Godrej Properties Limited

Q1 FY2016 Earnings Conference Call Transcript
August 05, 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 Q1 FY2016 Earnings Conference Call. We have with us Mr. Pirojsha Godrej – Managing Director and CEO of the Company, Mr. K T Jithendran – Executive Director and Mr. Rajendra Khetawat – CFO of the Company.

We will begin this call with opening remarks from the management, following which we will have the forum open for a question and answer session. Before we begin this call, I would like to point out; that some statements made in today's call maybe 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. Pirojsha Godrej to make his opening remarks.

Pirojsha Godrej Good afternoon everyone. Thank you for joining us for Godrej Properties first quarter financial year 2016 conference call. I will begin by discussing the highlights of the quarter and we then look forward to taking your questions and suggestions.

I am happy to note that GPL has gotten the year off to a good start. In the first quarter, we registered both the Company's highest ever quarterly sales and the Company's highest ever project deliveries in a single quarter. For the second time in our history, we crossed Rs. 1,000 crore of sales in a quarter. The total value of sales in the first quarter stood at Rs. 1,251 crore which represents a 52% year-on-year increase and a 192% quarter-on-quarter increase. We also had our best ever quarter for project deliveries with 1.72 million sq. ft. of space delivered during the quarter across four cities.

The response to our new project launches in Mumbai and Gurgaon has been excellent despite challenging market conditions in both these cities. At Godrej Prime in Mumbai, we sold 342 apartments or over 450,000 square feet with a booking value of Rs. 657 crore in a single month. This was the highest ever booking value for any GPL project in a single quarter. We have now sold over 1 million sq. ft. of space with a booking value in excess of Rs. 1,550 crore in our two redevelopment projects at Chembur in little over a year. We also continued to build on our momentum in the NCR market as well. We were able to sell our entire launched inventory at Godrej Icon in Gurgaon. We sold half a million sq. ft. with a booking value of Rs. 345 crore. We also witnessed strong traction in our project Godrej Infinity in Pune and sold nearly 200,000 sq. ft. with a booking value of Rs. 112 crore.

While we sold only a small amount of commercial space during the first quarter, I am happy to note that a huge amount of progress has been made towards monetizing our commercial portfolio. At Godrej BKC, we are now within months of completing the development and, as expected, the demand levels for the project have substantially increased. We hope to have some very good news on this project over the next few quarters. We also saw progress in the rest of our commercial portfolio. At Godrej Genesis, we registered a small sale during the quarter and a substantial amount of construction progress that leaves us confident of completing the project within the current financial year. At Godrej Eternia in Chandigarh, we have completed the project and received the occupation certificate, which we believe will help expedite the monetization of this project. We expect to complete construction on all three commercial projects within the current financial year and expect a high level of commercial sales within the year.

From a business development perspective, we added 2 new projects in Bangalore with a saleable area of approximately 1.75 million square feet during the quarter. The first project is a profit sharing joint venture located in Doddaballapur, and has a development potential of approximately 0.75 million sq. ft. The second new project in Bangalore this quarter is also the 4th project under our APG-anchored residential investment platform. This project will yield a saleable area of over 1 million sq. ft. Our deal pipeline for new projects across the country's leading real estate market looks robust and we expect substantial positive news on this front in the months ahead.

In terms of financial performance, our total Income for Q1 FY16 decreased by 27% to Rs. 263 crore. The reason for this decline is that we did not have any new projects entering revenue recognition. We had 54% revenue growth last year and are very confident of sustaining strong revenue growth this financial year as well. Our EBITDA increased by 7% to Rs. 81 crore and net profit grew by 21% to Rs. 55 crore.

We have started the year on a positive note, with strong execution in a weak market environment. The year ahead looks extremely exciting. We have at least 5 more project launches planned for the year, 4 of all which we hope to execute in the second quarter. These include 2 projects in Mumbai and one project each in Chennai and Gurgaon. In the second half of the financial year, we plan to launch the residential portion of The Trees in Vikhroli, which will be a very important launch. With a good start in the first quarter, a robust launch pipeline, and strong visibility on commercial sales, we are very confident that the current financial year will be our best ever year from a sales perspective. We also believe the currently weak market conditions provide us with a great opportunity to substantially enhance our development portfolio across the country.

