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August 20, 2018

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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

Ref: - BSE - Scrip Code: 533150, Scrip ID - GODREJPROP
BSE- Security ID 782GPL20 – Debt Segment
NSE - GODREJPROP

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

Dear Sir/Madam,

Please find a transcript of the conference call with the Investors/ Analysts held on August 03, 2018.

This is for your information and records.

Thank you,

Yours truly,
For Godrej Properties Limited

Surender

Surender Varma
Company Secretary & Chief Legal Officer

Encl: a/a

| PROPERTIES

Godrej Properties Limited

Q1-FY19 Earnings Conference Call Transcript
August 03, 2018

Moderator Ladies and gentlemen, good day and welcome to the Godrej Properties Limited Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Anoop Poojari from CDR India. Thank you and over to you, sir.

Anoop Poojari Thank you. Good afternoon, everyone. And thank you for joining us on Godrej Properties Q1 FY2019 Results 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 begin the call with opening remarks from the management, following which we will open the forum for an interactive question and answer session. Before we begin this call, I would like to point out that some statements made in today's call may be forward-looking in nature, and a disclaimer to this effect have been included in the conference call invite emailed to you earlier.

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 First Quarter Financial Year 2019 Conference Call. I will begin by discussing the highlights of the quarter. And we then look forward to taking your suggestions and questions.

Good afternoon everyone. Thank you for joining us for Godrej Properties' first quarter financial year 2019 conference call. I will begin by discussing the highlights of the quarter and we then look forward to taking your questions and suggestions.

I'd like to start by discussing the important regulatory development during the quarter in the form of the new accounting standards applicable due to the introduction of IND AS 115. IND AS 115 has been notified by Ministry of Corporate Affairs and is effective from April 01, 2018. Therefore, from the first quarter of this financial year, this standard drives revenue recognition. This has resulted into recognition of revenue based upon the Project Completion Method. Accordingly, GPL has applied the full retrospective approach and has restated the previous period numbers as well. The cumulative effect of revenue and profits recognized for incomplete contracts has been derecognized from the opening net worth and the same shall be recognized in the future in accordance with the criterion mentioned in IND AS 115. We believe the new accounting standard will lead to significant volatility in reported earnings as the project completion milestone will create lumpiness between quarters in which major projects complete and others in which there aren't major project completions. That said, the new accounting standards do not affect the underlying cash flows of the business, so we will continue to focus our efforts on maximizing the present value of future cash flows. We would encourage our investors to track our quarterly operational performance through looking at our operating cash flows and new sales as the most important metrics as we believe the reported P&L will not be a very accurate reflection of operations for the respective period. We do believe the new standards will have a positive effect on focusing the team's efforts towards project completion; we have set ourselves the ambitious goal of reducing our construction timelines by 25 – 50% and this new accounting standard will help bring additional focus to this important strategic priority.

Under the new accounting standards, for Q1 FY19, our total revenue increased by 19% and stood at rupees 1,055 crore. Our adjusted EBITDA increased by 22% to rupees 280 crore and net profit decreased by 65% to rupees 34 crore.

After crossing the rupees 1,000 crore mark for four consecutive quarters last financial year, we are disappointed to note that the total value of bookings in Q1 FY19 stood at rupees 820 crore. This was largely a result of all our new launches happening in the month of June and some of our planned launches getting pushed out of the quarter. At Godrej Elements in Pune we sold about 200 apartments in the launch weekend with a booking value of rupees 147 crore. Godrej Meridien at Gurgaon saw sales of 115 apartments measuring ~225,000 sq. ft. with a booking value of rupees 188 crore. Our new project in Thane, Godrej Alive, witnessed a subdued response in the launch quarter with sales of just under 100 crore, but we are confident of a pickup given the product and the excellent location. Given our exciting launch pipeline, we remain confident of a pickup in sales performance in the year ahead and hope to deliver another record-breaking year.

In June of this year, we successfully raised rupees 1,000 crore through a preferential issue. A GIC - managed investment firm invested the entire amount and we are happy to have a high quality investor like GIC take a significant position in our company. We will use the entire capital raised to fund the many growth opportunities across India's leading real estate markets. We hope to have a lot of exciting news on this front during the year. We have already concluded 3 new development agreements and 9 new terms sheets in the current financial year and we look forward to announcing more details about these in the coming months.

