



## Godrej Properties Limited Q1 FY 2015 Conference Call August 04, 2014

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- 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 the conference please signal an operator by pressing \* then 0 on your touchtone telephone. 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.
- Anoop Poojari** Thank you. Good afternoon everyone, and thank you for joining us on Godrej Properties' Q1 FY2015 results conference call. We have with us Mr. Pirojsha Godrej, Managing Director & CEO; Mr. KT Jithendran, Executive Director; Mr. V. Srinivasan, Executive Director; and Mr. Rajendra Khetawat, CFO of the Company.
- We will begin the call with 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 e-mailed to you earlier.
- I would now like to invite Mr. Pirojsha Godrej to make his opening remarks.
- Pirojsha Godrej** Good afternoon everyone. Thank you for joining us on Godrej Properties' Quarter 1 Financial Year 2015 conference call. I will begin by discussing the highlights for the first quarter and we then look forward to taking your questions and suggestions.
- In terms of Godrej Properties' financial performance, our total income for the first quarter was up by 49% and stood at Rs. 363 crore and our net profit for the quarter grew by 16% to Rs. 46 crore.
- On the business development front, we added a new project in Gurgaon. The project in Sector 79 is well connected to National Highway-8 and the proposed Southern Periphery Road and will yield around 1.6 million square feet of saleable area. This is the third project added through our residential investment platform and our fifth project in NCR.
- I am happy to note that GPL in Q1 registered an increase of 82% in the volume of sales bookings and closed the quarter with approximately 1.1 million square feet of sales. The total value of sales in the first quarter stood at Rs. 824 crore which represent a 36% year-on-year increase. Residential sales growth for the quarter

was 141% in area terms and 260% in value terms. We have had a great beginning to calendar year 2014 from a sales perspective. Our total sale for the first half of calendar year 2014 at nearly Rs. 1,900 crore is almost equal to our sales in all of calendar year 2013.

The response to our new project launches in Gurgaon and Pune has been excellent. At Godrej Oasis in Gurgaon, we were able to sell more than 200 apartments or approximately 350,000 square feet with a booking value of Rs. 251 crore in the quarter at a time when the Gurgaon real estate market has been quite challenging. This launch was executed within 8 months of signing the development agreement and several months ahead of our target launch date. We successfully launched Godrej Prana in Pune and sold 125 apartments or nearly 100,000 square feet of space in the first quarter. Godrej Prana was launched almost exactly one year after we added the project to our portfolio. We also had a successful launch of the second phase of Godrej Central in Chembur where we sold approximately 75% of the launched inventory within a few weeks yielding a project booking value of Rs. 268 crore in the first quarter. We have now sold over 550,000 square feet of space worth over Rs. 800 crore in the four months since the launch of the project. I am also happy to note that all the approvals for the project have been received and construction on the project is now on in full swing and we expect this project to reach the revenue recognition threshold within the current financial year. We look forward to the continued success of this project and to the launch of our equivalent-sized adjacently-located project in the months ahead. Aside from new launches, we also saw heavy sales across our portfolio with existing residential projects and delivered the first tower of Godrej Platinum, our first residential project in Vikhroli.

Our commercial project sales performance for the quarter was mixed. In Kolkata, we completely sold all the remaining inventory in our project, Godrej Waterside. We will aim to replicate the strong success we have seen in Godrej Waterside in our other two older commercial projects in Kolkata and Chandigarh. At Godrej BKC, while we were disappointed to not close any transactions in the first quarter, the lead pipeline for the project is healthy and is growing considerably with improved economic outlook and business sentiment. We are confident of another good year of sales at Godrej BKC.

I am encouraged to see an improvement in sentiment in the country with the formation of the new central government and we are confident that all the work we have been doing to build the scale of our business and strengthen our process and the systems will hold us in good stead as the overall economy and the real estate sector pick up in the months ahead. After the challenging environment over the last couple of years, it would be a pleasant change for us to have a supportive macroeconomic tailwind behind us.

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

**Moderator**

Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from Yash Ved of India Infoline. Please go ahead.

**Yash Ved**

Sir, what are the new project launches and outlook on real estate prices?

**Pirojsha Godrej**

We have several new launches planned. At the beginning of the year, we guided that we want to do a 15-16 launches in this financial year and that guidance remains on track. Of that, in the first quarter, we were able to launch 4 new projects including 2 new projects and 2 new phases in existing projects.

