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May 16, 2017

BSE Limited
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The National Stock Exchange of India Limited
Exchange Plaza,
Plot No. C/1, G Block,
Bandra Kurla Complex,
Bandra (East)
Mumbai – 400 051

Re: - BSE - Scrip Code: 533150, Scrip ID - GODREJPROP
NSE - GODREJPROP

Sub: - Transcript of the conference call with the Investors/ Analysts

Dear Sir/Madam,

Please find enclosed a transcript of the conference call with the Investors/ Analysts held on May 04, 2017.

This is for your information and records.

Thank you,

Yours truly,
For Godrej Properties Limited

Surender Varma
Company Secretary & Chief Legal Officer

Encl: a/a

Godrej | PROPERTIES

Godrej Properties Limited

Q4 & FY2017 Earnings Conference Call Transcript
May 04, 2017

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 Evening, everyone and thank you for joining us on Godrej Properties Q4 FY2017 Earnings Conference Call. We have with us Mr. Pirojsha Godrej – Executive Chairman; Mr. Mohit Malhotra -- Managing Director and CEO; and Mr. Rajendra Khetawat -- CFO of the company. We will initiate the call with opening remarks from the management, following which we will have the forum open for a Q&A Session.

Before we begin, 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 'Results Presentation' shared with you all. I would now like to invite Mr. Pirojsha Godrej to make his opening remarks.

Pirojsha Godrej: Good Afternoon, everyone. Thanks for joining us for Godrej Properties Q4 2017 conference call. I will begin by discussing the highlights of the quarter and we then look forward to taking your questions and suggestions.

Our total revenue for the fourth quarter increased by 21% to Rs.475 crore. Our adjusted EBITDA increased by 198% to Rs.130 crore and our net profit for the fourth quarter stood at Rs.63 crore compared to a loss of Rs.12 crore in the corresponding quarter of the previous financial year. For the full financial year, our total income stood at Rs.1,733 crore, a decrease of 24%; however, EBITDA increased by 42% to Rs.401 crore and net profit increased by 30% to Rs.207 crore. Construction at The Trees continued in full swing and we have attained revenue recognition of the second phase much ahead of the schedule which is the reason for the strong profit growth.

FY17 has been a strong year for business development. We added seven new projects with the saleable area of 18 million square feet. In the fourth quarter, we added three new projects with the saleable area of 3.75 million square feet. The first project is located in Bellary Road, Bangalore and has a development potential of 800,000 square feet. The second is the Development Management agreement of 1 million sq. ft. at Kandivali, Mumbai. We have further strengthened our Pune portfolio with the addition of Godrej 24 which has a development potential of 1.7 million square feet and it will be developed under the residential investment platform. In fact, we have already been able to launch this project and it has met with a great response. Sustained and strategic business development is essential to ensuring strong and consistent growth for the company and we are focused on ensuring we capitalize on the current weakness in the market to expand our portfolio.

From a sales perspective, despite a weak year on the whole due to regulatory approval delays resulting in a low number of new residential project launches coupled with weak commercial project sales, we were extremely encouraged by the response we received to the projects we were able to launch. One project in particular that stood out in FY 2017 was our first project in Noida, where we added the project to our portfolio and launched it in this financial year. We were able to sell more than 1 million square feet of Godrej Golf Links in Greater Noida with the booking value of Rs.563 crore. The project continues to do well, and sales at Godrej Golf Links in April have been robust. It is important to note that this performance was achieved against the backdrop of a very weak Noida market and this was our first project in this market. We also managed to sell more than 420,000 square feet at Godrej Greens in Pune which was launched immediately after the government's demonetization announcement. We have now sold nearly a million square feet in Pune in the last six months and we are confident that the relatively low level of sales in FY17 would be strongly reversed in the current financial year. We are happy to note that the year is off to a strong beginning with over 1,000 apartments sold across our three launches since March. Godrej Origins at The Trees in Mumbai witnessed sales of 130 apartments worth Rs. 400 crore within the first week of its launch. The Suites at Godrej Golf Links in Greater Noida received tremendous response with 500 apartments being sold within the first month of its launch. At Godrej 24, in Pune, we sold 450 apartments with the total area of half a million square feet and booking value of nearly Rs.300 crore. Given our exciting launch pipeline across the country, we hope to build on this sales momentum in the coming quarter.

In another new development, we are pleased to have entered a partnership with Taj to create a luxury hotel at our flagship project, The Trees in Vikhroli. Our endeavor is to make The Trees India's most exciting and exclusive neighborhood and we believe that a luxury Taj Hotel is a positive step in that direction.

On the operations front, we successfully delivered 1,156 apartments across three cities in the fourth quarter. For the full year, we have delivered 4.55 million square feet across four cities. We have now delivered over 15 million square feet of real estate in the last four years which we believe demonstrates that our operational delivery is keeping pace with our sales acceleration over the past few years.

