within the next six months or so.
- Sandipan Pal** Right. But is there any regulatory guideline that between this much of time you need to bring it back?
- Rajendra Khetawat** Sandipan, we need to complete this dilution before the merger gets effective.
- Pirojsha Godrej** And we think the timeline for the merger given the process is about 6 to 8 months.
- Rajendra Khetawat** So basically within this financial year we need to complete both the things.
- Sandipan Pal** And just one last question going forward then how you have one project where you have completely 100% stake in this 3.6 million sq.ft., another is with Godrej and Boyce. I understand the potential is pretty high in Godrej and Boyce, may be 50-60 million sq.ft. of long term development potential over there. So how is it that you plan to kind of monetize both the projects simultaneously without much competition among themselves?
- Pirojsha Godrej** With a big project like our Vikhroli project that is something we will have to manage. So the timing of launches etc. will have to be such that they don't directly coincide with each other. But each product is a little bit different, has a little bit different offering so we will make sure that we can effectively market both the Godrej Properties projects, which is of course our first priority, but of course also the development management fees project we are managing with Godrej and Boyce.

Sandipan Pal Okay. Then what is the timeline for 'TheTrees' launch right now because probably DP plan has a certain impact on that so what is the revised expectation for the project to get launched?

Pirojsha Godrej Current feasibility is sort of a Q2 launch but we are still working through some of the approvals in this new environment. So we will obviously only be able to fully confirm it when there is a little more clarity. But our current expectation is that this project will be launched next quarter.

Moderator Thank you. Next question is from the line of Gunjan Prithyani from JP Morgan. Please go ahead.

Gunjan Prithyani I have two questions, firstly on the margins; margins for us have continued to stay quite subdued. I mean last quarter I understand it was a chunky BKC contribution but in this quarter we did see new projects contributing like Central and Summit. So if you can give us some sense on how are the margins on these newer projects and when do we really see the mix improving so that the margin trajectory improves going ahead?

Pirojsha Godrej Yes Gunjan thanks for the question and of course it's a very important question and one that we are very focused on internally as well. Look, it's a bit of a balance so certainly new projects like Central and Summit are well above the margin levels of our historical projects. At the same time something like Godrej BKC is well below even those historical margins. The net impact of those two things happening together is that margins will remain subdued. And as long as Godrej BKC and other commercial projects are contributing significantly to the revenues we will have a little bit of pressure on margins.

What we are also seeing is very dramatic growth in revenues, so earnings growth will be quite fast. But both Central and Summit are at healthy margins. I will also point out that for Central what is coming to the revenue recognition currently is the first phase. The second phase will come into revenue recognition this financial year and that is going to be at a higher margin than the first phase. So there is room even within that project to see higher margins. The goal is to get projects like Central, our second project in Chembur, our project in Gurgaon, like Oasis, Icon, Aria and so on, all getting into revenue recognition. We have just launched something in Pune. So certainly there is good visibility on this happening. And Central has actually improved the margins, one thing to note is the margin quarter-on-quarter are about the same but in Quarter 3 we had a significantly higher development management fee income. That has been really balanced out by Godrej Central coming into revenue recognition.

Gunjan Prithyani And this Sahakar Nagar and the other projects in Mumbai, they should contribute in FY16?

Pirojsha Godrej Do you mean the second Chembur project?

Gunjan Prithyani The first, the Sahakar phase 1, Sahakar phase 2 has not been launched as yet?

Pirojsha Godrej Sahakar 1 is actually Central. Sahakar Nagar is kind of all the society that we are redeveloping, that is the name of the society. And the name of the project is Godrej Central.

Gunjan Prithyani Okay got it. And secondly on the debt, we have seen debt increasing by almost Rs. 1,000 crore this year and of course we continue to add new projects to our pipeline. So how do we see debt trending over the next year and what is the progress on the

monetization of the commercial assets because you did mention that there is a deal pipeline in those Kolkata and Chandigarh commercial projects, so do we see the monetization picking up in FY16?