On the execution front, we have set up our first precast factory at Godrej Golf Links in NCR, which will help us to reduce construction timelines and deliver a superior quality product. Since precast is manufactured in a controlled environment it is easier to control quality and it is an important tool to help us achieve our goal of dramatically crashing project delivery timelines. We hope to use this as a learning opportunity and eventually plan to implement this construction strategy out across most of our project portfolio.

After a year of disruptions, the Indian economy is consolidating the gains from recent reforms. The government remains focused on the broader objective of creating a conducive economic environment to facilitate growth and job creation. This is also reflected in its efforts towards revitalizing the housing sector through multiple schemes notably the Credit Linked Subsidy Scheme, the relaxation of area norms for affordable housing, easier FDI in construction, along with more structural reforms such as the Real Estate Regulatory Act and GST. These policies will help drive growth and consolidation in the real estate sector in the years ahead. We believe our national presence, strong brand, and robust project portfolio leave us well placed to capitalize on this opportunity.

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

Moderator

Thank you very much. Ladies & gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Abhishek Anand from JM Financial. Please go ahead.

Abhishek Anand

My first query will be on the portfolio addition. Of course, we have not seen any portfolio addition in the first quarter or till date. What is the outlook there, have we intentionally gone slowly on portfolio addition or this is just a blip in the portfolio addition scenario?

Pirojsha Godrej

Abhishek, actually as I mentioned in my remarks, we have seen some project additions, we have not yet announced those because certain conditions precedent that we expect the land owners to complete are underway. But we actually did have three new development agreements and nine new term sheets so far in this financial year. So, I think the visibility on the business development remains very strong. And certainly, as you know, the capital we have raised through preferential allotment in the first quarter is intended to be deployed entirely for business development. And we hope to deploy much of that within the current financial year. So, certainly, we expect a lot of traction here, expect a lot of announcements on this front. We remain quite confident about it.

Abhishek Anand

Pirojsha, with the three contracts or the term sheets which you have signed, of course you cannot share the exact details, but just a broad sense here, whether these are JVs or higher proportion of revenue share or they are primarily DM. If you could give some color on that, especially given the fact that we have raised capital, do we intend to increase our share in the projects?

Mohit Malhotra

We have signed definitive agreement on these three projects, as Pirojsha highlighted. The only reason we did not announce it is because there are certain critical CPs which we are waiting for and they are at the final stages of completion. Just to give you a sense, two of these transactions are in very prime city centric locations in NCR, in profit sharing, high deposit profit sharing structures. One transaction is in Thane which is an outright transaction along with partnership with the GFM platform. So that is a kind of deal structure we are talking about. But largely it focuses towards capital deployment of the funds we have raised.

Abhishek Anand

Then my related question will be on the sales velocity we have for FY19. We have done Rs. 820 crore. Do you think we will match, of course that might be a bit forward-looking, but do you think the launches which you have in the pipeline could match last year's number of Rs. 6,000 crore plus? Because most of the launch pipeline which I am seeing is outside Mumbai, so last year we were helped by both BKC as well as the sales at The Trees. How should we look at it right now?

Pirojsha Godrej

Abhishek, if we get all the launches we hope to get done during the year I think we should have a good opportunity to surpass last year's number. Of course, I think knowing with any great accuracy whether all of those launches will happen and what the probability is, it is a little hard to project at this point. Also I think it is worth keeping in mind looking at some projects from a business development perspective that are at reasonably advanced stages of approvals and so forth. So, hopefully we can also get some upside from that.

Abhishek Anand

And lastly, Rajendra, if you could help us with the Rs. 744 crore of net worth which has gone down, extra infusion capital raised. Bulk of it will be Trees but other projects which have been excluded, if you could help us.

Rajendra Khetawat So, I do not have that details project wise. But as you rightly said, bulk of it would be The Trees and then some of the BKC de-recognition and re-recognition will kick in. And there are several other JV projects which have not complied with the IND AS 115 standard which has gone into this Rs. 744 crore de-recognition which will come back as and when we are able to comply with IND AS 115 condition.

Abhishek Anand So, the interest which we got from JV historically which are under construction, that we continue to recognize?

Rajendra Khetawat So, that accounting remains same. That is basis the cash flow deployed and cash flow received. So that accounting does not change, it is only the recognition of revenue and profit that is changing.

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

Puneet Gulati Is it possible to get some update on which are the key projects you intend to deliver this year and the next year?