As you know, the sector is going through a significant transition at the moment. The process of consolidation that is already underway will now gather pace with both demonetization and more importantly Real Estate Regulatory Act. While these reforms may create some short-term uncertainty and delays, it will eventually help improve governance standards in the sector, thereby improving consumer confidence and real estate demand. The government has put in place many policy reforms to encourage real estate developments especially in the affordable housing space and we believe this reform will lead to sustained improvements in the sector. We expect 2017 to be a transition year, but the years ahead are likely to be very exciting ones for the sector. We believe our brand with national presence demonstrated track record and capability put us in strong position to disproportionately benefit from any improvements in the environment and will allow us to remain in a high growth trajectory in the years ahead.

On that note, I conclude my remarks and would like to thank you all for joining us on this conference call. We now would 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. First question is from the line of Puneet Gulati from HSBC. Please go ahead.

Puneet Gulati: Just wanted to understand a couple of things; #1, on the land payment side, what do these payments relate to?

Pirojsha Godrej: I think there are a few different things; one of the key things was we are still making the final quarterly payments for The Trees, that actually ends in a couple more quarters and we also have significant FSI expenditure for The Trees again, so I think that combine just from that project was Rs.154 crore and Hinjawadi project which was Rs.61 crore. I just wanted to point out unlike all our other platform investments the profit sharing ratio at Hinjawadi project is 50-50. It is a one off. GPL's share of investments is slightly higher, but obviously the return will also be linked to that.

Puneet Gulati: So this is one-off, this will not be a norm for the residential platform?

Pirojsha Godrej: No, not for this one. For any future platform, we are likely to increase our economic interest but that will obviously be decided at that time. For the rest of this platform, it will be as per previous terms.

Puneet Gulati: Also, if you can give more color on your commercial sales, we did not see any sales at BKC, Chandigarh and Kolkata. What kind of demand are you seeing there?

Pirojsha Godrej: Yes, it is very disappointing to go a whole quarter without any action on the commercial side. Frankly, not fully reflective of the level of demand and the level of interest expressed by the number of discussions and negotiations currently underway. So hopefully we can show a turnaround in this. Clearly one of the big misses of FY17 is that unlike what we had committed, we weren't able to fully monetize Godrej BKC, so certainly that has our full focus for the first few quarters of this year. Again, in BKC, I think the demand environment is not too bad, a lot of conversations are going on. We hope to convert this into closures in the coming months. Also, hoping for slightly better traction in the other two projects as those remain in a more challenging demand environment overall.

Puneet Gulati: If you can also give some color on the Taj partnership, would you invest in this and who would bear the cost of construction?

Pirojsha Godrej: Yes, understanding with Taj is that they will be the operator for the project. They will not be investing in it. We are still in a relatively preliminary stage, we are just now going to be starting design, and I do not think we are going to break ground on this project certainly this financial year. I think exactly whether we choose to bring some sort of investments into the project, is not something that is fully decided upon yet, but the arrangement with Taj is that they will be the operator, so we will fund the hotel, whether we choose to bring any kind of a financial partner onboard is not yet decided.

Puneet Gulati: On the RERA, what kind of action are you seeing in terms of getting projects registered. Has the process really started in Mumbai or is it still on paper?

Pirojsha Godrej: I think it has started, we have seen some developments already. I think we are fully ready and we would be starting that process in the next few days. So again, I think in

Mumbai specifically and for Maharashtra the regulations are in place, so website is up and actual implementation is starting. That is not the case in most of the other states where we are active in, but hopefully all those states will catch up in the coming weeks.

Moderator: Next question is from the line of Abhishek Anand from JM Financial. Please go ahead.

Abhishek Anand: My first question will be on the margins sequentially, I was just looking at our margins which have declined despite the share of The Trees being almost equal. So is there any particular reason or any one-off in the margins?

Pirojsha Godrej: Yes, Abhishek, there was a one-off, we have a project in Bangalore where the assumed height of the project was changed. It is a completed project Godrej Platinum in Hebbal. So the cost of the project was loaded on a lower amount of area. So that was about Rs.20 crore. I think there were smaller cost escalations of about Rs.10 crore across another projects.

Abhishek Anand: So do we expect the margin profile to revert from the first quarter onwards?

Pirojsha Godrej: I think it will depend a lot on the project mix. The Trees has a higher margin, commercial portfolios, some of the older residential projects are lower margins. I think depending on that mix in any given quarter and assuming we can avoid any of these one-offs on the cost side, will really determine margin.

Abhishek Anand: Just carrying forward on The Trees, so now that we have launched Phase-3, just wanted to understand have we done any construction on Phase-3 already or we are going to start from scratch. Is the construction linked to Phase-1 and Phase-2 in anyway, so just trying to understand the revenue recognition for the Phase-3?

Pirojsha Godrej: No, this is a separate project, so it is not linked to Phase-1 and 2. From a regulatory approval process, there are some linkages but from our construction, delivery, it is a new project.

Abhishek Anand: Secondly, we have seen the debt rising, of course, on the back of the land payments we have been doing. Do you see this trend reversing because even if we remove Rs.1,500 crore of commercial, we are still at almost Rs.2,000 crore of debt which is linked to the residential portion of business. So firstly, how comfortable we are with this Rs.2,000 crore of net debt. Do we have any projections or do we have any plans to cut it down. Is there a certain level that we should be looking at?