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 with the question and answer session. We have our first question from the line of Abhishek Anand from JM Financial. Please go ahead.

Abhishek Anand Firstly, Pirojsha on the margins, so if I am looking at the margin profile for this quarter, ex-off the Godrej Sky booking, margin still seemed a bit depressed almost 12-13% margins. Any guidance on that, going forward as you recognize new projects or phases of old projects?

Pirojsha Godrej Yes Abhishek, I think, of course margins will fluctuate a little bit quarter-to-quarter depending on the particular project mix. I think we have said multiple times that we feel the general trajectory of the medium term of the Company's margin profile should be a very positive one. As you know, over the last 3 or 4 years almost all our new project additions are in structures that are inherently high margin structures and also, they are quite risk adjusted, so even if things do not go exactly according to the plan, the margins in these structures are relatively well protected. So, as more of these kinds of projects contribute to revenue, certainly we expect the margin profile of the Company to improve. Already I think some of the better margin projects have entered revenue recognition but we have a long list of projects that have been launched that will be entering revenue recognition over the coming quarters and I think that list will continue to grow. I think what is very comforting to us is; that both the business development engine and then the sales engine are clicking very well, where we are continuously able to add new projects in favorable structures. We do have good margins and we are able to sell these projects at attractive rates and with high velocity. As long as those two things keep happening, there is no question in our minds that margins will continue to improve. Obviously, the quarter to quarter fluctuation will depend more on the particular margin profile or any cost adjustments, etc., in a given quarter.

Abhishek Anand By the end of FY16, what kind of a margin profile are you looking at? The kind of revenue mix if we can go into that? A ballpark number may be in terms of proportion from BKC by end of; if you are looking at it by end of FY-16, the kind of revenue booking as a percentage of complete revenue booking from BKC project. What could be a ball park number there?

Pirojsha Godrej Abhishek, I hesitate to give any kind of guidance on this sort of parameters because there are too many unknowns including the exact timing of launches, how those launches do, exactly what BKC sales itself would be. All I can say is that as the year currently looks, we are very confident of a very strong year on revenues, profits, bookings both in the residential and commercial portfolio. From a BKC perspective, certainly things look quite positive now as I mentioned in my opening remarks, the project is very close to construction completion. Based from the kind of conversations we have under way, we hope for some positive surprises on the sales side in that project as well. Certainly we also will be pushing hard for revenue from other projects, for bookings in new launches and for getting those projects to revenue recognition as soon as possible. So I certainly would not want to comment on the likely mix or the likely margin number. But, the trajectory on both the commercial and residential side, we think is very positive.

Abhishek Anand We have launched the Chennai project. Firstly, how was the response there? And secondly, if you could give us some color on the tier 2 launch which we have; Godrej Anandam. In Nagpur. If we are planning it in current year itself and how is the kind of response expected there?

Pirojsha Godrej We launched Godrej Azure in Chennai, so far the response has been very positive. But we are only a couple of weeks into the launch so I think we will be better placed to comment on the overall launch on the next call but certainly so far things look good. You mentioned Godrej Anandam, which is a phase launch we have been planning, we hope to do that in this quarter itself let alone within the year. But we are still waiting the final approval on that one. In addition to these couple of launches, just within the quarter we hope to have three more launches between

Gurgaon and Mumbai. So I think, this year seems to be off to the right kind of start from a launch and booking perspective.

Moderator We have next question from the line of Puneet Gulati from HSBC. Please go ahead.

Puneet Gulati Thank you so much. First of all congratulations for another superb quarter in terms of sales. Just wanted some more color on the sales; would it be possible for you to share the break up between what kind of people are buying your project, what would be the share of investors, what would be the share of end users or NRI's. Any color that you can give?

Pirojsha Godrej Yes, I think each project of course varies is a little bit but the general trend we are seeing is a little bit more towards the end user over the last few months given the weakness in the market in particular. In some markets investors are lying a little low. But we have also been doing a lot of work to expand our channels through which we can achieve these sales, so in the international market for example in FY15 our sales grew to 30%. I do not have the numbers for last quarter but certainly that is a big growth over three or four years ago. And that does not happen by accident. We have been putting a lot of efforts into growing some of these channels. We can certainly get you more specific data offline, if you would like.