Pirojsha Godrej

Certainly Gunjan we do see that happening. First of all, the big contributor to the debt increase last financial year was really Godrej BKC where of the Rs. 1,000 crore you mentioned as much as Rs. 700 crore was in payments relating to MMRDA and other things for that project not including operational progress there. We also had other land payments and a couple of these PE exits. So really those were the factors contributing to the debt increase last year.

We are aware that our debt is at the level that we would like to make sure it does start coming down. And of the Rs. 2,700 crore of debt that we have, more than Rs. 2,000 crore is associated with our commercial project. Clearly the way and the route to bring this down, is by monetizing these projects. In terms of Godrej BKC, which is of course the biggest opportunity to do that, the good news is that the project progress has been very strong. We have actually now completed the structure of the building so we are working hard to get the facade and other elements complete. By the end of this financial year we actually expect the execution of that project to be completed. That is a great boon also as we are now stepping up marketing of the project, it's no longer a project where a customer who is buying it has to wait two or three years to occupy it. It's only one year away from completion today and whilst the second half of the financial year will be essentially complete. That we think will greatly help. As you also know the commercial market in general has been on an uptick for the last few months and we expect continued improvement over the course of the financial year. And one or two large size deals in Godrej BKC can start to unlock capital very quickly.

Gunjan Prithyani

Okay. And just last question on the debt, would you be able to share of this total Rs. 28 billion that how much would be the attributable debt for Godrej because besides BKC we also have a few other projects wherein our effective stake is lower.

Pirojsha Godrej

We will come back to you on that. The big one would certainly be BKC. Of the Rs. 1,700 crore that is currently there, 50% is attributable to us if you look at our share in the project.

Moderator

Thank you. The next question is from the line of Saurabh Kumar from JP Morgan. Please go ahead.

Saurabh Kumar

I had two more questions. One is essentially on these commercial projects, so there obviously the margin is low but can you confirm at least you are cash positive as of now at this point?

Pirojsha Godrej

When you say cash positive, it would depend on the period you are looking at. BKC we are cash positive this quarter.

Saurabh Kumar

For whole of FY15 would this have been cash positive or no?

Pirojsha Godrej

Certainly not, because we incurred over Rs. 700 crore of our cash flows on MMRDA payments etc., and that does not include the operational expenditure.

Saurabh Kumar

And from here onwards since those payments are not likely to be high at least even though margins may not come but can we expect?

- Pirojsha Godrej** Quarter-to-quarter it can still be up or down. But certainly it would be a huge disappointment if for the current financial year it is cash negative.
- Saurabh Kumar** Okay. And just on your Gurgaon project, you have obviously sold 1 million sq.ft. as you mentioned in a pretty weak market. You have also now I believe soft launched a Godrej Icon. So can you just tell us what enabled you to sell that 1 million sq.ft. and how is the response for this Godrej Icon launch?
- Pirojsha Godrej** First on the new launch of Godrej Icon. It's going exceptionally well and it will be another very good launch for us. So that's very much on track. And our NCR team has done a very effective job on all fronts in terms of getting our portfolio size right, getting good projects, being able to turn around the approvals in a quick timeframe and fully leverage the advantage our brand provides us to effectively market these projects even in a tough market. So the team executed very well. The best thing about this is it is not the 1 million sq.ft. we sold last year but the fact that this is giving us a huge leg up in terms of our ability to attract new partnerships in the market, attract new customers in the market. So I would expect even better year for us in NCR in the current financial year. But yes, the big lesson for us is to make sure the kind of performance we have seen in NCR is replicated and enhanced in other geographies as well. If that starts happening we obviously think it could be a very exciting period for us.
- Saurabh Kumar** So you actually gave some sort of a subvention here from what I understand, some 20, 40, 40 scheme. So did that also help in your view?
- Pirojsha Godrej** We actually did a very intensive exercise before this launch to understand what our customers were looking for from a product perspective, from a payment plan perspective and we have certainly tried to tailor a package that would appeal to customers in a weak market. The payment plan is certainly part of that and is almost considered a given currently in the Gurgaon market, so I don't think that alone is making projects successful. I don't think there is any developer in NCR that is not operating one payment plan or the other. The other thing I would point out is that we think it's a fairly intelligently structured payment plan that is both attractive to a customer and quite a positive one for Godrej Properties because this is a project that is already under construction. And one of the big milestones for payment in this thing will be the completion of the structure which we think is something we can achieve quite quickly. So it's actually not too back loaded payment plan as it might sound. And certainly that helped with the launch's success but again not by any means is that a sufficient criteria for success otherwise most developers would be seeing that.
- Moderator** Thank you. The next question is from the line of Aashiesh Agarwaal from Edelweiss. Please go ahead.
- Aashiesh Agarwaal** Hi, thanks for taking my questions. My question is back on the Vikhroli project and when are we merging it. There are two questions with respect to the same. We had this entity for a while and we are merging then consolidating it now, so what is the rationale and trigger to consider the merger at this point of time?
- Pirojsha Godrej** Few things Aashiesh, first of all it is that the kind of logical midpoint in the project where the first phase which is Godrej One has actually come to full completion and prior to getting started on the subsequent phases of project. But much more importantly than that was that as we evaluated from a strategic perspective, we thought this was a fairly straightforward win-win for both Godrej Industries and Godrej Properties. From a GPL perspective, this can be a very significant boost to our near term earnings over the next 2-3 years which we think is a big positive. It