The launch calendar for the rest of the financial year looks quite robust as well. We have several important launches especially here in Mumbai. We hope to launch the residential portion of 'The Trees' in Vikhroli by the end of the financial year. We hope to launch the Panvel township. And the other big launch for this financial year will be the second redevelopment project in Chembur. The first one was launched as I mentioned in my remarks in February and we have seen very good success in that project. So of the combined size of our 1.5 million square feet in the two projects, we have launched and sold about 550,000 square feet so far. I think it will continue to be an important launch for us. Aside from that, we have some smaller launches in Mumbai like our redevelopment project in Byculla.

We also have several launches that we hope to execute in other parts of the country including Bangalore, NCR, Pune etc. and of course new phases in most of the existing projects. So I think the launch calendar is looking quite good. Of course all of these are linked to approvals. The positive news is this year unlike last year, we are off to a good start and are proportionately already ahead from a launch perspective in Q1.

**Yash Ved**

On the real estate prices front?

**Pirojsha Godrej**

My honest answer is I have very little idea. It is very hard to project prices in the short term particularly since different micro markets, different cities and different areas within cities have different dynamics on supply demand and other factors. So in total honesty, I have no idea what the short term pricing outlook would be. Broadly speaking on a medium term, the expectation is that the prices should continue to do quite well given I think a very difficult time for the industry is hopefully behind us. And I think with the pickup in sentiment already having happened and hopefully with the pickup in GDP growth and reduction in interest rate on the way, we are all set for a better period for the sector. But I also think that far more important than price increases will be volume increases for the sector as a whole. I am quite happy with our own volumes, but certainly there is a huge room for improvement for the sector. So that is what we will be looking closely at over next year.

**Moderator**

Thank you. Our next question is from Puneet Gulati of HSBC. Please go ahead.

**Puneet Gulati**

I wanted to understand what is the primary reason for net debt to go up this quarter. Was there any big land parcel or any land charges built into this year, this quarter?

**Pirojsha Godrej**

There was not one but a culmination of several factors. We had made Rs. 170 crore of payments for land development rights and stamp duty on various projects. And while the new launches we have been doing, obviously are getting inflows to the Company, there is also usually around the time of the launch which is when the final approvals are being received, government charges to be paid and things like that. So those have added up. So as I said, the payment for example for the land for The Trees; payments for Godrej Central, our redevelopment project; some charges on BKC and joint venture payment for our Pune project, those in all added up to about Rs. 170 crore. And then we had some other advances to JV partners of another about Rs. 40 crore. So I think those were some of the reasons.

- Puneet Gulati** And secondly you were also sticking to the launch for Godrej City Panvel, is there any clarity now on what area you would be allowed to work upon.
- Pirojsha Godrej** Unfortunately, there isn't. There is a little bit of a gap in the policies that Urban Development Ministry has and CIDCO, which is the agency that is planning the NAINA (Navi Mumbai Airport Influence Notified Area) area under which our township falls. That won't hold back the launch definitely of the first few phases of the project. So that is, of course, an important medium term thing to get clarified and unfortunately that is not yet clarified, but the launch of the project can go ahead without that.
- Moderator** Thank you. Our next question is from Gunjan Prithyani of JP Morgan. Please go ahead.
- Gunjan Prithyani** Firstly, I just wanted to get some clarity on the margins. They continued to stay weak. I do understand that this was because of lower realizations in the BKC project. But I just wanted to get some sense on when do you see really margins improving. Which are the key projects and when they start contributing to the P&L?
- Pirojsha Godrej** Gunjan, thanks for the question. I think it is fair to say that the margin profile of the Company for projects before Godrej BKC and including BKC is going to look quite different from the projects that have come subsequently, including projects like Godrej Summit, Godrej Central in Mumbai, Godrej Oasis which we just launched in Gurgaon and all of the profit sharing and development management fee projects we either have launched or are in the process of launching. So we have admitted that our older revenue sharing agreement margins are not where we would ideally like them to be, our commercial project margins are not where we like them to be. I think the visibility on medium term margin improvement is extremely strong given the structure of all our projects. The fact that they are all in the residential space and are in structures where even if things do not go ideally, the margins are pretty well protected. So I think there are several projects including Godrej Platinum in Kolkata, Godrej Summit in Gurgaon, Godrej Central here in Mumbai, all of which we expect to contribute to the P&L this year, that will boost margins. But I certainly think that at the same time there are a set of older projects that continue to be a drag on margins. I think with the deal structures we are entering into and the way the portfolio is growing, we are confident again of much higher than industry average medium to long-term margins. But certainly there will be a little bit of volatility in the short term as some of these older projects work themselves into the P&L.
- Gunjan Prithyani** Sure and secondly on your commercial projects, if you could give some sense on what is happening with the other two projects in Kolkata and Chandigarh and how much cash flows can really come from these two projects and also in terms of the Waterside project, has the entire cash flow come in or we are still expecting some inflows?
- Pirojsha Godrej** So the two projects you mentioned in Chandigarh and Kolkata are both in a fairly advanced stage of construction. One in Chandigarh is essentially complete from a construction point of view, we are just awaiting the Occupation Certificate after which we are hoping the monetization of that project can pick up pace. The one in Kolkata, we have to complete the project and get the OC hopefully by the end of the financial year and again similar logic there post the end of construction, we tend to see a better ability to monetize them. I think the current capital employed between the two of them there is Rs. 400 crore. What we get back will depend on the value at which these are monetized. But certainly, I think after a period where