Puneet Gulati Yes did I pick up right; that your sales from international channels were 30% of total sales?

Pirojsha Godrej Yes. Last financial year, 30% of residential sales.

Puneet Gulati And what about; in the first quarter particularly for these two projects; Prime and the other Gurgaon one?

Pirojsha Godrej It was in the range of 20-25%, I think for those two launches.

Puneet Gulati And secondly, some more color on the BKC project; you have mentioned that you have seen good traction. You think it is looking now possible that you can sell the entire inventory by end of this year or may be mid next year?

Pirojsha Godrej There is no point speculating on that; certainly I think there is a possibility but obviously will have to go out and see how much we can actually do. We have always said that the sales in this project are unlikely to just be like in the residential portfolio, happening in the piecemeal fashion. There can be large ticket transactions that can happen when they do happen. Certainly we have a high level of confidence based on the way things currently look but I prefer not to give any guidance till these sales actually happen.

Puneet Gulati And if the pricing would be in line with what it has been or do you think you can get better pricing?

Pirojsha Godrej Well I think the commercial market is slightly on the uptick, the project itself is nearing completion. We have always said by the way both of those things we thought could lead to better pricing as the project nears its completion. We would hope to do better on the pricing than the average price till date.

Puneet Gulati And how much have you spend so far on this project?

Pirojsha Godrej As of June, we have about Rs 1,900 crore of capital employed but we would have spent more than that because that would include some collection. We have spent so far about Rs 2,200-2300 crore of capital but Rs. 1,900 crore of that at the end of the quarter was still capital deployed. Certainly this project holds the key to our cash flows and balance sheet and we hope that we can show some quick progress here.

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

Saurabh Kumar After this Q1, what should be your FY16 full year pre-sales? Should it gross Rs. Rs. 3,500 crore odd, will that be a good number to assume?

Pirojsha Godrej We think it is very prudent in this Industry to stay away from giving any specific guidance because there are too many things that are unknown, but let us just say, if things click on multiple fronts as we hope they will this year, we could do quite a bit better than that, we think.

Saurabh Kumar So the Gurgaon project which you have, this Godrej 101 that should get launched this year itself?

Pirojsha Godrej Yes hopefully that will happen this quarter itself.

Saurabh Kumar And you have actually sold pretty well in Gurgaon, even with Icon and now you are launching this project in a market which is very weak, just wanted your thoughts around that because from what we understand, Gurgaon is like quite bad but you are being able to sell, so I was just wondering what is driving that?

Pirojsha Godrej Yes, I think that has been the case in NCR of the last couple of years. Frankly, our team there has done an outstanding job in driving that. There are a large number of things that have led to this success including very good work on the business development side, excellent execution on the sale side. We have always maintained that we do feel that our brand and the capabilities we have built on the sales front will allow us to continue to perform even if market conditions aren't the most supportive. These things also start getting a virtuous cycle, which we are starting to see in NCR where the fact that we are able to sell is attracting more business development, which in turn is continuing to grow our portfolio there. So the team there has done particularly outstanding work to deliver these results.

Saurabh Kumar On these projects, I have noticed, your price per square feet is not at a discount to what is there let us say, in nearby comparable projects, so that is a confidence in your ability to deliver or I mean just I am asking from the previous one, are there more end user or investors coming into these projects because the price discount is definitely not there in your projects?

Pirojsha Godrej Thank you for noting that. I do not think we want to achieve sales by just cutting prices, obviously our brand and project positioning should allow us to command at least market prices, if not a strong premium. And so I think, that has been the focus, yes certainly I think the customers' confidence in our ability to deliver is one of the key benefits we have. Our first project in NCR, we have completed the construction of that project as committed. Godrej Summit is our second one. We similarly expect to complete on time. That is an important part of, what is helping us but there has been a large amount of work we have been doing on many aspects so far of our business and I think really that helped us a lot.