will allow us also to conserve cash that would have been paid to GIL for its minority interest which again is a benefit. And from Godrej Industries perspective, for a shareholder of Godrej Industries understanding a single standalone project and a minority share in that project is not something that most shareholders are seeing as usually value accretive and they see value in your increasing share in Godrej Properties directly instead. So we think for both sides from a strategic perspective this makes sense. And the timing also made sense to the extent that this was in between two phases of the project but we could have equally thought through this and done this a little earlier as well.

- Aashiesh Agarwaal** Thanks. And second question is on the same project is what is the kind of payments in terms of fungible FSI or TDR that we still need to make on this? And what is the mix that we are planning? It's a mixed use development of about 1.86 besides the 0.86 million sq.ft. of residential. So just wanted to understand when do you intend to launch the 1.86 and what the mix would be? How much should we be spending and what is the kind of TDR and FSI payments that you have to make on this?
- Pirojsha Godrej** It's more like 2.5 or 2.7 million sq.ft. of additional space. Frankly, I have to get back to you with the exact details on the FSI cost especially since with the confusion on the new DCR, old DCR, these numbers could change a bit. We would have to kind of wait to see that number. On the land payments specifically there is about Rs.350 crore of additional payments to be made over a period of 3 or 4 years.
- Aashiesh Agarwaal** Just getting back on the FSI payment I presume you wouldn't have purchased any TDR or fungible FSI as of date on this?
- Pirojsha Godrej** Correct.
- Aashiesh Agarwaal** And on the 1.86 million sq.ft. mix.....
- Pirojsha Godrej** This 1.86 you are mentioning is as I said the additional area post Godrej One is about 2.5 to 2.7 million sq.ft.
- Aashiesh Agarwaal** Sorry. I remember it was 3.5 million sq.ft. out of which we have already done the Godrej One at 0.75 and that leaves about 0.86 residential and 1.86 as mixed use, is that correct?
- Pirojsha Godrej** Yes that correct, that's the combination. We actually think that is currently what is there in the presentation but we think the residential area will now be slightly larger than that.
- Aashiesh Agarwaal** So more like about 1.2 and 1.5, would that be a right way to look at it?
- Pirojsha Godrej** More like 1.1 or so is what we currently see.
- Aashiesh Agarwaal** So the balance I understand you are planning a hotel and some retail, would you have some thoughts firmed up around what kind of mix you are looking in that?
- Pirojsha Godrej** The combined hospitality and retail part could be in the range of a 400,000 sq.ft. and the rest could be commercial. But all the details again are still kind of being worked out. The next phase we hope to launch in the very near term is the residential part of the development.