Pirojsha Godrej I do not think we would like to give any guidance on that, we have obviously got in our annexure details on the project status in a quite detailed manner. So, I think that can give some idea about this. But I do not think we would like to specifically mention exactly which project, because this will now depend both on operational completion, receipt of regulatory approval of OCs. So I think we prefer not to give any guidance on that.

Puneet Gulati And if you can help us understand as to when you will really recognize this revenue, is it at OC stage, handover stage, furniture possession stage, how does really the revenue recognition work, at what point do you recognize it?

Pirojsha Godrej I think for residential project we expect the OC is going to be trigger.

Puneet Gulati And would you wait for final payment from the buyers or do you recognize it even before that?

Rajendra Khetawat In line with the discussion with our auditor, we would be able to satisfy the condition of Ind AS 115 and recognize revenue basis intimation of occupation certificate to the customer.

Puneet Gulati And secondly, is there any update on when does the development on the rest of the Vikhroli land parcel start?

Pirojsha Godrej I think we are working on that. We hope, as I said, to have something to announce there. We have two projects that we have already talked about. One is on LBS Marg and the other one is on the Eastern Express Highway. So, both of those are being worked on at the moment. I think our current best estimate of launch for those would be next financial year.

Moderator Thank you. We have the next question from the line of Tanuj Mukhija from Bank of America. Please go ahead.

Tanuj Mukhija My first question was on the new precast factory being set up. So, this first phase of Godrej Golf Links in Noida was launched in November 2016. So, why are you setting up a new pre-cast factory almost 18 months down the line for a project which is already under construction?

Pirojsha Godrej So, it was not set up this quarter, I think what we were saying it was set up earlier, we have had the full stream construction going on through this, therefore we announced it this quarter. But it has not been set up this quarter.

Tanuj Mukhija And is this perhaps an indication that going forward Godrej will look to add more projects in Noida and NCR and have a higher focus towards NCR market?

Pirojsha Godrej Well, I think the focus is on the top four markets in the country, so Mumbai, NCR, Bangalore and Pune. So certainly within that NCR is an important component of our strategy and we are certainly looking to add strongly to our portfolio there. But we are looking to do the same in Mumbai, Bangalore and Pune. So, I think all four of those we hope to see significant pickup in our current scale. And in all four of those I think the strategy will be to now look at execution timelines being crunched and looking at that more holistically. I think the NCR precast factory is the first one and we hope to soon have one that can service the whole market instead of just one project. And assuming this we are happy with the progress, quality and other things, we see from this strategy we intend to then roll that out across the country.

Tanuj Mukhija And if you look at the new phase launches, your presentation in Q4 FY18 versus Q1 FY19 there were new phase launches planned in Godrej 24 and Golf Links in the FY18 presentation, which are not there in there in the 1Q FY19. So, I wanted to know your thoughts on why have you excluded projects in Noida and Pune? Is there any specific reason behind it, approvals, or is it lack of demand?

Pirojsha Godrej Godrej Elements is the new phase of Godrej 24, so that is shown as launched in the first quarter. We have launched new phase of Godrej Golf Links in Q2.

Tanuj Mukhija And lastly on the IndAS accounting, you have given us the number effectively for the equity that has been written back. Can you give us what is the corresponding sales that has been written back?

Rajendra Khetawat I do not have this, Tanuj, presently. I can send it across to you off line, because we have to include JVs also in that, so that will take some time to calculate.

Tanuj Mukhija And I think there were talks that new DCR plan could lead to maybe a delay in project launches in Mumbai because it might take time to understand the new DP rules and regulations. So, should we expect that the new launches in Mumbai should particularly pickup towards the second half of FY19?

Pirojsha Godrej I think we will have to look at it project by project. I think some are affected by that and others are not. But now there is a greater clarity, so I would expect that delay now to mitigate it. So, certainly I think the second half in general will have more launches across all cities, but I do not see any major change as a result of it.

Moderator We have the next question from the line of Abhishek Bhandari from Macquarie.

Abhishek Bhandari I had one question, actually I have three, I will ask one by one. My first question is on your slide number #12, and this question is more for Mohit who has spoken in the past about sales from sustenance basis for the ongoing projects. If I look at this number of roughly Rs. 800 crore for this quarter, only one-third is what is coming from the ongoing projects. So, is it a satisfactory level as per your plans or do you want to increase it? And if yes, some kind of activation schemes you are thinking as some of your peers have been thinking?