Saurabh Kumar Just one last question on your EBITDA margins; if I let us say for EBITDA ex-operating income, it is about 13% today, this number used to be like say in fourth quarter'14 or even before that, like close to 40% odd, so I am just wondering; in new projects, so as the contribution of new projects starts coming in, will it be realistic to assume that these margins or the underwriting you are doing on new projects should allow for a margin, north of 30% at least?

Pirojsha Godrej Yes, I think certainly over a period of time as pre dominance of our revenues are booked from newer projects that certainly should be the case. But also I think it is a little unfair to strip out operating income that is the key part of our business model now and that is one of the key ways that EBITDA is planned to improve. So frankly taking out major part of our business model and then looking at is fine but not particularly useful from our perspective. But I think your broader question is certainly correct, if you look at our older basket of projects, certainly these have not performed up to our expectations on margins. We took fairly decisive action to remedy that situation 4 or 5 years ago, when we changed our business model, including to increase the operating income in the Company. And we do expect these to continue to pay dividend. In the short term, I think margins while are very important, it is more a function of which projects get monetized. And actually low margins for us could be a very good sign because it could mean some of the older commercial projects and things are getting monetized. But we remain totally confident that long term and medium term trajectory and margins will be a very positive one. Frankly it is fairly evident, if you understand the profit sharing model or the Development Management fee model that that will be the case.

Moderator We have next question form the line of Ritwik Sheth from Span Capital. Please go ahead.

Ritwik Sheth I had a couple of questions, firstly on the commercial, sir what was the last price we did the BKC deal at?

Pirojsha Godrej About Rs. 28,000.

Ritwik Sheth And how much are we quoting currently?

Pirojsha Godrej No, I think what we quote will depend on the size of the deal, location and all of those things.

Ritwik Sheth Okay, so it will be more or less in that region only, right?

Pirojsha Godrej I did not say that.

Ritwik Sheth Okay, sir what is the inventory we have at Kolkata and Chandigarh, commercial?

Pirojsha Godrej We have about 600,000 square feet between the two projects.

Ritwik Sheth Sir my second question is on the residential side, sir currently we have around 100 million square feet of developable area, sir out of that, what proportion would be the old projects like, the old projects which have a bit of cost escalation and because of that we will be into little bit of low margins, so if you can segregate, a ball park figure?

Pirojsha Godrej Over the last 3 or 4 years, we have added 30-40 million square feet, so certainly all of that in favorable kind of structures. Even some of the older projects are not necessarily low margins but there are some big chunks of this 110 million that have either not started yet like the Hyderabad and Pune projects or Ahmedabad which are not particularly strong on margins, so there is a fair amount of that. But what is important to understand is that inventory will also be monetized more slowly, so the percentage it contributes to our revenues in a few years will be quite insignificant we think.

Ritwik Sheth Sir my final question is on the Vikhroli land, the group company's land, like 5 years down the line what kind of revenue should we expect from the Development Management model? We have 2,000-3,000 acres, so what is the thought process behind it, how much should we expect like by 2020, 2025?

Pirojsha Godrej Again we have often said, we are not going to give specific guidance on how exactly this development will play out. Certainly our intent is to move forward as quick as we can with the development, we have already announced 5-6 million square feet worth of projects that are in the planning stage. Unfortunately the launches have been a little bit slower that we would have liked, given the various changes in the Mumbai approval scenario. We do hope to launch the residential portion of The Trees, which will be a very important launch this year and I think that hopefully will give us strong signal to the market of the volumes and pricing we can achieve here. The project will certainly be contributing a lot by the dates you mentioned but I would not like to put the specific number because again it depends on a variety of factors.

Ritwik Sheth Just coming back on The Trees, after the consolidation with Godrej Industries, we will be earning 100% in The Trees project, is that understanding right?

Pirojsha Godrej Assuming the consolidation happens, that is correct.

Ritwik Sheth If the consolidation goes through?

Pirojsha Godrej Yes.

Moderator We have next question from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.

Sameer Baisiwala Taking from the last person, what is all the timelines for consolidating the stake in Trees?

Pirojsha Godrej This financial year.

Sameer Baisiwala Is there any further update of getting more access to Vikhroli land from the parent company.