Aashiesh Agarwaal And have you thought that broadly like how much you want to spend on this hotel and retail because again that will be capital intensive and the debt remains a little elevated so which is why I was trying to understand this?

Pirojsha Godrej Yes Aashiesh, again we will get into more of those details soon. This is not something we are planning to start in the current financial year. First of all we are looking at whether this could be done directly by us whether we do it in partnership with a hospitality operator etc., so all of those alternatives are still being worked out. I would also expect that we will start this development once our own balance sheet is much stronger.

Aashiesh Agarwaal Sure. And just one last question on the debt part of it. Your debt has obviously gone up in the quarter and you have highlighted the same. So just wanted to understand, the key headings under which you would have paid, if you could give some broad indication as to how much would have been collected, how much spent on construction and how much spent on advances?

Pirojsha Godrej You know we don't give the exact breakdown on cash. The major outgoing that kind of led to this were about Rs. 80 crore of land and FSI related payments and about Rs. 40 crore of advances and deposits to joint venture partners. And advance tax also of about Rs.40 crore.

Aashiesh Agarwaal My worries on that that perspective is even if you take out the land and FSI related payments because of advance taxes I would presume would be a normal operating expense, so even if I take out the land and FSI related payments despite a much larger scale of operations and having sold so much more space in the last three years, we still are kind of losing cash every quarter on this.

Pirojsha Godrej Aashiesh it's a very fair question and certainly something this we're working to ensure that doesn't continue. I wouldn't say that almost no developer in the country as per what we have seen in the last year really has been generating any cash so that obviously been a little bit of a tricky period for the sector as a whole. I don't think we are really very concerned frankly on the residential side of our business. There will be a little bit ups and downs quarter-on-quarter but we feel that there is fairly clear and obvious trajectory towards generating a lot of cash on our new residential projects. Where we have to still deliver better results, although we did have some results of the last year, is on the commercial side of things, which really is almost the entirety of GPL's capital allocation. And particularly concerning as it is not generating any real return. So that continues in our mind to be the major issue. A project like BKC obviously has been a key driver of this and has been a very capital intensive project. But things like this new launches not happening in Q4 again had an impact on cash collections because something like our second project in Chembur we think would have been cash generative had that launch happened.

Aashiesh Agarwaal So how much you would have sold collectively in BKC so far if you have that number off-hand?

Pirojsha Godrej Little over 300,000 sq.ft..

Aashiesh Agarwaal In terms of value that would be about how much?

Rajendra Khetawat Rs. 860 crore.

Aashiesh Agarwaal And we would have received at least 50 to 60% of that or have you received more than that?

Rajendra Khetawat Around 40%.

Aashiesh Agarwaal And how much you would have spent so far on that?

Rajendra Khetawat Aashiesh I don't have the exact details, I can come to you off-line on this.

Pirojsha Godrej Numbers roughly you can get from the fact that our capital deployed is about Rs. 1,700 crore.

Moderator Thank you. The next question is from the line of Puneet Gulati from HSBC. Please go ahead.

Puneet Gulati First of all what I want to understand here is out of FY16 planned launches 4 are in Mumbai out of 7 and given the uncertainties on DP what are your thoughts on how realistic are the launches in this year and what is the potential or any risk of delay?

Pirojsha Godrej The likelihood of any delay in these projects we think is currently fairly low. Three out of four we're very confident of launching in the first half of the financial year and even the fourth we would expect to launch in the first half of the financial year. So I don't foresee any issue currently but of course you can never be totally certain with this as the government has surprised us on this before. But two of these launches we think will happen this quarter. Current visibility is pretty good. The approvals for most of these projects are moving despite the development plan issues because the transition policy takes care of the concern within the projects, so we should be fine. Some project like Badlapur which is one of the four, you mentioned actually is not effected by the development plan as it is outside of the area where the development plan is considered so that shouldn't be a problem. Our redevelopment projects as I said will get launched fairly soon and 'The Trees' we're currently estimating will be in next quarter.

Puneet Gulati Also can you just give us some color on what's happening on your Chandigarh and Kolkata commercial projects, any potential interest that you are seeing?