we were very unsuccessful across the commercial portfolio, the fact that Godrej Waterside has seen a full monetization in two quarters is a fairly positive development. Hopefully now there is a slight pickup in sentiment, we can replicate that success in these other two projects.

- Gunjan Prithyani** How much is the cash flow yet to come in from the Waterside project?
- Pirojsha Godrej** We have about Rs. 100 crore to be received this financial year and from that about Rs. 30-40 crore was received in Q1 and most of the rest of it is expected this quarter.
- Gunjan Prithyani** Okay, so around Rs. 70-80 crore more to come in, is it?
- Rajendra Khetawat** Bulk of it will come.
- Pirojsha Godrej** Rs. 60-70 crore, something like that, yes.
- Gunjan Prithyani** And lastly Pirojsha, just wanted to get your sense on what is happening in terms of new project acquisition because we see a lot of news around Godrej discussing about acquiring some parcels in prime locations in Mumbai. So I wanted to get a sense on what is your comfort level in terms of how big an acquisition can you look at. The biggest one which we saw was BKC. Are we okay to do that big a transaction because given our balance sheet is I think from a net debt perspective, I do not think we have much scope to take on large acquisitions at this point of time.
- Pirojsha Godrej** Certainly we remain keen to add new projects. Over the last three years, hopefully you have got a good sense of the type of projects we would like to add to the portfolio. We are quite happy to report that almost all of these projects that we have added and launched have met with strong success.
- I think I know what news reports you are referring to, those were as we clarified not really correct. At any given time, we are in discussion for probably something like 150-200 different properties in various parts of the country. Obviously most of those discussions do not end in successful closure. But while I expect us to see incremental new project additions, I do not expect any of them to be heavy investment kind of projects. I think you should look more towards the type of projects we have been adding over the last 2-3 years and that will be the type of projects we will add.
- Even Godrej BKC, we sort of clarified in some forums that the project in its current form was really not how we intended it. We thought we had simultaneously entered into an agreement that would have essentially made this project a development management fee project. So it does look like a very big outlier rather from capital intensity perspective. But again I think the good thing there is that it's a project where lot of capital has been committed, it is in a prime location, it is a project we think certainly can be monetized relatively quickly. And it is going to actually be a source of cash flows for us to invest into other new projects. But certainly you should not expect to see and will not see any investments of that size or anyway near that size into individual projects.
- Moderator** Thank you. Our next question is from Puneet Jain of Goldman Sachs. Please go ahead.