Pirojsha Godrej Frankly Sameer, obviously work is happening on that front but we already have both- all of The Trees, which is a substantial development in itself, we have the fourth tower of Godrej Platinum. And then we have 2 other projects that are each either a million square feet or a million and a half square feet that has already been tied up. So that is not an insignificant amount of space and will keep us busy for a little bit but certainly not to say that there is no work happening freeing up more opportunity.

Sameer Baisiwala So you said there are 4 projects; Trees, Platinum and then there are 2 more million and a half sort of a million square feet, I am not quite sure I have heard of these 2; the 3rd and 4th?

Pirojsha Godrej That was in 3Q you are probably forgetting but we have announced in previous quarters.

Rajendra Khetawat Q3 of last financial year.

Pirojsha Godrej Rajendra can give you all the details offline if you would like but certainly these are in the public domain.

Sameer Baisiwala But those are in Vikhroli, you are saying; 3rd and 4th?

Pirojsha Godrej Yes.

Sameer Baisiwala Fair enough. And on the commercial side, you seem to be hell lot more positive on the BKC, is there a bulk corporate deal that has been worked out, is that what is giving you confidence?

Pirojsha Godrej Sameer as we said we are seeing a lot of interest in the project. We have kind of maintained throughout that both from the commercial market perspective and the project completion perspective, once things get closer to that date, things are likely to look better. So far it seems we were right on the commercial market improving at the right time for us. And on the project obviously a commercial building will see the majority of its demands once an occupier or somebody interested in the space can actually use that space. So we are seeing that pan out. It is not any one deal that is giving me confidence but a series of conversations we have underway.

Sameer Baisiwala And one final question from my side; can you talk a bit more about the two new project acquisitions in Bangalore that you have done, just in terms of what is the cost of the land in terms of maybe rupees per square feet that you would be paying for both these land parcels and what is the capital commitment from Godrej properties?

Pirojsha Godrej So, for the first one is the smallish profit sharing deal of 750,000 square feet, we had a very small upfront amount something like Rs. 10 crore maybe put in the upfront refundable advance on that. And on the second one, it is an outright purchase through the APG platform, our portion of the commitment would be something like Rs. 35 crore.

Sameer Baisiwala And that Rs. 35 crore represents 25% of the land cost?

Pirojsha Godrej Yes.

Sameer Baisiwala And just curious on that one Kanakpura, your press release mentions 18 acres and 1 million square feet, I would have thought that with this, it should be a fair bit higher?

Pirojsha Godrej Yes, it is a valid point, we are actually currently planning it as a relatively low rise development which will give us a lot of advantages on cost and speed of execution. So there might be some additional FSI that we leave on the table but we think the returns through this could be better.

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

Abhinav Sinha Just following up on the Bangalore deal, has the payment for that gone in the current quarter's balance sheet that we are seeing?

Pirojsha Godrej No, it has happened in Q2.

Abhinav Sinha In Q2; both of them?

Rajendra Khetawat The first one has not happened, so that is the milestone linked payment and second one has happened.

Pirojsha Godrej So, neither of them happened in Q1, it has happened in Q2.

Abhinav Sinha Okay, so can you talk about the gearing in the context of this land deal, plus you are highlighting that there might be some more to come in the future, where do you see this headed towards the end of the year?

Pirojsha Godrej I am hopeful that our debt levels have peaked in Q1. Of course that will depend on multiple things. I do not think frankly these have at all been driven by the small investment that we are making in business development which are all at very attractive terms. We have said quite clearly that the method to quickly improve the balance sheet is going to be through monetization of the commercial portfolio. We have about Rs. 2,900 crore of a debt. The value of our commercial portfolio is very close to that number. So clearly that holds the key and as I said we hope to be able to demonstrate some progress on that this year.

Abhinav Sinha And second question is on the Vikhroli stake consolidation that we are looking at. What are the steps need to be taken for that deal, so do you need to for example, dilute before you do the deal or that has to be done after?

Pirojsha Godrej Yes, we have to do it before the official consolidation can happen.

Moderator We have next question from the line of Puneet Jain from Goldman Sachs. Please go ahead.