Pirojsha Godrej Yes a little bit here and there, nothing too exciting. It's obviously in the first part of 2014 we fully exited our project Godrej Waterside which was a good development. We have some small sales in Godrej Genesis in the last quarter. But clearly both the fundamental markets do continue to be quite challenging. The good news is that Chandigarh occupation certificate we expect this quarter so hopefully that project being actually complete will ease some of the challenges in our marketing there. Godrej Genesis will also be completed this year. It is an important priority but we need to kind of go out and get this done. We have seen some recent success with for Godrej Waterside but clearly we need to do better on these two projects.

Puneet Gulati Again on BKC versus last quarter are you seeing any increased interest or traction on the commercial side or is it just same as last quarter?

Pirojsha Godrej We are seeing a lot of interests, a lot of discussions are happening, and we are certainly hopeful of seeing better actual volumes. We, of course, did have a better second half of the financial year business than the first half even in results but certainly there is a big scope for improvement. I do think that part of the monetization in BKC is likely to happen in a fairly chunky manner, there are some large space requirement discussions underway. Again, there is no obviously any way of knowing whether it will actually fructify ultimately. But it is the kind of projects where single customer could bring up the sale of Rs. 500 to Rs. 1,000 crore. So when that happens that will be a very quick and sudden monetization of a lot of space. There are number of discussions underway that we are fairly

encouraged that it should be a good year. We are also seeing that the stage of a project in commercial real estate is important and for the first time this financial year BKC is getting to a stage which is very near completion. Somebody visiting this building today can see that the full building is now up from a structural perspective, over the next three or four months we will see the façade is up and then the finishing and everything, etc., all will be done in this financial year. That itself will give us a lot more momentum. So we are cautiously optimistic that there should be a fairly good period ahead for the marketing of this project.

- Puneet Gulati** In your discussions with potential investors do you also see any scope for realization improving from this project or do you expect it will hover around Rs. 28-29,000 only?
- Pirojsha Godrej** I certainly think we do have scope. I have always said that the pricing also is linked to the stage of completion. So certainly this project is fully complete this time next year that in itself will lead to increased realization. Another lead is very clearly that both the commercial market overall and BKC specific market is going to continue to improve.
- Moderator** Thank you. The next question is from the line of Ritwik Sheth from Span Capital. Please go ahead.
- Ritwik Sheth** Sir firstly relating we have inventory of Rs. 4,700 crore can you split that into residential and commercial?
- Rajendra Khetawat** Ritwik I can come back to you offline on this, it's a long list. Majorly, the commercial part would be Rs. 2,400 crore of the inventory and the balance would be split across various residential projects.
- Ritwik Sheth** And secondly you mentioned that out of the Rs. 2,600-2,700 crore net debt we have Rs. 2,000 crore is for commercial portfolio.
- Rajendra Khetawat** Rs. 2,100 crore is for commercial portfolio yes.
- Ritwik Sheth** And BKC is Rs. 1,700 crore so assuming we sell out BKC over the next 3 years so will we employ that capital into residential or we will use to pay-off the debt at BKC?
- Pirojsha Godrej** Probably some combination of the two. Clearly there are opportunities to pursue growth but certainly once this commercial capital is unlocked I don't think we will need all of it for growth purposes. A significant amount of it can be used to bring down the debt. Obviously over 2-3 years' timeframe we look forward to generating a lot of cash from our residential portfolio as well.
- Ritwik Sheth** Right. So going forward next three years can we bring our leverage ratio below 1?
- Pirojsha Godrej** Yes I certainly think we can and should do that.
- Ritwik Sheth** One question on the margins if we exclude the commercial segment what would be the margins on the residential side, will it be about 25% or what 20-25?
- Pirojsha Godrej** Depends quarter-to-quarter. We saw this quarter without BKC is coming at 22%.
- Ritwik Sheth** I'm talking about FY15.

Rajendra Shekhawat Entire FY 15?

Ritwik Sheth Yes.

Pirojsha Godrej It is fairly straightforward BKC is a very large part of our revenue and almost no profit is being generated at current prices. So it is roughly 25% excluding commercial.