Pirojsha Godrej: We are certainly not comfortable with the pace of commercial monetization, I will say that is something we are all quite disappointed about and will look to reverse. Once that Rs.1,500 crore comes in, we would not be kind of overly concerned about Rs.2,000 crore net debt as long as we are continuing to see business development opportunities and adding new projects. Obviously, on the existing portfolio, we want to continue to generate strong positive operating cash flows, which certainly remains the focus. We are very keen to very quickly monetize the commercial portfolio, we are certainly looking at strong operating cash flows from existing residential projects, but at the same time we are very keen to put capital to work in new residential projects. I do not think our net debt is of a concern to us from a business development perspective where we are seeing the right opportunities, where we are confident we can generate strong returns above investments, we will be very focused on adding new projects. But certainly on the existing portfolio, I think we need to do better on cash generation.

Abhishek Anand: Does the launch schedule given by you factor in RERA because I think registration is expected to be delayed especially in states like Karnataka where I do not think they have notified the regulations yet. Just a follow up on that will be, we are seeing Joka in the launch pipeline. So is it a one-off kind of a thing or the focus will be on Kolkata as well because I think we have stated intention of Bengaluru, Pune, Mumbai and NCR as the focus markets?

Pirojsha Godrej: The launch schedule factors in that RERA is in place, but obviously assuming that the state government won't inordinately delay things. If there is no regulator in place, for most of the financial year then obviously things should get impacted, but we feel it is a reasonably conservative launch calendar. We hope to meet this and hopefully we will be able to add one or two projects to it. On your question on Kolkata, I think what we have said is that we are totally focused on growing in the top four markets as you rightly pointed out and 90% of our new projects are likely to come in those four markets. But we have also said that we continue to opportunistically pursue deals in cities like Kolkata and Ahmedabad, which are lucrative and do not require much capital to be invested. Joka is one such project, we added it a couple of years back. So certainly we would like to go ahead with launching that. I do not think there is any deviation from focus on the top-four but we are not immediately closing shop in the other cities, we are just saying that disproportionate focus and disproportionate results from a business development and launch perspective will be in these cities. If you look across all of our launch tracker for the next financial year, out of six new project launches, only one is outside of those four cities and out of 10 new phase launches, again only one is out of those focused cities. So I think that is very much in line with our stated position of really focusing very disproportionately in these markets, but again we will opportunistically have projects in other cities as well.

Moderator: Thank you. Next question is from the line of Kunal Lakhan from Axis Capital. Please go ahead.

Kunal Lakhan: Can I get the capex, we plan to incur over the next two to three years particularly in The Trees project and if you can break it down for me in terms of capex towards commercial, retail and the hotel portion?

Pirojsha Godrej: No, I do not think we would like to do that at the moment partially because the exact strategy for each of these is not totally frozen. I think the capex in the current financial year is quite low for The Trees and certainly the operating cash generated by the residential should more than cover that. Retail is frankly quite small, so there will not be much capex in any case. But the hospitality and commercial, I think the exact methods through which we would finance them itself is something we are working through.

Abhishek Anand: Secondly, on the collections front, we did see some sharp jump in collection run rate this quarter. So Rs.700 crore of collection going forward, is this sustainable or this is like an anomaly this quarter?

Pirojsha Godrej: Again it does depend from project-to-project and for the quarter what exactly is happening. But we are certainly looking to scale the collection number on a broad basis, and I think one of the key focus for this year's plan is to improve it. Certainly, we will hope to do that. But I hesitate to talk too much about this quarterly numbers because I do not think the quarter is a great period for a sector like this as the things can change quite a bit given what deal is happening, in what quarter and so on. But I think from a broad trajectory perspective, certainly, we would like the collections continuing to increase.

Abhishek Anand: So we operate on multiple cities and multiple states and each state has its own complications regarding RERA and plus we have seen some regulatory delays already in FY17 which affected our new launches. What is the outlook that we have in terms of new launches and pre-sales particularly for FY18 over this year?

Pirojsha Godrej: We have put a launch tracker in our presentation which gives you an idea about our launches in the current financial year and as you rightly pointed out, last year we fell in quite short of expectations in terms of actual launches happening. I think the positive news as I said in my opening remarks is that the launches we have been able to do, I think we have done exceptionally well especially in a new market like Noida. The good part about FY18 so far unlike start to last year is the things have started off on a positive note. So within a month, we have had three major launches that have all done very well. So I think at least so far it is off to the right start. I think as you rightly said we need to see what happens with the RERA, we need to see what happens with the development plan here in Mumbai, various other issues in each city. But we feel pretty confident about the projects that sit in the presentation and hopefully there are others that we will be able to bring into the year. I think the launch track record on the residential side is very encouraging. The team is extremely focused on the areas we need to do better on this year and the one such thing is improving sustenance sales which I think is an industry wide challenge but we are taking several steps that will yield positive results. We had a subdued year from a commercial sales perspective. So I think we will need to address that. But I think we are feeling very good about the start of the year, feeling pretty good about prospects for the rest of the year.