Puneet Jain I have got couple of questions, your first question is, did you mention the breakup of operating income?

Pirojsha Godrej No.

Puneet Jain So what will it be primarily from?

Pirojsha Godrej We have indicated that primarily the one big ticket one was from Godrej Sky, which is a development management fee project in Byculla. In this project the owners have decided to retain a fair amount of the area. This one-time fee was kind of the income we think we would have gotten from the kicker on that portion of area which has been retained. So, that is the kind of one-off. But our fee income now is from a very large number of projects – both development management fee projects as well as platform projects, so there is a large number of projects that contribute to it.

Puneet Jain So this is an accounting operating income or did you receive that much amount of money in this quarter?

Pirojsha Godrej We have not received all of that money but it is accounted income.

Rajendra Khetawat So bulk of it is received and bulk of that is to be received in coming quarter.

Puneet Jain And my second question is actually with respect to Godrej Prime in Chembur. The average price of it seems to be very similar to Godrej Central and as you indicated in the previous quarter that Godrej Central had very low margins, so do you think that the margins of Prime can be higher than Godrej Central?

Pirojsha Godrej I do not know when we said Godrej Central has very low margins, what we said was that the 1st Phase of Godrej Central was at a much lower price than this launch of Godrej Prime had relatively lower margin compared to subsequent phases of Godrej Central. We do think Godrej Prime will have slightly better margins than Godrej Central but certainly both have reasonably strong margins.

Puneet Jain But if you go back to the quarter where you launched Godrej Central and if you try and calculate average pricing, the pricing of Godrej Central in that quarter and Godrej Prime comes out to be very close, so will it mean that even Godrej Prime subsequently will have higher pricing and therefore the overall margin of the project will tend to move up?

Rajendra Khetawat So, Puneet what Pirojsha mentioned was that if the inventory is launched in a phased manner, the initial inventory which has got for the Central into revenue recognition was a 1st Phase of launch which we did. But on the overall project the margins are very good; the similar thing is with Godrej Prime.

Pirojsha Godrej Puneet, I will have to get the exact details, I do not know the numbers for Godrej Central but my understanding was that 1st Phase pricing was lower than it was currently for Godrej Prime.

Puneet Jain So, could there be reason that the cost of this phase could be lower than the cost of Godrej Central or the cost will broadly be similar?

Pirojsha Godrej I think it is a little bit more, but I think the margins with Prime are little bit higher in percentage but I do not have the exact data on hand.

Puneet Jain Okay and any reason why the debt level went up in this quarter?

Pirojsha Godrej Several things, one thing that is we hear a lot of commentary that we do not see as being very true is that the immediate quarter of launch does not really tend to generate hugely positive cash flows because quite of lot of outflows typically happened in the same quarter. So for example for approval and other expenses we had about Rs. 50 crore of expenditure on Godrej Prime during the quarter. We had a variety of other things, we have some expenditure in BKC and other projects. But overall we do expect to see better cash flows in the quarters ahead.

Puneet Jain Did you make any payments for rights in BKC, FSI rights or TDR rights or any payment with respect to Vikhroli to the parent company in this quarter?

Pirojsha Godrej Yes we make the Vikhroli payment every quarter, so we did make a Rs. 30 crore payment there as well.

Puneet Jain Okay and also one final question are you seeing consistent cost moved down slightly or it is still too early because if you look at key cost components, they seem to have seen some adjustment downwards?

Pirojsha Godrej Yes the steel cost benefit is clearly there. It is something that we certainly hope to continue to recognize. The benefit will directly accrue to us. So, it is as you said early days but I think signs are quite strong that the construction cost increases if any it should be quite moderate in the period ahead.

Puneet Jain Not such increases but could there be a small deflation also at some part of time. And the other two components are cement and labor, so can you throw some light on these two as well?

Pirojsha Godrej Cement varies quite a lot from region to region but broadly has been flattish. steel has been declining. Labor continues to increase but not at as rapid a clip as it was a few years ago.

Puneet Jain So, overall it will be; prudent to assume that the costs will be constant in the near future?