Ritwik Sheth So once you retire BKC and other commercial properties after 2 years, we can hit the margin of about 25% on a consistent basis is that understanding right?

Pirojsha Godrej I don't think 25% is where we would like to stop by any means. As more and more development management projects starts kicking in and more and more of our new projects such as Panvel and Pune projects and new projects in NCR lot of these are in the profit sharing models, certainly there is further room for growth as well.

Ritwik Sheth One question on the payment we have to do to Godrej & Boyce over the next 3 to 4 years about Rs. 350-400 crore, Sir what is the total area we will have access to once we pay that like already we have access but like total area?

Pirojsha Godrej This payment is for the land for 'The Trees' project which is a mix use project of about 3.5 million sq.ft. Of that 3.5 million sq.ft. about 750,000 sq.ft. is an office building that's already been completed and monetized.

Ritwik Sheth So along with this Trees project we'll get development management fees on this?

Pirojsha Godrej No. It's important to keep the two apart, they're two totally separate arrangements in Vikhroli. One is the land for The Trees which is to be a joint venture with Godrej Industries and Properties where we're proposing this merger so that becomes 100% owned project by Godrej Properties. That was done prior to our entering into broader development management fee arrangement with Godrej and Boyce. So all subsequent projects will be under the development management fee model. For that much larger area and much larger development, we don't have to pay anything to Godrej & Boyce and receive a share of the top line for our role in the project.

Ritwik Sheth So Trees project is 100% after the merger with Godrej Industries and the other development management fees in Vikhroli that's a different section altogether.

Pirojsha Godrej Correct so assuming the merger goes through then The Trees will become a 100% owned project, currently it's a 60% project. You are correct that it is totally separate from the larger project.

Ritwik Sheth And just one final question on the DP; the DP came and then it got scrapped and now like most of the reports suggested that for another 3 to 6 months there won't be any concrete steps to go ahead with the new modified DP what are your views on that?

Pirojsha Godrej The DP is obviously something its changing day by day, first plan was they had suggestion-objection period of two months and then after that would start implementation. On the other hand now they are saying there is a further four months extension. Personally, if you ask me it is going to be our job to finish this whole plan in four months. It is certainly not the case that nothing can happen or no approvals are being granted in the interim. As I mentioned despite the DP plan in place although there is some impact on some of our projects that they're working with the government on. There are other projects where we feel the transition

policy makes it totally clear that we can proceed with the approvals and launch of those projects.

The other thing is that the government is well cognizant of the kind of issues that this is raising in the sector. As you may know that they have recently issued some guidelines on improving the ease of doing business in the sector by streamlining the approval process a little bit. There are a lot of changes happening, some not so positive but others quite positive. The total impact is a little unclear at the moment but we don't think it in any way means that we cannot deliver on our products in Mumbai this year.

Moderator Thank you. Next question is from the line of Abhinav Sinha from CLSA. Please go ahead

Abhinav Sinha Sir firstly on FY 16, what is the sales outlook in terms of value that you are looking for and which cities do you think will contribute to this?

Pirojsha Godrej We don't give any guidance on sales numbers for the year. Our sense is there is so much uncertainty in the sector given the approval process and other things that we would rather just speak about the projects we're intending to launch and let you guys assume for yourselves the kind of numbers that will result from that. I do think that as things stand the sales numbers should be very very positive. Last year was already a very good year for the residential sales. This year we think will be a good year for both residential and commercial given some of the discussions we had earlier on the stage of completion of BKC. On the residential side we have several big-ticket launches. This year we have just already done a very positive launch in Gurgaon as I mentioned. We hope to launch the second Chembur Project this quarter or early next quarter. Just to remind you on the first project that we launched in the same location we saw about Rs. 800 crore worth of sales in the first 3-4 months on that project. The second one is another important project, we have some higher value projects like our Byculla Redevelopment Project that would be launched. We are also in some discussions on the business development side for projects that we think will be launched within this financial year. So the additional upside to what we've put in our presentation is actually closing some of those projects and launching those this year and if that happens, it could be a truly outstanding year for sales.