Mohit Malhotra Abhishek, this is as per plan because we had planned sales largely towards Q2. And right now, we are running a major sustenance sales campaign called Happy

EMIs on pan-India basis. So, we are pretty confident that we will be able to pick up the pace in the next couple of quarters on this one, so no worries there.

Abhishek Bhandari Can you elaborate on this Happy EMI, is it a subvention scheme or a flexible plan payment?

Mohit Malhotra Basically it is a part subvention scheme where the pitch is that you can own a Godrej Properties home at Rs, 9,999 EMI. The spin is basically that customers are paying EMIs which are lower than their rent. Now, these are all marketing aspects of the project. From a financial perspective the entire cost gets loaded on the price, so for us we do not end up paying anything extra from our pocket.

Abhishek Bhandari Second question, Pirojsha, this is for you actually. Is the opening of this precast a signal that you would like to vertically integrate your company and change your earlier strategy of just focusing on marketing and sales and leaving the construction to people probably who are best at it?

Pirojsha Godrej No, I do not think that is the indication at all. I think one of the areas where we think the whole sector, and us included, is not really performing up to the mark is on project timeline. And if you look at similar projects in places like Dubai or China versus in India today, you will see that the construction timelines in India even for the best companies tends to be 50-100% longer than global benchmark. So, it think one of the key strategic priorities that is worth driving is ensuring that that gap is eliminated entirely. And I think one of the way we think that it is best to do that is by looking at modern construction technologies like pre-cast. The benefits are quite obvious, I think if executed well there can be significant quality benefit, time benefit, especially because the requirement for labor which tends to be a little bit fluctuating in typical construction technologies is very low for pre-cast. So, I think there are some obvious benefits. And in order to capture those as the company scales and make sure that we can deliver greater consistency, greater quality, greater predictability and much faster delivery, we think this is an important priority. In a way, this new accounting standard dovetails quite nicely with this, because earlier there was a little bit false focus on this kind of 25% construction methodology which allowed us to recognize revenues but really was in no way meaningful from an actual operations or customer standpoint. I think this focus now on actual delivery combined with our efforts to make sure that we bring those delivery timelines down should work well, both from financial perspective and churning our capital quicker and generating better returns therefore and also from a customer perspective in terms of improved quality and lower delivery time. But obviously, I think it is early days for us with this technology, it is easier said than done when we are talking about crash in timeline by 25% to 50%. So I think we will have to over the next couple of years demonstrate that we are able to actually deliver that.

Abhishek Bhandari I am sure you will enjoy the same success that some of your peers have done in south. The reason what I am trying to understand is, going forward are you forcing your contractors to use your pre-cast or you will in-source construction for projects where the pre-cast would be?

Mohit Malhotra Abhishek, for the GGL project we have our own pre-cast factory, we want to first learn the technology ourselves. Now there are two parts to this, one is the production and other is erection. Even in GGL the erection still continues to happen through contractors, production is something which we are doing in-house. And for some of the other geographies we are evaluating different technologies like tunnel form or pre-cast. And then we would obviously want our contracting partners to go towards some of these technologies. And again, as I see the industry evolving I see a lot of impetus by many players now in the direction of technology. So I think the industry itself will evolve and go towards that.

Abhishek Bhandari And my last question, Pirojsha, have you firmed up your investment plans for Godrej 2 commercial and the Taj Hotel on the Vikhroli land parcel?

Pirojsha Godrej Abhishek, on Godrej 2 as you might recall in the fourth quarter of last financial year we partnered with fund management arm on a 50:50 partnership. So, I think that structure is now finalized, and the project will be developed and leased. And only once fully leased, monetized. And Godrej Properties' stake in that will be 50%. It has received significant amount of cash in the fourth quarter, fund management partners who will now also bear 50% of all remaining cost and Godrej Properties will also benefit from some development management fees and promote based on returns and so forth. So, I think for that project the financial structure is fully in place. For hotel I do not really have any progress to report at this time, so we are still exploring different options.

Moderator Thank you. We have the next question from the line of Tanuj Mukhija from Bank of America. Please go ahead.

Tanuj Mukhija Just two very quick questions. I wanted to get your thoughts on the stress in the system, as compared to year ago I believe that the stress has reduced. So, is it now more difficult for Godrej Properties to find deals in the market and have the negotiations or profit share reduced or increased currently as compared to 12 months ago?