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

Manish Gandhi: Pirojsha, I have one question regarding Vikhroli. So when are we planning to launch two JVs which comprise of 8 lakh square feet and 12 lakh square feet? We have already launched Phase-3 of The Trees and there is a small building coming up at the Platinum. I was hoping that we would try to launch in this year, so any color on that you can give?

Pirojsha Godrej: We are working very hard on Vikhroli and it is also taking up lot of my personal time. I think we kept it out of the guidance which is probably the right thing to do. As you know, in Mumbai, there is quite lot of flux with new development plan and when that will come in, the new DCR. These issues will affect these projects. So I doubt that we can launch those within the current financial year, but we have started the year off on a good note in Vikhroli with the launch Godrej Origins. We will of course have the fourth tower of Godrej Platinum which is also being considerably delayed and we do have reasonable amount of inventory to sell from these combined. But for the next financial year, I think hopefully we can have much more exciting Vikhroli plans if we are able to get these right.

Manish Gandhi: Of course, we have done great in The Trees and shown our capability. I am just talking about when the next level comes, we have two or three launches simultaneously having because it is a huge area, and it is like a suburb itself, right?

Pirojsha Godrej: Yes, you are absolutely right, Manish, I think that is the way we need to think about it because we are going to have multiple projects running simultaneously differentiated by types of projects, sizes of units and other things. I think that is very much in line with our thinking about it. Obviously, we will have to now convert that into something we can demonstrate.

Manish Gandhi: One more question on Godrej 2. As per my knowledge, I think we have all the permissions and we can construction. So can you just give some color on it? Of course you have been saying that we are trying different things. There is a huge value sitting there, so how do we plan to monetize it?

Pirojsha Godrej: I agree with you entirely that there is a very strong amount of value sitting there. I think Godrej One lease rentals have been considerably more than what we had expected and I think commercial valuations we are getting in Vikhroli are quite interesting. This is a significant project and obviously one which we own entirely. So I think we will be hopefully breaking ground on the project shortly. I think the exact financial structure is something that we are still not able to provide full color on, but hopefully over the next few months we will be able to do that.

Manish Gandhi: Lastly, have we started construction in Panvel or we are still waiting for permission?

Pirojsha Godrej: After some unfortunate delays, we finally did start construction in the last month. So that project is now on track.

Moderator: Thank you. Next question is from the line of Nitin Agarwal from IDFC Securities. Please go ahead.

Nitin Agarwal: Pirojsha, on the commercial business, as you mentioned in terms of increasing valuation that we have seen for the commercial assets, internally is there a rethink on our decision to stay away from commercial assets going forward?

Pirojsha Godrej: No, not really, I think there are two parts to that. There could be some interesting opportunities and in Vikhroli, the most immediate one is obviously Godrej Two which is a significant 1.1 million square feet development. In Vikhroli over the longer term, we do see a big commercial opportunity, but for most business developments that we are doing commercial is not an important part. I think if we see opportunities in structures where we do not have to invest capital, then would we look at it.

Nitin Agarwal: On your cash flows for the year, we had almost of Rs.800 crore negative cash flow for the year; I guess part of it would be on account of your commercial business. But is it possible to get some sense on what would be the negative cash flow that you would have generated in the commercial business in the year?

Rajendra Khetawat: I do not have the number. I can come back to you on that number.

Nitin Agarwal: From our business development perspective, are there outer limits or any range that you have for the amount of money that you would be investing for business development for newer projects on annual basis?

Pirojsha Godrej: Not really, I think it really depends on the opportunity and how well we are able to generate other cash flow. I think certainly the good opportunity for some development work will be within our current model of not putting too much capital as a percentage of the land value. But I think one of the key strategic priorities is actually to add new projects to the portfolio.

Nitin Agarwal: On the last point that you mentioned, we already have almost 60 odd projects under our belt under construction or soon to be launched. How do you look at that number in terms of adding projects that are significant opportunity that will keep coming through given the way consolidation is happening in the industry? But from organization perspective, is there any sort of limit or number that you have like million square feet construction or the projects under construction level that you would like to consolidate the business for some time?

Mohit Malhotra: So we do not see this as a constraint at all, in fact, five years back when we were organizing ourselves, we clearly stated that we want to build capability at a regional level. So in all the top four metros, we have built extremely strong teams. When we look at it from a regional perspective, each region is handling between 5 to 7 projects. So I think there is a very large potential for us to scale up in each of these regions. We have built very strong capabilities in our operations team and lot of our projects are based on the outsourced model. Through a combination of very strong internal team managing the PMC part and running the company from a regional structure perspective, I do not think that scale is a cause of concern at all for us.

Nitin Agarwal: In your experience, we have had a fair number of projects being signed over the last two to three years. In what proportion of projects the returns have played out in line with expectations or there have been disappointments compared to our experience in the previous years?

Pirojsha Godrej: Nitin, if I just look at the history, lot of our deals which we have signed over the last five years have been in the profit sharing structure. The market has declined significantly in the last five years and because of the profit sharing structure, we still are over internal threshold which we want to achieve in our projects. So, all of these projects are actually well above our internal threshold which is also giving us confidence to invest more capital today.