Pirojsha Godrej I also mentioned though that even without a decline in cost, all our projects and accounting, etc., all assume some escalation in costs already built in, so if that does not happen there will in fact be saving even if the costs just remains flat.

Puneet Jain The reason I was asking is that, all companies have seen cost rising faster than pricing resulting in hit in margins, so maybe at some point of time this cycle can reverse and while selling price remains constant, the cost can possibly start abating downwards?

Pirojsha Godrej Certainly that would be excellent, of course it remains to be seen how this plays out. As it currently looks, the commodity cycle internationally does seems to be heading towards lower level which will of course benefit us.

Moderator Next question is form the line of Manish Jain from SageOne Investment Advisors. Please go ahead.

Manish Jain Yes, I had two questions; one is on, given that we have deployed substantial portion of the APG platform, once you exhaust the resources, what is the plan for the next round of something similar platform?

Pirojsha Godrej Yes I think that it is still under evaluation, both sides of that partnership are quite happy with how things are going. So there might be an opportunity to do something additional there but nothing has been decided on that.

Manish Jain And second question is a more conceptual question for my understanding that; is the risk in a project lower and the return profile better if land cost as a percentage of final selling price is on the higher side?

Pirojsha Godrej Could you elaborate on your logic?

Manish Jain So, essentially I am saying that in joint development projects, if land is coming in from your partner and the relative cost of development is on the lower side compared to the total selling price to the final customer.

Pirojsha Godrej I think there is some logic in that. But obviously that would also be reflected in our share of profit. In a profit sharing agreement typically the higher the value of the land, the lower the share of profit we would be entitled to. In a development management fee model, it does not really make a difference because you are getting a percentage of the top line. But yes, I would say that there is a slightly lower risk profile; the larger the gap between the construction cost and the selling price, which will tend to happen in projects with land value is high.

Manish Jain And my last question will be on BKC; what is the total pending cash outflow that you need before you hand it out as a finished product to a customer?

Pirojsha Godrej It will depend on interest cost and things. So we have made portion of the premium payment already in July, so we only have one more a leg of the premium payment to go which is another Rs. 150 crore. Construction would be another couple of hundred or so crore. So most of the investments in the project is already done and frankly even the receivables on existing sales would cover this. And then we have about 700,000 square feet of inventory to sell. So you can do the math on that. Of course beyond that 700,000, we will receive the development cost minus profit from our joint venture partner.

Moderator Next question is form the line of Anand Krishnan from Infina Finance. Please go ahead.

Anand Krishnan Sir there was this newspaper article which actually said that Godrej Properties are looking to takeover some under construction projects in the NCR region, including Gurgaon where developers are unable to sell or give delivery to their customers or are short of funds. So, what sort of business model are you actually looking at towards such investments and why are you so bullish on the Gurgaon market?

Pirojsha Godrej No, I think there is a slight misunderstanding in the way that article was written, I think the position that we have; is that a project where the developers given the weakness in the market are no longer confident of their ability to effectively market those projects, there are lot of opportunities coming our way and we are interested in those opportunities. Certainly not that we would be interested in taking over any under construction properties, I cannot imagine that happening. What gives us confidence in the Gurgaon market is the results we are seeing there.

Anand Krishnan And what sort of investment would you be actually making in such sort of projects sir going forward?

Pirojsha Godrej Do not look at it any different than our current projects. A lot of our projects have even historically been with other developers and things. We are not planning to deviate from that business model at all. If you look at the kind of project divisions we have done in the last 3-4 years that will give you a good idea of the type of investments we would like to make. Generally the idea has been to invest as little as possible.

Moderator Next question is from the line of Manoj Dua from Geometric Securities. Please go ahead.

Manoj Dua As we know that Godrej has always followed a light asset model but this year consolidation of this Vikhroli project with the Godrej Industries ultimately leading to the investment in the land and that through the equity dilution, I know that the margins are in Vikhroli project are very good and it may lead to the increase in bottom line in for 2 or 3 years but for a long term investors like me for 10 years, equity dilution is a permanent in nature. Sir can you comment on that?