Pirojsha Godrej I do not think we would agree with that data you suggested, if anything, I think the stress in the system has only mounted. I think a lot of the banks and NBFCs are under significant pressure themselves to recoup cash. If you look at the industry sales figures I do not think there is any evidence of improvement. I think the share of sales going to the leading developers in most cities is continuing to increase. So, I see no evidence of stress in the system decreasing, in fact I would say it has somewhat considerably increased in the last 12 months. And I think the business development opportunities we are seeing as a result are commensurate. So, no real concerns on that front as of now. Certainly, I think our sense is that the sector as a whole will see a pickup, exactly predicting the timing of that pickup is what becomes quite challenging. But once the sector sees a pickup I think some of these trends of the sector consolidating and so forth are here to stay, because even in a better market I do not think most customers are going to be willing to purchase from the vast majority of developers. I do not think many financial institutions are going to be very comfortable lending, given some of the experiences in the last cycle. So, I think some of the structural factors affecting the sector including consolidation according to us are very much here to stay. And I think the pace for that consolidation will be aided continued weakness that we are currently seeing.

Moderator Thank you. Our next question is from the line of Mohit Agarwal from IIFL. Please go ahead.

Mohit Agarwal I have one question on cash flows. So, on your construction and other outflows we see that this quarter the spend has been around Rs. 850 crore versus about Rs. 500 average for the last few quarters. So, just trying to understand is it like a structural shift that we have made to a higher number? Firstly that, and secondly on land capex also, if you could elaborate more on Rs. 311 crore of land capex, where has it gone?

Rajendra Khetawat So, just to take your second question first, and also this is land and approval related outflows. Basically, it goes towards our Trees project, and Godrej 2 which is a commercial project and several of our residential projects in Pune and NCR. So, this thing does not include only land, it includes land and land related approval cost. So that is how the breakup stacks up. Coming to your construction outflow, as new projects are going into construction stage there will be an increased outflow which will happen on account of construction outflow. Also, this time we have grossed up the entire outflow for all the JV projects. So what you see is the gross inflow of all the projects minus the gross outflow of all the projects where we are into minority also. So, it is a gross, not considering only the net outflow.

Mohit Agarwal So, this could be a good number going forward for the next few quarters?

Rajendra Khetawat I think so. Yes, because as the pace of construction and new projects are going on to the floor we would be looking at this number.

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

Sameer Baisiwala Can you just help us with the three projects that you have signed. What kind of capital consumption would that require? Just a broad number, I am just thinking how many projects can you onboard with Rs. 1,000 cash raise that you have done?

Pirojsha Godrej I do not think we want to get into the exact details, but there is reasonable high capital requirement which will happen with these three. So, I think several hundred crore of investment. But we will announce more details as new projects are actually announced.

Sameer Baisiwala And much of this deployment is in the form of deposits or is it some other form in which it goes?

Pirojsha Godrej Typically refundable deposits, except as Mohit mentioned one of the project is intended to be an acquisition through our fund management arm. So, that will be an outright payment, but the others will be refundable deposits.

Sameer Baisiwala And just what is the broad financial parameter that you use while deploying this capital, I mean is it IRR and any color on that would be great?

Pirojsha Godrej So, I think several different parameters that we look at. I think IRR is certainly an important one amongst them. But I think we tend to focus on a lot more into different scenarios and how these structures pan out under them. So, our sense is the profit-sharing structure is probably the most risk mitigated structure one can have and under these kind of higher deposit profit shares our share of upside from the project is also quite considerable. So, I think that is probably our preferred model. But we look at a lot of qualitative aspects in addition to the financials, like what is the specific location, how do those micro markets combine with our existing portfolio or cannibalize our existing portfolio, what is the upcoming infrastructure that can benefit. So, I think in addition to the financial metric where we focus on IRR, equity multiple. We look quite a bit at the risk mitigation opportunities and different scenarios and some of the more qualitative factors like location and how we expect the location to perform.

Sameer Baisiwala And second, how should we now think about balance sheet and leverage progression as we move forward?

Pirojsha Godrej I think we have broadly guided, as you probably know since our IPO in 2010 the broad range of comfort we have is anywhere from 1:1 to 1.5:1 from a gearing ratio perspective as we think that is a good combination of not overly stretching ourselves, while at the same time making sure that we are focused on growth and on capitalizing on the opportunities ahead of us. So, I think at the broad level that factor remains at the level we are comfortable with. And we have always said that it is not that there is any major problem if we temporarily go above or below that, but those will be guidelines for us to keep in mind. And as and when we go about it we will think of how to come within it. And similarly, if we come below it think of how to make sure we are increasing our investment. So, temporarily we are of course well below that threshold because of the recent equity raise, although the impact of that was somewhat diluted with this Ind AS accounting switch. So, I think we are certainly very eagerly looking to invest this capital where we think the balance sheet is currently certainly underleveraged and we look to make sure we capitalize on new business development opportunities in this year.