- Puneet Jain** My question is essentially with respect to Godrej BKC and margins. So given the fact that increase in the revenues in this quarter came from BKC, what is the kind of margins you are looking at from this project?
- Pirojsha Godrej** Puneet, what we have indicated on the project is that the first part of project we would like to focus more on securing sales, getting in cash from the project and push for margins later on in the project. Clearly, the margins at current prices of what we have been selling at are nothing worth talking about. They are sort of low single digit kind of margins. But certainly our hope is that this can be picked up overtime, but our focus will continue to be on monetizing the project and really looking at the opportunity cost of the capital deployed in the project and how productively we think we could deploy that capital on the residential side.
- Puneet Jain** So since your sale price is more like Rs. 24,000 per square feet or range about, and land cost is in the region of Rs. 10,000 per square feet. So why does the margins remain in low single digits?
- Pirojsha Godrej** The all-in cost excluding interest cost is about Rs. 20,000 per square foot on the project. The way we are currently accounting for it is making a budgeted estimate of the interest cost till the end of the project. So of course if we are able to monetize faster than current plan and get those cash flows in faster, there could be some upsides on that. But a large reason for the low margin is the interest cost that we are currently factoring in which is basically the gap between the number you mentioned and Rs. 20,000 approximate development cost.
- Puneet Jain** Rs. 20,000 includes the interest cost or excludes.
- Pirojsha Godrej** Does not exclude.
- Puneet Jain** Sir, what proportion of this Rs. 20,000 per square feet will be TDR cost?
- Pirojsha Godrej** I do not know the exact breakdown. The main costs are the existing costs that were on the projects from the time Jet Airways was developing it, the incremental FSI costs that we have to pay to MMRDA including all the development premium charges and other things and the construction cost. So those are the main buckets other than the interest cost. I can ask Rajendra to give you the detailed breakdown separately or we can even get it now.
- Puneet Jain** I can take it later. Second will be with respect to your capital structure. Given the fact that you still want to add on new projects and your debt equity ratio is currently close to 1:1. Do you think that you would like to fund incremental projects raising further equity or through operating cash flow and if it is operating cash flow, when do you think you can break into positive territory for operating cash flow?
- Pirojsha Godrej** I think it is a good question Puneet. Clearly the goal is to do it from operating cash flow. That said, if you look at it, the reasons if at all our balance sheet is not in the exact shape, it is not because of the new projects we have been adding with very limited advances that are getting launched quite quickly and quite successfully and will play a key part in improving our operating cash flows. But clearly on some of the older projects which have locked in too much capital, I think the good thing is that the visibility on unlocking capital from those older projects is much stronger than it has been and my expectation is that while given Godrej BKC's outflow requirement this financial year will continue to have some drag on operating cash flows. From next financial year onwards, we expect to be quite strongly cash flow

generative. We are certainly not looking at any kind of equity dilution in the foreseeable future.

**Puneet Jain** And finally there was a large other income jump in this quarter. What was it account for?

**Pirojsha Godrej** This was some of the rights issue fund that we parked in mutual funds and redeemed some of that to down-pay some of the debt. So that was the bulk of that.

**Puneet Jain** So it was around Rs. 311 million. So there were some bulky interest payments which came in this quarter, I guess.

**Pirojsha Godrej** Yes, it is about Rs. 25 crore or so.

**Moderator** Thank you. Our next question is from Bharat Sheth of Quest Investments. Please go ahead.

**Bharat Sheth** Pirojsha, any improvement in regulatory environment in Mumbai region?

**Pirojsha Godrej** I think there is some discussion where people are trying to move things and all that. It is a little early to say whether there is any major change around, we haven't noticed anything too dramatic. Frankly, it remains the market that is the most frustrating from an approval point of view.

I think one of the positive developments for the Company is that in almost every other city, now approvals are coming faster than ever they have historically. Our launch in Gurgaon last quarter was done within 8 months of signing up the project. The one in Pune was in 12 months. Mumbai, last year had several major changes, fortunately, there has been nothing like that has happened so far. But it continues to be, I think the most challenging market from an approvals perspective. I think launching our first redevelopment project was of course a good and an important milestone for the Company. We are in very advanced stage of approvals in many other projects in Mumbai. So hopefully we would not have any further setbacks this year on that front.

**Bharat Sheth** And looking at elections in the offing, do you expect that the things will be more clear only post election?

**Pirojsha Godrej** Not necessarily. But the frustration in Mumbai is more just everyday stuff and the time it takes to get decisions and the interactions within various agencies and so on. So I do not think that has much to do with the election, but certainly I think new government will come in hopefully with a fresh perspective and will be keen to kick start the economy and look at infrastructure and real estate as one key way to do that and hopefully we can see an improvement thereafter.

**Bharat Sheth** There is a news item on the proposed tax on ready unsold flat. So any sense, how really it will affect the industry and particularly GPL?

**Pirojsha Godrej** I have not seen the report you mentioned. But GPL is carrying almost zero finished inventory on the residential side unlike one or two apartments in some projects where for whatever reason we want to hold on to them. So with the exception of some of these older commercial projects, even those actually now are not finished projects, but aside from that on the residential side, we have absolutely nothing. So I think no impact for us at all. I have to go through the details of what has been

proposed, but certainly for developers carrying inventories that I suppose would become a little bit of an extra cost.