Moderator: Thank you. We move to the next question from the line of Ritwik Sheth from Span Capital. Please go ahead.

Ritwik Sheth: Sir, just a couple of questions; firstly, on Slide #44 and 45, the projects that you have listed they have all crossed the 25% threshold, right?

Pirojsha Godrej: All these projects are under execution.

Ritwik Sheth: If you can just give us approximate area and the projects which are below 25% threshold?

Pirojsha Godrej: We can provide that offline as there are quite a few.

Ritwik Sheth: Sir, relating to The Trees project, in the last quarter you mentioned that we have 1 million square feet of additional FSI possible depending in the new DP and other such FSI related issues. So is there any clarity on that?

Pirojsha Godrej: No further development on it, as you know DP implementation is delayed. So I think we will have to wait for that to happen and then we should have some clarity, but that assumption was basis the draft DP that was in public domain.

Ritwik Sheth: Sir, on the commercial front, we do not need to spend any additional incremental significant capex or FSI related to BKC, Chandigarh and Kolkata?

Pirojsha Godrej: Correct.

Ritwik Sheth: So whatever cash flow like around Rs.1,600-1,700 whenever it comes, it will go directly to reducing the debt?

Pirojsha Godrej: Rs.1,500 crore.

Ritwik Sheth: We have around 125 million square feet under development and this year we have delivered around 4.5 million square feet. So what should we take the steady state of delivery because if we just calculate 5 per million square feet and 10% escalation, we will be doing this 125 million square feet for the next 10-12-years, so if you can throw some light on that?

Mohit Malhotra: Again as I said we do not look at it from a central perspective. If you look at our strategy, we want to be amongst the top three players in each of the large markets and if you look at some of the larger players in these markets, there is a huge potential to achieve very large volumes even in these cities. To give an example, we entered the Noida market and we could do 1 million square feet of sale in a new market. The potential of NCR market itself is 3-4-million square feet. This gives a perspective on what we have done at overall levels. I think there is a huge potential and we are looking at this business from a very regional lens. Every region is different and whatever is the right strategy for that region. I think with that strategy we feel that this number could be quite big actually.

Ritwik Sheth: For coming least three years, this mismatch of getting in new projects will significantly outweigh delivering of the projects?

Mohit Malhotra: Again, as I said, there is a huge potential, we will look at opportunities whenever they arise in the right structures, so business development obviously is the big focus. But again, the deliveries are also at a very strong pace. So if you look at our deliveries over the last two years, we have delivered a very large number and I do not think execution is the challenge today for us because of the capabilities we are building internally.

Ritwik Sheth: We have added around 18 million square feet in FY17 and we have delivered 5 million square feet. I was just guessing what kind of potential delivery we can do over the next three years or maybe five years as well?

Pirojsha Godrej: Actually, deliveries are a pretty easy thing to forecast. You have to first look at the business development, it is a pretty clear chain, first, you need to get project portfolio, and then you need to sell it. Whatever we are selling presumably we will deliver within 3 or 4 years. So I think while there can be slight minor fluctuation but clearly we have to deliver everything we are selling. I think that the key determinant of what we are able to sell is business development. Today the markets launches are a key value creation trigger in the public markets. We would say that business development is truly that trigger because that is when I think unless something goes very badly against plans and is really securing those future sales and delivery.

Moderator: We take the next question from the line of Saral Bhansali from Enam Holdings Pvt. Ltd. Please go ahead.

Saral Bhansali: My first question was to just understand that over the years what specific improvements we have made? Of course, our execution has improved, but what were some of the specific improvements we have made to improve execution? Whether it is on cost management or project selection?

Mohit Malhotra: So, there are a lot of initiatives we are running internally. Just to give you a highlight specifically since you asked about cost management, we internally ran a large project called "Cost Leadership" in FY17. The product has to be designed locally. We looked at each of the market and we just took an ambitious target that we want to reduce the cost of consumption by 10% in each geography. I am very happy to say that there was a lot of cross-learning which happened because of that and we created prototypes of products in each of these geographies where we had the ability to look at the potential reduction of cost. But then we actually implemented that one project in Pune where we actually saw the cost of consumption going down by 10%. So there are a lot of initiatives which we keep running. This year we are having a massive program on enhancing our sales capability even to the next level. While we all feel very happy about our sales capability, I think we internally want to take it to the next level. So there are lot of these initiatives which we are running at various functional levels within the organization.

Saral Bhansali: You did speak about how you have solid teams in place in each of the micro markets. So I believe there would be business head with P&L responsibility in each of these areas. Is that correct?

Mohit Malhotra: Correct.

Saral Bhansali: Are these people who are taking decisions on project selection or how is this structured?

Mohit Malhotra: We are structured on a regional basis. So we have the six regions where the teams are operating right now. So these regions are the basis where the bulk of execution is happening and hence lot of execution related business happens at the regional level. The decisions related to brand, capital and people are taken centrally and business development is a very important element and completely driven through the center.