Sameer Baisiwala And that means that by the time you consume the cash on the balance sheet my guess is your leverage would reach 1:1 and that would still leave you some more room to lever up and get more projects, if that is a correct understanding?

Pirojsha Godrej I think that is absolutely right, I think this Rs. 1,000 crore equity raise gives us at least Rs. 2,000 crore for investment, maybe a little bit more than that. We also have reasonable operating cash flow from BKC and elsewhere. So, I think the number we will be looking to invest over this and next financial year will certainly much in excess of the Rs. 1,000 we have raised.

Sameer Baisiwala Just one final question from my side, Rajendra, you have recognized about Rs. 820 crore in BKC in the current quarter, so first you de-recognize what was there in the first three quarters and then you have re-recognized?

Rajendra Khetawat We will recognize revenues as per provisions of Ind AS 115. In commercial we will recognize revenue basis possession and satisfaction of conditions as per Ind AS 115. So in case of BKC, wherever possession of units has not been handed over those will get derecognized and the same will get re-recognized as and when the conditions mentioned under Ind AS 115 are met.

Sameer Baisiwala So, I think Rs.700 plus that you recognize in fiscal 2018 how much have you de-recognized?

Rajendra Khetawat So, that number I do not have. I can send it across to you after this call.

Moderator Thank you. We have the next question from the line of Abhinav Sinha from CLSA. Please go ahead.

Abhinav Sinha Rajendra, just wanted to ask on IndAS. The profits which have been reversed, broadly how much time do we see these coming back?

Pirojsha Godrej These are all under construction projects. So I think within this financial year and next two financial years all of this will be recognized.

Abhinav Sinha And again here I mean are the lenders let's say looking at gearing differently because of this issue?

Rajendra Khetawat See, we need to explain, this IndAS would be new for them also, so we have to explain, it is only a change of accounting. The fundamentals of the business do not change, the booking value and the cash flow does not change. So, what lender is more concerned is whether the business is generating cash. That would be the prime parameter they would look at. So, I think lender more or less would be able to understand this and there should not be any issue as far as the borrowing is concerned.

Pirojsha Godrej But just to add to that, I think that is absolutely correct for the leading developers where there is more visibility and understanding, but I do think this could create another trigger for consolidation in the sector. I think a lot of the smaller players will be under even more pressure from lenders. So I think that is something that we think could end up aiding consolidation in the sector further.

Abhinav Sinha On the new project launch front, and also what you are acquiring, is there something which is particularly from an affordable perspective where you will get a tax benefit or something like that?

Pirojsha Godrej Several of our existing and new projects we think we can get the benefit that has been extended for affordable housing. As of now we continue to think that a lot of the benefits are available for mid-income housing project which is what we would describe most of these projects as. So, we are not thinking as of now launching a separate affordable housing brand or anything like that, but we think a lot of these benefits can be captured within our current setup, but we will of course continue to keep an eye on this.

Abhinav Sinha Just one more question on the IndAS part, so is the development management revenue recognition, is that impacted by it anyway?

Rajendra Khetawat It is not impacted, that remains same as it is because there we are the service providers, and when the service is complete, bills are raised it will get recognized.

Moderator Thank you. We have the next question from the line of Saurabh Kumar from JP Morgan. Please go ahead.

Saurabh Kumar Sir, first on this Rs. 311 crore land and approval related outflows, how much of this is for your existing project and how much is it for new projects?

Rajendra Khetawat So, for the new project it is quite low, like Mohit and Pirojsha mentioned we are firming up the term sheet and we have signed some DAs. So that outflows are still to happen, it is more for existing projects. Like I said, it is more towards the land and approval related cost.

Saurabh Kumar Rajendra, if you do that math and with your operating cash flow of 276 as interest and corpus of 118, and this 311 basically we are on ongoing portfolio cash negative in 1Q?

Rajendra Khetawat We are positive by about 70-odd crore on net cash flow. All upfront capital outflows like land and land related outflows are considered as capital cost in the cash flow statement. If we exclude them for arriving at net cash flow we have a very good positive cash flow number. Even if we include the land and land related cash flow for arriving at the net cash flow number, our cash flow will still be marginally positive.