- Bharat Sheth** And last thing, in this presentation, we have reduced the size of this Godrej Platinum from earlier 0.62 million square feet to 0.48 million square feet. Any specific reason?
- Pirojsha Godrej** We handed over one of the towers in that project. So one-fourth of the project is now delivered and therefore out of the inventory we look at and has been added into completed projects.
- Bharat Seth** And any sales in new launch with joint venture, this development management with Godrej Boyce in near term?
- Pirojsha Godrej** We hope to launch the fourth tower of the same project within the next couple of quarters.
- Bharat Seth** And The Trees, you expect that we will be able to launch in this year?
- Pirojsha Godrej** Yes, we expect and hope to launch that in the fourth quarter.
- Moderator** Thank you. Our next question is from Aashiesh Agarwaal of Edelweiss Securities. Please go head.
- Aashiesh Agarwaal** Most of my questions have been answered. There is one question that we have on BKC more in a nature of a housekeeping question. So I understand the total Total Value of sales that we have done from the BKC project is about Rs. 650 crore and the percentage completed is about 30% which should mean that we should have booked about Rs. 200 crore in terms of revenues from the project and it is about Rs. 124 crore. Is that something that we could be reading wrong over here, throw some light on that?
- Pirojsha Godrej** So that is totally correct, Aashiesh. I think the gap is there on one of the sales. We have not collected the cash required to cross the recognition threshold which will be collected this quarter. There was a certain milestone linked to that. That has now already been reached. So I think you will see quite significant revenue from BKC in the current quarter.
- Aashiesh Agarwaal** And second in terms of your overall debt. Of course you did mention that you are not looking at any additional capital issuances and we are looking at operating cash flows to help us that will be in the next year. So for this financial year, can we say that there could be some further increases in debt from where we are standing today?
- Pirojsha Godrej** Yes, I think there will be in the short term increases linked to BKC outflows and as I said, I expect those to start becoming positive incrementally almost immediately. But on a sustained basis, I think we expect next financial year to be a very strongly cash positive year for us.
- Moderator** Thank you. Our next question is from Arpit Jain of Arihant Capital Market. Please go ahead.



**Arpit Jain:** I just wanted to ask what would be the impact of the increase in cost of cement in all the projects that we are doing and which one would be the least margin markets for us where this impact can be seen.

**Pirojsha Godrej:** No, I think these are things that obviously keep fluctuating in both directions. All our project budgets account for some amount of escalation in input cost for things like steel and cement. I do not think at the current level there is any reason to be alarmed that margins will be overly damaged by any short term increases. We will obviously keep an eye on that. But I think also a lot of work we have been doing is on structuring projects in ways where a lot of that cost is actually not to our account, will also help mitigate any risk from cost escalation.

**Moderator** Thank you. Our next question is from Ritwik Sheth of Span Capital. Please go ahead.

**Ritwik Sheth** I just have couple of questions. Firstly, on the Bangalore township which we have, the 100 acres project. How is the demand there and what is the stage of status on the construction?

**Pirojsha Godrej** This is a project that we just added to our portfolio at the very end of fourth quarter of the financial year. Of course, we are quite away from any construction there. We are currently working on the approvals and design planning and so on. This is a project which hopefully we can kick off early next financial year.

**Ritwik Sheth** And the second question is on the commercial portfolio, the Kolkata and the Chandigarh one. So how is it going over there like, do we see any signs of monetization going through in the next 2-3 quarters?

**Pirojsha Godrej** Frankly, I think nothing very visible that is worth talking about now. Certainly after the Occupation Certificate is in place, we do expect to be able to improve the transaction velocity there. Nothing really worth talking about at this stage.

**Ritwik Sheth** And just broadly if you can tell us about the cities which are like NCR, Mumbai, Bangalore. What is the demand outlook and how is the scenario shaping out in the next 2-3 years? Which market would you expect to perform the best according to you?

**Pirojsha Godrej** I think each market has its own dynamics and has its own ups and downs. Clearly, the Bangalore market for the last couple of years has been the one that perhaps has seen the best and steadiest volumes along with reasonable price increase along with inflation. So that demonstrated quite healthy characteristics and obviously something like Gurgaon has been quite a challenging market overall over the last year. Frankly personally, I would hesitate though to extrapolate this information too far. I think these things can change quite quickly. Obviously there are fundamental factors leading to that kind of performance. But for example in Bangalore, the strong performance of that market is leading to much more supply coming on stream including from developers like ourselves. So there might be a situation there where it is not as favorable as it has been in the last couple of years. And of course, when markets go through a weak period that can also bring supply under check which in turn can lead to improvement.

I think the NCR market is one that is quite challenging, but it is also one which we are perhaps the happiest with over the recent past. Despite the tough market conditions, all our projects have fared very well. I think having a good brand and

reputation for being able to deliver is helping us greatly in that market. So that is a market, we are quite bullish on. We have several other launches in NCR slated for the rest of this financial year which we are quite confident will do well as the one we did in the first quarter.

I think each market is a bit different, has its ups and downs but I think from our perspective, at least there is no market that we are overly worried about or think that we cannot successfully operate in over the short to medium-term. And we are looking at project additions and project launches across all major markets in the country.