Saral Bhansali: What is the employee count as in March 2017?

Pirojsha Godrej: Just crossed the 1,000.

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

Abhinav Sinha: A couple of questions: Sir, firstly, when we have seen sales traction in April versus what still appears to be a weak fourth quarter, so you will call this more of a pent up demand or do you think the recovery is here to stay?

Pirojsha Godrej: These are very linked to launches. I think if you look at it for us and for the other leading developers, I think sales are very heavily linked to launches. I think while Q4 FY17 numbers, you are right were weak in an absolute sense, considering we did not have any new launches, we actually would not be too disappointed. The disappointing part was commercial sales and no new launches. I think the year is off to the right beginning, the priority is to make sure we have launch four projects and do much more work on sustenance sales to drive better numbers there and monetize the commercial portfolio. All these should lead to hopefully a very strong sales here again this year.

Abhinav Sinha: Just on demand in your opening comments you were mentioning that the government support on affordable housing, etc., is also a positive. Do you mean it for yourself or it is on the broader industry context?

Pirojsha Godrej: I think it is certainly a need of the hour for the economy in the country, I think the sector is underestimated from a job creation perspective and economic growth perspective. This is an important step and obviously affordable housing itself is badly needed. We believe the government step to broaden the categories of the number of things that would fit within affordable housing is a sensible step by making it five years instead of three years of these projects completion, making it carpet area instead of built up area for maximum sizes. These are all positive steps. We do believe we will also have projects that will take advantage of the tax incentives and other incentives. Exactly which project, which geography is something we are still working out. But certainly we would expect the projects that benefit from this as well.

Abhinav Sinha: To say a project like The Suites or even in Vikhroli where there is a decent chunk of 1, 2 BHK, can they fall under this lower tax bracket?

Rajendra Khetawat: Abhinav, we need to study this because the rules are not clear whether in an existing phase we can just call one building as an affordable. So that is something which is getting clarified, whether we need the corporate approval for this affordable housing. Once that clarity comes, we can plan the phases. Definitely there is a lot of scope in this mid-market segment specifically in the Tier-2 cities. So there is a good amount of affordable housing one can do. So once this clarity comes, we can accordingly plan these projects if they can fall into those categories.

Mohit Malhotra: I think there are different size categories for metros and non-metros. The metros which obviously Vikhroli will fall under the size is actually quite small, nothing that we are currently doing will fit within this 300 square foot carpet, but certainly we could plan future projects that too fit within it. In some of the other cities with the 600 square feet carpet area we are really talking about 900, 1,000 square feet saleable area, many of our existing two bedrooms apartments would fit that criteria, something like Godrej Greens in Pune, most of the apartments would fit those criteria. So certainly we expect there would be opportunities but which exact project is something we are looking at.

Moderator: Thank you. The next question is from the line of Manish Jain from SageOne Investment Advisors. Please go ahead.

Manish Jain: My first question was on (BD) Business Development for the current fiscal year. Do you believe that you have a room to improve on your stellar performance in FY17?

Pirojsha Godrej: Yes, definitely. Given market conditions. I would say, overall we are a little bit disappointed with the number of projects we added last year, I think it was reasonably good in an absolute sense.

Mohit Malhotra: There is a huge opportunity in the market especially the way we are selling in the market and there are a lot of people, a lot of developers specially with RERA coming in, approaching us to take over their projects, their lands, etc. I think there is immense opportunity in the market and I feel that we should leverage it better internally. So I think one of the big agenda which I would like to drive is to make sure that we take full benefit of the opportunity in the market.

Manish Jain: Any clarity on the Gurgaon issue which restricts your BD initiative right now?

Mohit Malhotra: The good news which has happened is that the government has opened the change of developer policy which was under stoppage for a year and a half. So that channel has opened. This is a positive development. So we are already in the process of getting those clearances. So I think that issue is resolved now.

Manish Jain: My next question was on project launches. Okhla, Bhandup, Bavdhan and Devanahalli, are missing in your project plan for FY18 whereas they were present last year. Can you guide?

Mohit Malhotra: Just to answer specific questions, at Devanahalli, we are trying to structure an agreement. There is one condition precedent which is required for us to move ahead in this project. There is an issue between the JV partner and his brother. So we are trying to resolve it between them. But from a design perspective, we have already initiated work; the master planning is already on. The reason it is not in the guidance is because the issue between brothers needs to get resolved.

Pirojsha Godrej: I think all these projects we are still hoping to launch and there is also little bit of case of once bitten twice shy in some of these delays, pushing it out of this year. They are all still very much projects that can be launched and hopefully should be launched whether in this financial year or in a subsequent one. But from guidance perspective, we try to only include projects where we are pretty confident about.

Moderator: Thank you. The next question is from the line of Adhidev Chattopadhyay from Emkay Global. Please go ahead.

A Chattopadhyay: First is wanted to clarify, are there any other PE funds or stake buyouts which are pending for the next couple of years?

Pirojsha Godrej: No.

A Chattopadhyay: Even on the co-investment platform, there is no committed exit on any of the projects?