Pirojsha Godrej Yes I certainly think we appreciate that and we will certainly keep that in mind, as we do this. I would just like to highlight that the equity dilution is not of a very significant nature and the benefit we think is quite disproportionate to that for the Company. There are many benefits to doing this deal. You mentioned cash flows being; I did not quite catch whether the cash flows you were saying it is a negative, but actually it is a bit positive for our cash flows to do this because in any case, all the investments for the LLP were being done by Godrej Properties, this way we do not have to part with any cash in the form of minority interest which could be quite significant. And this project can lead to a big boost in our earnings performance over the next 2 years. So I think it is a sensible deal for both Godrej Industries and Godrej Properties, it is a little unfortunate that because of this 75% promoter holding mandate, we do have to dilute a little. But again, it is not we think a very significant amount.

Manoj Dua You said the last few years, our projects are on a high margin but the way, like in NCR, you have to sell it in a very lucrative payment plan, like 28% and then the rest after the completion or at the handing of the project. Would that lead to the low ROE or the low margins these payment plans?

Pirojsha Godrej No and I think our payment plan, you will have to study a little bit closer, they are not as you indicate it 20-60, they are structured quite differently. They are quite attractive for us. Look, please be assured that we are doing a lot of work on understanding the payment plans, the cost of those plans, if any. And these projects are all doing quite well. These recent NCR project, I do not think anyone could be unhappy with the kind of IRR as the equity multiples they are offering us.

Manoj Dua One question on this; Byculla payment, Rs. 29 crore you have received, this recognized as in this revenue quarter. Is this come through major to the bottom line as it is a DM model?

Rajendra Khetawat DM model, so it adds to the bottom line as well as the top line.

Manoj Dua And this Vikhroli project is expected in this quarter, launching of the Vikhroli project?

Pirojsha Godrej No.

Manoj Dua Okay, but definitely in this year. You have given some guidance on Vikhroli project in this year, know?

Pirojsha Godrej Certainly, that is the current expectation. We had hoped to launch it last year and were very confident then, but this new development plan came up. Currently, as it looks we do not see an issue in launching it but I would certainly not like to say, this something cannot still come up because until we have the final approvals, one can never be totally sure.

Moderator Next question is from the line of Bharat Seth from Quest Investments. Please go ahead.

Bharat Seth One bookkeeping question; Rajendra what is the tax rate that we expect for full year because in first quarter we have provided very low…

Rajendra Khetawat Bharat, it should be in the range of 30% depending on the tax shield.

Bharat Seth Is it because of substantial portion of losses that we have while merging another subsidiary?

Rajendra Khetawat Yes. the projects which we have merged, so there is a carry forward of the tax sales which as and when the project gets sold; we are able to utilize them.

Moderator Next question is from the line of Saurabh Kumar from JP Morgan. Please go ahead.

Saurabh Kumar Most of your peers actually now give a statement of cash flow, which is, essentially how much do you expect from your unsold inventory, from your pre sales, what is the cash to be collected and the construction to finish your projects? I was wondering if you can start including that into your presentation henceforth and if possible, give me the number for first quarter?

Pirojsha Godrej Thanks Saurabh, we will certainly take that into consideration. I would not like to share the first quarter number for now but we will certainly keep that feedback in mind.

Moderator We have last question from the line of Manish Jain from SageOne Investment Advisors. Please go ahead.

Manish Jain Just one question on Godrej Sky; the selling price is upwards of Rs. 33,000 to Rs. 35,000 a square feet whereas our DM fee is Rs. 1,650 per square feet, any reasons for agreeing for a low percentage of the final selling price?

Pirojsha Godrej No sorry, I have no idea where you came up with any of those numbers. The selling price will be much lower than that in that market currently. The DM fee is actually not something even we know yet because there is a fixed component to the DM fee which we will receive irrespective of pricing and there is a component of the DM fee that is linked to pricing. But we expect the DM fee, overall in the project including the kicker to be north of 10%.

Moderator I would now like to handover the conference back to the management for their closing comments. Over to you Sir.

Pirojsha Godrej I hope we have been able to answer all your questions. Thanks very much for taking the time to be with us today. All the best.

Moderator Thank you very much Sir. Ladies and Gentlemen, on behalf of the Godrej Properties Ltd. that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

- ENDS -