**Ritwik Sheth**

And just one thing. In your comment in the opening remarks, you mentioned that we have seen a pickup in the sentiment. So have we seen any conversion from that like actualize or just enquiries which are coming in and conversion is a bit on the lower side?

**Pirojsha Godrej**

I think now on the commercial side, there is more of a pickup in enquiries. Particularly for high value commercial project like BKC, the conversion process is something which can take time. And some of these deals are of the size which can equal for example our entire one year sales in the project in a single deal. So obviously those are not deals that will close very rapidly. But I think there is a noticeable difference we are seeing in the last 3-4 months in the level of interest particularly on the commercial side. I think the residential continues to be a little bit sluggish for the market as a whole, but we are very satisfied with the response all our new launches are getting.

**Moderator**

Thank you. Our next question is from Nitin Indani of Axis Capital. Please go ahead.

**Nitin Indani**

We have a significant amount of projects under construction now. The portfolio is of a sizeable nature and we also have a robust pipeline of launches. How about deliveries, do you have a similar kind of target in terms of the amount of space that you want to deliver on an annual basis. Have you reached a steady state where you can see or rather correlate that you can add certain number of square footage to your portfolio and at the same time deliver. How do you think about the portfolio as it is?

**Pirojsha Godrej**

Nitin that is a great question. I think clearly the area where many developers who have attempted a similar scale up have faltered on the delivery side. We are quite cognizant of that and have spent most of the management time and attention making sure we are able to address that. I think there is early evidence of that in terms of our handing over phases in even large and complicated projects like Ahmedabad, Kolkata and the 1<sup>st</sup> Phase of our Vikhroli project along the timeline committed to our customers.

Certainly, we are nowhere near a steady state in terms of deliveries. If you look at 10-year growth of the Company, we have been growing revenues and profits at a compounded rate of about 50% a year. So clearly that implies a large amount of increase in the scale of operations. If you look at the last two financial years not including this quarter but FY14 and FY13, cumulatively we saw more in those two years than in the entire previous history of the Company which is 20 odd years. So clearly those sales are indicative of a large operational scale up that is going to be required on the delivery side. That is something we have been planning for extensively and we are confident of meeting the challenge. But of course this kind of growth is going to need constant work from the execution side and constant effort to redouble our capabilities on delivery.

But I think so far we are quite confident of how things are going. We are delivering our projects along the broad timelines committed to our customers. We are not seeing any major areas of concern. But certainly as I said we are very cognizant of the fact that others have seen similar scale-ups on the sale side without managing the delivery part and that has led them into great difficulty. We are quite optimistic that we are successfully addressing that challenge.

- Nitin Adnani** Thank you so much. Just a suggestion from my side. Much like your slide where you have the launch tracker, if you could even have a delivery tracker, it will help us a lot.
- Pirojsha Godrej** Great. Thank you for the suggestion.
- Moderator** Thank you. Our next question is from Samar Sarda of Kotak Securities. Please go ahead.
- Samar Sarda** I had a few questions. One on the debt side, you mentioned you already had a plan with regards to the BKC project. Could you give us an indicative number what would be the peak debt on the BKC project during the project lifecycle?
- Pirojsha Godrej:** I prefer not to give any guidance and it depends obviously on sales traction as well as timing of outflows and many other things. So I prefer not to do it. But we have about Rs. 1,200 crore currently deployed in the project at the end of Q1 and I do expect that in the short term to increase before it starts coming down. But I do think it can start coming down quite quickly thereafter.
- Samar Sarda** Sure, this helps and on the two Chembur projects like Sahakar Nagar-I and II, what would be the total quantum of approval expenditure, like be it the MHADA payment, the fungible FSI like with regards to the total quantum what will be the number and over how many quarters or years would that be spread?
- Pirojsha Godrej** Samar, I do not think we have that information immediately available. I think most of it for Sahakar Nagar-I has already been incurred. There will be some payments for Sahakar Nagar-II, but I think at this stage, net-to-net these projects should be cash flow generative. There might be a slight outflow in one or two quarters. But these projects, as I said, should be cash flow generative and should actually over the next couple of years be throwing up a lot of cash for the Company. So I think those are not outflows that would not be met from the corresponding inflows. As I mentioned just on about one-third of the combined inventory of the two projects, we already achieved a booking value of Rs. 800 crore in the last 4-5 months. So we are quite happy with the way that is going.
- Samar Sarda** And with regards to the Okhla project in Delhi, now that DDA has come up with some classifications with regards to converting industrial areas into residential, Okhla is one of it. So any indication whether it could happen in FY15 or the launch would be in FY16 only?
- Pirojsha Godrej** It is definitely not going to be in FY15. So I think that will be in next financial year.
- Samar Sarda** And just a small thing on the deliveries, which are the projects which could be delivered in FY15?
- Pirojsha Godrej** Several. We have Godrej One the commercial office building in Vikhroli. We will have Godrej Eternia in Chandigarh. We will have the 1<sup>st</sup> Phase of our residential