Pirojsha Godrej: Obviously, there will be exit through the project development, but no committed exit through anything other than operations.

A Chattopadhyay: Just wanted a clarification on, The Origins project we launched in Vikhroli, so is it part of The Trees Phase-2, is it just a single building or it has some set of apartments we have carved out, out of Phase-2?

Pirojsha Godrej: The Trees, we have always said three residential phases, so this is the third one.

A Chattopadhyay: This is part of along with the same land parcel where the Phase-2 of The Trees. Just wanted to clarify that?

Pirojsha Godrej: I thought I just answered, it is not the same plan. It is obviously within the Trees. It is not such a huge land parcel, but there is no connection between Phase-3 and Phase-2, in fact. Phase-3 is located closer to Phase-1, it is the third of the phases in the Trees.

A Chattopadhyay: Just a broader question; across all the launches you have had in April in terms of the pricing which you have been able to achieve, have you seen an increase in the prices you have been able to get or has it been equal to or lower than what you were selling earlier in the same locations?

Mohit Malhotra: The price is higher than the comparable price in the market in Greater Noida. It is difficult to compare two products because one is apartment and other is the villa, so it may not be the right comparison, but if you look at the comparable price next to our price, there is a very large difference.

Pirojsha Godrej: It is higher at the The Trees. The second phase is higher than the first phase, the third phase is higher than the second phase, and in Hinjawadi it is the first phase.

A Chattopadhyay: What is our budgeted construction spend for the year in FY18?

Pirojsha Godrej: We do not give any guidance on that.

Moderator: Thank you. The next question is from the line of Samar Sarda from Kotak Securities. Please go ahead.

Samar Sarda: I have a couple of questions; first one was on RERA and assuming that 70/30 rule of collections going in construction and cash out for installment sales in every market, although we might see cash bank going up because we cannot draw out money, how will this impact our business development for FY18?

Mohit Malhotra: Actually, Samar, it would not impact business development very much because even in our current structures, do not allow that much cash outs to JV partners and to us. The large part of the capital is used for funding the project itself. So I personally do not think that is a very major issue because 30% is a very large amount of money which is pool available. Unless you have a project in a very marquee location with (+50%) gross margin, then yes, some capital gets blocked, but otherwise it sufficiently covers the mid-income market.

Samar Sarda: Just a small book-keeping thing; gross debt at the end of March 2017 will be round about Rs.3,600 crore?

Rajendra Khetawat: Gross debt would be around Rs.4,000 crore.

Moderator: Thank you. The next question is from the line of Himanshu Jhaveri from Dhruv Gems. Please go ahead.

Himanshu Jhaveri: Pirojsha, I just wanted to ask you regarding Vikhroli. In the last four years, I think we just have done maybe around three towers of Platinum except The Trees coming up. So we have not been able to scale up the Vikhroli site. We have a large land which is available to us. So can you just throw some light when we can start selling around 2-3 or 4 million square feet just in the Vikhroli where we have signed the DM model? Is there any chance to change the DM model to something like The Trees project or something of that sort?

Pirojsha Godrej: No one will be happier than me if we can sell 3-4 million square feet in Vikhroli on an annual basis. I think we are still obviously a few years away from that. But I do think hopefully we can get there one day. I think first we have a little bit of work to do in building the location and creating that kind of pull. The reason we have not seen a quicker scale up is twofold; one I think obviously given that it is a 100% owned, I think our own focus has been to first monetize The Trees which had yielded good results already. Also, some of the things like development plan in Mumbai, the development control rules is unfortunately not within our hands and that has created considerable delay. So we will do our best but we do have to work through these kinds of regulatory headaches. Obviously, our endeavor is to scale this as quickly as possible.

Himanshu Jhaveri: Regarding that DM model which you have signed in Vikhroli, is there any chance that we can get some other parcel or that is going to be the whole structure throughout the phase of the projects now in Vikhroli?

Pirojsha Godrej: We constantly evaluate opportunities. The current understanding is obviously that The Trees will be fully owned and the rest will be on the Development Management model.

Himanshu Jhaveri: On your margin structure, once The Trees is out of the way, do we have a lot of other high margin projects? From what I see is we are doing quite a number of projects in terms of square feet, but it is not showing up in the results as such except for The Trees. Then would it not be a good idea like the Oberoi's is of the world who do like 3-5 projects and which are like 50-60% gross margin ones and there they make bulk of the money, just throw some light on that?

Pirojsha Godrej: I think different models have the various advantages and disadvantages. Our sense on our margins not being as appropriate as well has much more to do with some of the projects in the past in different structures and some of the various geographies we have been in. We do believe that the profit sharing model and other models we are currently utilizing in the market will lead to sustained margin improvement. We certainly also think there will be projects like The Trees, future phases in Vikhroli and hopefully similar strong location projects which will have higher margins that will be added to the portfolio. I think the good news is that it has gone from not having The Trees, now we have The Trees providing solid support to the P&L. We have worked through lot of the older project issues and problems that we have had including some of the PE returns and other issues. I think things are better than they do currently. Certainly, that is not to say that we do not currently have challenges and things we are looking better but we feel very good about sustainable margin improvement going forward.