Saurabh Kumar I am getting negative and we have remained negative on this basis over last six quarters.

Rajendra Khetawat Let us discuss this offline, I do not think we would be negative.

Pirojsha Godrej I do not know how you are getting that math, ultimately for example last financial year we reduced debt by over Rs. 600 crore net debt while adding 10 new projects to the company's portfolio. So, I think somewhere that math isn't correct.

Saurabh Kumar And secondly on this net worth reduction of Rs. 770 crore, so what is the timeframe through which it comes back into P&L?

Pirojsha Godrej We expect all of these are under construction project to come back within the next three financial years, this one included.

Saurabh Kumar Pirojsha, that is a bit high because if I look at Rs.770 that is essentially the profit of the company through fiscal 2016 to 2018, like Rs. 750 crore under the old I-GAAP accounting. So, I would have assumed these are mostly advanced figures of completion which would have come out on the next two years.

Pirojsha Godrej Saurabh, I am giving you all how long will it all come in. Now, obviously the different projects are at different stages, for example in Q4 of last year we recognized the project Godrej Origins at The Trees which was a significant project for us. Now, I do not think that project will get completed probably next financial year, so it will go into the third financial year. So, I think it is an accurate representation to say that it will probably take three financial years in total. But you might be right, it might happen next financial year.

Saurabh Kumar And just one last question on your gearing, so basically on this new net worth your old net gearing target starts or now that will change?

Pirojsha Godrej It is not super specific level that we are targeting, as I said it is quite a broad level of 1 to 1.5. And so I think that broad range remains we think at the appropriate levels. As the company's focus for the current financial year is ensuring quick deployment, because we are not interested in raising this capital and just reducing debt, clearly that was not the intention behind this. So, our goal will be now to rapidly scale the portfolio. And yes, as we get through the higher end of that range then we would obviously look at measures to stay within that.

Saurabh Kumar And just one request, from a disclosure perspective most of your competitors, and Godrej has obviously been the best on disclosure historically, but most of your competitors actually disclose the cash flows they will get from their ongoing under-construction portfolio. So, if Godrej can start disclosing that that will be well appreciated, but that is just a request, if you could look into that.

Pirojsha Godrej Thanks for the suggestion, Saurabh, we will look and discuss internally.

Moderator Thank you. We have the next question from the line of Manish Gandhi, an individual investor. Please go ahead.

Manish Gandhi Pirojsha, I just want to know that you said that you are planning to reduce project timing by 25-50%. So I just have one question, we have three set of customers there, one who buys with their own money, one with housing finance and one who are investors. So how investors and those who are buying with their own money will react to this, I do not know, so have you thought about it?

Pirojsha Godrej I think overall, we expect the reaction will be positive, but certainly the pressure on people's cash flow etc. will be greater. But I think we will take care of that in terms of educating customers, in terms of signing payment plans and so forth. And of course, there is a big benefit to customers also in getting this quicker delivery, including investors who can then start getting rentals and so on. So, overall, we think it is certainly a huge positive for customers and a big positive for the company. So, I think it is fair to say that as we get visibility of our ability to do this there will be some amount of education and tweaking of current practices that will be necessary to make sure that customers fully benefit from it.

Mohit Malhotra Also, Manish, the strategy is very clear, there are two kinds of projects in the portfolio, there are projects which are very city centric, end user demand kind of projects and there are projects which are slightly more infrastructure led projects which could take longer horizon from an end user perspective. So, the choice of technology use is largely for end user driven projects, because end users do not mind, they actually prefer houses to be delivered early. And if you see Sobha's Dream Acres project actually it has been major USP for their sales. So, we feel the customers actually are quite positive if it is end user driven market.

Manish Gandhi I completely agree with you, Mohit. You know the NCR market more than me, what happens when there is a good cycle and people come to invest they look at their own IRR at the time of investing and they must be wanting to sell in two, three, four years without taking possession. So, I do not know how much that portion is right now, on future I do not know.

Mohit Malhotra You are right, Manish. So, again, if you look at NCR market you have a Noida market which is a very end user driven and the construction pace at Godrej Golf Links has picked up significantly and we are not facing any challenges. We are encouraging customers on-site, we are explaining them the entire technology, showcasing them the new way of operating and they actually quite appreciate it. At the same point of time I also accept your point that in a place like Gurgaon, especially our current projects which are on the outskirts, some of these technologies could create challenge and we would be very cautious in using some of these technology solutions in outskirt locations which are more investor demand driven locations.