project in Nagpur. We will have our first project in NCR Godrej Frontier. We have a very large number of units to handover in Ahmedabad, part of the second phase and some of the third phase. Some amount of inventory in Godrej Prakriti in Kolkata as well. I think that covers it.

**Moderator** Thank you. Our next question is from Sumeet Rohra of Silver Stallion. Please go ahead.

**Sumeet Rohra** Many congratulations on sales in first half CY14 equaling to sales of CY13. Pirojsha, just I am not being over optimistic but I was just thinking we have got about 12 launches coming up from here till the end of FY15, so which basically means that it is possible that we can end up with about Rs. 6,000 crore of sales and about 5-6 million square feet if you extrapolate, is that correct?

**Pirojsha Godrej** Thank you for your optimism Sumeet. I think that number sounds a little high to me. Certainly I think the start to the year has gone very well as you rightly pointed out. We sold as much in the half year so far as we did whole of last year. I think each quarter at least if our approvals do come in along estimated timelines, we do have major launches slated for every quarter of this financial year including the current one and Q3 and Q4. So certainly hopefully we can have a strong continuation of the momentum we have seen in the first half of the year but I do not think we can quite get to the numbers you mentioned.

**Sumeet Rohra** Okay sir. If I can ask you on an optimistic note, then of course I just want to have your thought process when do you think we can do the 8-10 million square foot? Is that possible in two years?

**Pirojsha Godrej:** Sumeet, your 10 million square feet question is becoming 8 million square feet. Again, we have to get that pretty quick if the scale up we want to deliver is on plan. I think if we have another good year for business development as we hope we will have and as the economy starts to pick up, hopefully we are only a couple of years away from that kind of a number. But a lot will depend again on how approvals come in, how business development stays and of course how the overall sector performs.

**Moderator** Thank you. Our next question is from Sameer Baisiwala of Morgan Stanley. Please go ahead.

**Sameer Baisiwala** Pirojsha, I am on Slide #20 of your presentation. It is for the first time I think I have noticed that you have singled out the interest which is sitting in the cost of sales.

**Pirojsha Godrej** That is correct.

**Sameer Baisiwala** And it is quite a meaningful number, I think Rs. 38 crore so this is because of BKC?

**Pirojsha Godrej** It is largely because of Godrej BKC. Also Godrej Waterside has a large interest component in the cost of sales. So we just wanted to clarify what the impact of the interest in Godrej BKC is on the overall numbers given the large scale of that project and large share of overall revenues. So we thought it would be a useful exercise to provide both this number and the reported EBITDA.

**Rajendra Khetawat** And Sameer always there were questions in the past that we have been capitalizing. We have always been saying that as per the standards, as and when

the project gets recognized, it gets expensed out through cost of sales. So this will give a clear indication that interest is being expensed out through cost of sales.

- Sameer Baisiwala** And sir this is the first quarter when meaningful part is getting through the P&L.
- Rajendra Khetawat** No, it has been always. But because commercial projects are recognized in this quarter.
- Pirojsha Godrej** I think it is fair to say this quarter impact of this is more meaningful than it has been in the past. It has of course anytime even in Q4 for example when we had large sales in Waterside, certainly this would have been a very substantial part of that cost of sales. But you are perfectly correct in pointing out that this has increased all the more with BKC reaching revenue recognition.
- Sameer Baisiwala** And second question which is about your upcoming launch for Platinum as well as The Trees and both are by and large in the same micro market. So would one be hurting the other or?
- Pirojsha Godrej** I do not think so, I mean Godrej Platinum is only one tower, it is about 160,000-170,000 square feet. I do not look at that as a very challenging amount of inventory to monetize. So we will obviously have probably a slight gap between the two launches but I do not see them being much of a concern. I do not think launching both of them in the same year will be much of a concern.
- Sameer Baisiwala** And one final question. Pirojsha, when you are sitting on the table negotiating for the new projects. Is there a big difference between ask from the land owners versus what you have been used to last 2-3 years. Would your economics be preserved going forward, or would this come down.
- Pirojsha Godrej** I think our economics is very much preserved. Sameer, frankly I think our ability to strike deals is still looking quite strong. In some way in tough market conditions when many of our peers are not necessarily selling very well, I think the value that we bring to the table to the partner also becomes more clear. So I do not anticipate any change in the structure of our deals and we are seeing enough deals. We are quite happy to forego projects that are not in the most favorable structures and terms and stick to the ones that do meet our criteria. I do not see any major challenge in continuing to succeed in closing such projects.
- Moderator** Thank you. Our next question is from Puneet Gulati of HSBC. Please go ahead.
- Puneet Gulati** Sir, just following up. There seems to be no mention of what is happening in the Hyderabad project, if you can shed some light on that it will be great.
- Pirojsha Godrej** Essentially, we are status quo there. We are at very advanced stage and we think it is imminent, but it has not actually happened, the conversion of that project from IT SEZ, to basically de-notifying the SEZ, which will then allow us to move ahead with that project as a residential project. So we had intentionally removed that project from our launch guidance of this year given the fact that this approval has taken a bit of time. Our current best estimate is that the project roughly should be launched next financial year. I am not saying I think we are not looking at that project as necessarily a very key project or key driver for growth but this is a large project from a volume perspective and obviously we are keen to get it launched. But I would not say that to us seems one of the most important projects in the portfolio.