Himanshu Jhaveri: I just want to know how the structure in the platform with the APG works like in a project where Godrej Emerald we invest 20% and the other partner invests 80%, right and then there is 64% of the revenue which we get from the project and then how does it, just throw some light on that how the structure works?

Pirojsha Godrej: It is 80-20 equity sharing with the development management fee to us and with an upside promote to us and then the deal is different for each project, typically purchasing the land; there are also some revenue sharing like Godrej Emerald.

Moderator: Thank you. The next question is from the line of Sandeep Mathew from SBICAP Securities Ltd. Please go ahead.

Sandeep Mathew: Just quickly wanted to check, on the sales number that we have reported of 3 million for FY17, what would be the proportionate share for our company in this case?

Pirojsha Godrej: I do not have that off hand. The sales value is the total value, what will be recognized is largely due to the result of the accounting norms and most profit sharing development management fee would not have top line recognition. So I do not think looking at it from a share perspective really makes sense. I think we need to be looking at the full booking value and then look at other metric.

Sandeep Mathew: But at the end of the day you will only get is what is ideally speaking your share, right?

Pirojsha Godrej: I totally disagree with that analysis. So if you say in a development management fee, my share q-o-q is 12%. I do not think that makes any sense because you can sell a project on the land that makes 12%, you can make 20%, you can make 50% or you can make nothing. So, the accounting recognition will vary. But I think it is important to understand that we are recognizing a lower part of it but at a much higher margin. So I do not think that is a reasonable way to look at our share of it.

Sandeep Mathew: Just can you remind me what was the cash inflow from the sale that we had in FY17 because just looking at the net operating cash flow number of around I think Rs.592

crore, this would also include the one-time sale that we had done of the commercial property earlier this year, right?

Rajendra Khetawat: The commercial property was sold last year, so there was some payment which was pending on the portion which we have received in this financial year, so I think we have collected around Rs.2,500 crore of collections to this financial year.

Sandeep Mathew: If we take out that number which came in this year so the net operating cash flow would have been on the negative side, is that interpretation correct?

Pirojsha Godrej: This is Rs.300 crore from that deal which was received during the financial year and keep in mind we also had expenditures to complete BKC this year, I think the net cash at BKC would be very significant.

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

Jayakanth Kasthuri: What do you expect the capex for this year primarily from the residential segment?

Pirojsha Godrej: We do not give specific guidance as capex or sales numbers for the year. Definitely we are having some projects and those will be under construction.

Moderator: Thank you. The next question is from the line of Jigar Gada, an individual investor. Please go ahead.

Jigar Gada: How do we account for the DM charges and how is it paid – is it paid quarterly or as per the sales which happens?

Rajendra Khetawat: It is based on the billing which is linked to the collection, so as and when the customers make a payment we get a share of DM fee.

Jigar Gada: Just wanted to know, you have inventory of Rs.4,000 crore on the balance sheet, so how much of that is finished flats or offices?

Rajendra Khetawat: Bulk of it is under construction. There would be some small finished portion in Planet Godrej. Other than that we have 2.5 lakh square feet at Godrej BKC but that is not completed 100%. There are certain payments to be made so that is still not shown as a finished good, it is a part of WIP. So almost all is under construction, although some may have received occupancy but there is certain work completion to be done in that. Apart from that, this year the balance sheet will give you the breakup of finished goods and work in progress.

Jigar Gada: We have loans given outside in the assets which have increased to Rs.742 crore. Can you please tell me what this is about?

Pirojsha Godrej: I do not have the breakup. I can give it to you offline.

Moderator: Thank you. The next question is from the line of Pooja Bhatia from Morgan Stanley. Please go ahead.

Pooja Bhatia: Now that RERA is already operational, can we expect some supply side shortage in the near-term? Also given that the property prices have been muted in the last two years, how do we see the prices panning going forward ex-Mumbai markets? We know that in Vikhroli, phase two was higher than phase one and even three was higher than two, but what about other markets such as Bengaluru, Pune where prices have been fairly stable around Rs.5,500-6,000 per square feet. So can we expect upward trajectory in prices or is there room for hike?

Pirojsha Godrej: I do think RERA is going to put upward pressure on prices for two reasons; one is I think it is going to stimulate demand and the volume demand in the sector is going to be quite different over the next 12-months, so that tends to put some upward pressure on pricing. The second factor is that the cost for many developers would be quite different, because now they cannot do any pre-sales cut or anything like that. I think they will have to build in a full interest and financial cost of period from when the land is acquired to when it is launched which obviously will also put some upward pressure on cost and therefore pricing. I think the more important thing is we see it is when the volumes fully return and now that is around the corner.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today. I would now like to hand over the floor to the management for their closing remarks. Over to you, sir.

Pirojsha Godrej: Thanks everyone for joining us. We hope we have been able to answer your questions. If there is any additional information you would like to, please do not hesitate to get in touch with us offline.

Moderator: Thank you very much, sir. Ladies and gentlemen, on behalf of Godrej Properties Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

- ENDS -