Abhinav Sinha From let's say where the market all demand is right now in the three markets of Bangalore, Bombay and Gurgaon, are we better off now as compared to say six months back?

Pirojsha Godrej I don't think so, NCR I will say no. I'm speaking for the market as a whole not just from the Godrej Properties perspective. The NCR market has continued to decline over the last six months so I'll say its worst scenario when it was 6 months ago. I'll say Bombay probably a little bit better but now it will be very interesting to see how the whole impact of this development plan plays up because certainly the effect will be little bit of constraint on supply and the little bit of uncertainty on the impact of the new DCR and how that will impact cost, how the approval timelines are going to work. So it's a little bit of an uncertainty but certainly want to make the case that suppliers going to be more constrained, demand is picking up and with interest rate reduction, etc., it should pick up further and therefore it would be a better period ahead for Mumbai. Bangalore we haven't really had any launches or anything in the last 5 to 6 months so hard to speak from direct experience. But what we are hearing and what we are seeing is that the market is kind of flattish over the last six months.

Abhinav Sinha Sir finally on the gearing side so now we have hit about 1.5X, is it probably at the upper end of your comfort level?

Pirojsha Godrej We've always since the IPO said that our comfort level from the gearing perspective is anywhere from 1:1 to 1.5:1. So as you rightly pointed out we're right at the edge of that comfort level. Obviously we have also known that there could be temporary reasons to go above or below that range. And we have both been above and below that range over the last 2-3 years. But certainly we would not like it to go in any significant way above where it currently is and are looking at very concrete steps to ensure we'll bring it down this financial year.

Abhinav Sinha So that includes both project sales as well as fresh equity?

Pirojsha Godrej We continue to believe that we would not like to dilute too much at these levels given kind of valuations in the sector today. But as I also mentioned we do expect a small amount of equity to be raised to comply with the 75% ownership threshold. So that will provide us a little equity if that happens at the Company level. But certainly by far the more important objective will be to unlock capital from projects.

Abhinav Sinha If you permit me just one last query on the Vikhroli LLP merger, any expected timelines there?

Pirojsha Godrej 8 to 9 months for the process, hopefully within that timeline. Certainly we expect that to be completed this financial year.

Abhinav Sinha But the launch is not pre-conditional on that right?

Pirojsha Godrej No we will go ahead with the launch. Launch will be driven totally by regulatory approvals and so we'll come in all likelihood well before the merger is finally through.

Moderator Thank you. Next question is from the line of Sumeet Rohra from Silver Stallion. Please go ahead

Sumeet Rohra In spite of Q4 being very tepid in my eyes, we have still been able to do something like 3.9 million sq.ft. over 31% growth so assuming that things are improving on the macro side and with the rate card obviously started so you think that FY 16 we can grow about 35-40% and secondly I saw your presentation and you were saying that there are 14 launches which are scheduled so of the 14 launches how many square foot do you intend to launch so could that be in excess of like 5-7 million sq.ft. which you intend to launch and thirdly just a thought which came to mind on the business development side the government has now recently cleared the 100 Smart cities plan and a couple of development of colonies and buildings and all of that and they say that this project can be totally to the tune of 200,000 crore over the next five years. So are we basically looking to participate in any of those projects because that is also huge business upside which could come ?

Pirojsha Godrej On the first question we don't give any specific guidance on sales expectation or sales volume launches plan for the year because these things do change. The volume we decide to launch is something we decide right before launch based on our expectation of the response, so that we are not carrying too much launched inventory at any point in time. So I won't be able to share anything there. But suffice it to say that we don't think that Q4 was a slow quarter for sales because of the market environment. In fact, frankly when we were projecting our numbers at the beginning of Q4 internally we expected it to be the best ever quarter for sales for Godrej Properties, but due to this development plan and delays introduced as a

result that couldn't materialize. But we have seen pretty consistently that when we're launching projects the reaction has been good. Most recently we sold a little over 200 apartments in 10 days in Pune so we remain confident on our ability to market our product even in a tough environment.