**Puneet Gulati** And in terms of the Nagpur project Phase-II?

**Pirojscha Godrej** So our hope is that we will launch that even this quarter, but certainly well within the financial year, depending again on the approval timeline.

**Moderator** Thank you. Our next question is from Manoj Dua. He is an individual investor. Please go ahead.

**Manoj Dua** As we read in the print media that our real estate is suffering from lot of unsold finished as well as launch inventory. How much is Godrej comfortable with this unsold launch inventory and could this pose a threat to the Company's plan to increase the ROE?

**Pirojscha Godrej** We are extremely happy with the levels of inventory we are maintaining. I would guess that if it is one of, if not the single lowest level given the scale of sales of any of our peers. Actually finished inventory as a Company, we literally have virtually zero and there might be 10,000-20,000 square feet, if that. So finished inventory is as I said is almost zero and if you look at it, I think the indications we are giving on how much we are launching and what percentage of that we are selling should give a pretty good idea of the amount of inventory we are carrying. So for example in Gurgaon, last quarter we basically sold all the inventory we launched and 70% of the total inventory in that phase within the launch quarter itself. Very similar numbers in Pune and our project here in Mumbai. So I certainly do not think inventory is something that is a concern for us.

**Manoj Dua** Okay, the projects are coming, delivery is fine and the inventory is also very low, then hope for the good future for Godrej Properties.

**Moderator** Thank you. We will take our next follow up question from Bharat Sheth of Quest Investment. Please go ahead.

**Bharat Sheth** Just one follow up question. When you spoke about this Hyderabad, so how is now pricing in Hyderabad post split of the state?

**Pirojscha Godrej:** I do not think there is any major movement in pricing there. We have two projects in Hyderabad, the larger one which is the one we were talking about is very much a mid-income kind of project. So pricing there will be in the Rs. 3,000-3,500 a square foot kind of range at least currently.

**Moderator** Thank you. Our next question is from Arpit Jain of Arihant Capital Market. Please go ahead.

**Arpit Jain:** I just wanted to understand about the project which is launched in Ahmedabad. Since the project is little in outer area, what is really our sales strategy to look at the same amount of bookings to go forward?

**Pirojscha Godrej** No, I think the project for a large township of this scale is actually exceptionally well located. I think the project has seen quite steady sales. The last quarter we sold over 100,000 square feet in the project. Clearly given the scale of the project, we would like to see even higher numbers. But I think the overall Ahmedabad market has not been very supportive of that in the short term. This project has been consistently over the last four years the highest selling project by some distance in Ahmedabad. We sold since the project was launched about 4.5 years ago almost 5 million square feet of space in the project. So we have on average

been running at a run rate of a million square feet a year. Although clearly the last couple of years have been under that run rate. We would like to obviously get the number back to about a million square feet a year. But frankly I think we will need a little bit more support from the real estate market in general for that to happen.

**Moderator**

Thank you. Ladies and gentlemen that was our last question. I now hand the floor back to the management for closing comments.

**Pirojsha Godrej**

I hope we have been able to answer all your questions. If you have any further questions or would like any additional information, we would of course be happy to be of assistance. We hope to have your valuable support on a continued basis. On behalf of the team, I once again thank you for taking the time to join us today.

**Moderator**

Thank you. Ladies and gentlemen on behalf of Godrej Properties Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.

- ENDS -

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