The key driver to how much growth we see this year will be again regulatory approval. Even with some of these regulatory approval constraints our sales growth in residential last year was 70% in volume terms and 60% in value terms. So we do remain confident of being able to see good sales this year.

On the business development front I certainly take your point, there could be a lot of interesting opportunities thrown up by the government's plan on Smart Cities but at the same time we won't get carried away with any of these announcements and would like to see what actually happens on the ground. And would like to ensure that anything we associate ourselves with will be fitting within our current strategy of maintaining a capital light investment structure for new projects. Assuming those criteria can be met of course we would be very excited to explore some of these projects and again only projects that are within the cities where we currently have projects.

Sumeet Rohra

But just one thing I wanted to just understand because the only one thing which keeps you away from becoming the No 1 player is the only approval part and the thought process which I had was that once a new government comes in the approvals will get a lot more quicker but actually the approvals are not coming through so what's actually happening on that point of view because your ability to sell is very good and I mean that's a best part about the whole business. But on the approval part what's actually happening which is keeping the approvals delayed, what's your thought on that?

Pirojsha Godrej

Sumeet unfortunately it's not any one thing, because that would probably have been solved. Particularly in Mumbai which happens to be the region we've scaled up the most where we've added 18-19 projects to our portfolio in the last 2-3 years. This region has been the most impacted but it's not again that any one thing, it has been a series of changes. For example the most recent one was the introduction of new development plan, prior to that it was the ruling on RG required to be on open ground and changes in the rules on affordable housing requirements within projects. A year before that it was the fungible FSI introduction and the changes that introduced. For whatever reasons, it is the government that has been fairly consistent in its inconsistency. So every year we have some new thing that they come up with and that is creating a bit of delay. The good news again is that the government recognizes this is an issue what I mentioned as recently as last week they have published some new guidelines on improving the ease of doing business and expediting and clarifying the approval process. So the government is well aware of the fact that this as an undesirable situation both for developers as well as for the government in terms of attracting investment into various geographies and of course as well as through customers who are facing the brunt of higher cost because of the increased risk and cost of development.

Moderator

Thank you. Next question is from the line of Manish Gandhi who is an individual investor. Please go ahead

Manish Gandhi

Congratulations on selling 60% more of residential in the amount side despite we have a lot of challenges in Mumbai which we could have sold easily Rs. 800 to 1000 crore more but anyways congratulations. My questions most of them are answered, I just wanted to clarify you said that it is very small dilution regarding this new deal with Godrej Industries. My understanding is that we are issuing 8% of the equity to Godrej Industries.

Rajendra Khetawat Yes 75% of that is with the promoter so what we require to bring back to 75% is only 2% or 2.5%.

Manish Gandhi 75% is with the promoter?

Rajendra Khetawat Yes, so effectively the stake is going up only by 2%. So although it looks like 8% at the paid up capital at present but since 75% it being held by the promoter, what is required to bring that 75% down post-merger would be only 2-2.5%.

Manish Gandhi So you will be diluting that?

Rajendra Khetawat Yes.

Manish Gandhi And one more question on BKC, how much inventory is left?

Pirojsha Godrej It is about a little under 700,000 sq.ft. left. Of course that doesn't include the collections from the JV partner whose stake in the project is at development cost. Outstanding collections are for nearly a million sq ft.

Moderator Thank you. The last question is from the line of Puneet Gulati from HSBC. Please go ahead.

Puneet Gulati Just a bit more clarity on this Vikhroli merger, what is the valuation that you are disclosing for the project?

Rajendra Khetawat It has been disclosed 1.6 crore shares. If you do the math it can give you the valuation number basically.

Moderator Thank you. I now hand the conference over to the management for their closing comments

Pirojsha Godrej Thank you all very much for joining us. Sorry it has been held on a holiday which I know was inconvenient for many of you but thank you very much for taking the time. We look forward to your continued support for the year ahead.

Moderator Thank you very much members of the management. Ladies and gentlemen on behalf of Godrej Properties that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

- ENDS -

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