Manish Gandhi I have one more question, so we have a few projects, I will not take all the list, but Manglore, Nagpur, Bhandup, Delhi, old Kalyan JV, so maybe few hundred crore are there invested. So, as we have done with Ahmedabad, of course must be trying to solve something like this. It is good capital and it is very valuable in today's time. So what are you thinking on that?

Pirojsha Godrej No, I think we agree with that point, Manish, and our focus is really now building scale as we talked about for some time in the top four markets Mumbai, NCR, Bangalore and Pune. So, I think the strategy on this project and other cities of Ahmedabad and Kolkata continue to be priority markets as well, though not at the same level as the top four. But outside of those six cities I think we are looking at the best way to unlock capital from projects and hope to have some developments on that within the year as well.

Moderator Thank you. We have the next question from the line of Manoj Dua, an individual investor. Please go ahead.

Manoj Dua Sir, we understand your top-down approach, your macro approach to Indian real estate going forward and you have explained to us in many forums about how we see a large opportunity going forward. I want to understand your land approach. How we are choosing land location, which segments are we mainly targeting, which bracket we are targeting? And with the ammunition we have got from our fund raising, and congratulations for that, now what is our change in strategy? Earlier we wanted higher profit in more strategic location. So, how we are going for that and what are the risks associated with our putting more capital? Thank you.

Pirojsha Godrej I think, as you rightly pointed out, we are very bullish on the overall macro story for the sector. I think at a more micro level there are few choices that we have made. The first is the geographies which we want to play in and there we have defined these as a top four markets. The data suggests that about two-thirds of the value of real estate sold in India is sold in these four markets. So, we can deliver leadership positions in each of these markets, we do think we would be capturing a very large share of the overall market. Within those cities I think there are many different things we look at, one is obviously the financial returns we think we can generate from a project. But as I mentioned earlier also, we look at a lot of qualitative aspects, including how the new project fits within our existing portfolio, is it likely to lead to cannibalization or is it likely to open up a whole new avenue of demand. We look quite closely at city level infrastructure and how that is likely to impact various locations. So I think all of these remain areas of focus. I think it is fair to say as the company has scaled both from a financial perspective and an operating perspective, we would like to see ever increasing returns per square foot from what we are developing. And I think there is a preference and a priority towards looking at better locations within each of the focus cities. That does not mean that we would not be looking at other locations as well. But certainly, on average, I think we will like to move the company towards projects in better locations, so we can generate higher return per square foot as well. And we will also look to do that by deploying more capital in the form of refundable advances. I think the risk is obviously that if project gets delayed or stuck for any reason then we will have more capital now deployed in some of these projects. But we do feel that overall the structures we are looking at are very risk mitigated. And of course, the best possible combination of upside return, and risk mitigation. So, I think we are quite happy with those and we will look to continue that.

Manoj Dua First time we seen tepid response to our project like Thane. Our earlier project had done very well, so why there was tepid response to that Thane project?

Mohit Malhotra There were some learnings which we had from this project launch, and I will just share with you the two things. We actually timed it wrong because by the time we got the approvals and moved ahead we were very close to rains in Mumbai. In the first weekend after we had proposed the launch we had to cancel the launch because there was a major rain threat in Mumbai for that weekend. The second weekend we went ahead with the launch despite the rains, but the customer walk-in did not actually happen. So, biggest learning was not to push the launch in the rainy season. And the second thing was the feedback we received from the customers regarding the possession timeline which we were mentioning was very long. This is largely because this project was RERA approved and we did not have the MoEF approval, this was a past approved project. And customers were not happy actually with the longish duration, given that is an end user market. So, the learning and feedback has been taken, we want to get all the construction started on the site and then re-launch this project. We are very confident that when we bring it back to the market we will see a very strong response on this one. Location is very strong.

Manoj Dua What is the location of our NCR and Noida project we have signed in last year, apart from 150 and Golf Links in Greater Noida. We signed one more Noida project, what is the location of that?

Mohit Malhotra Our Noida projects include GGL which is our Greater Noida Township project and we have a project in sector 150 in Noida, two projects actually there.

Manoj Dua Have we signed any new project in Noida apart from these two?

Mohit Malhotra Yes, one of the three new projects we mentioned is in Noida. We would not like to get into the details of that till we announce it.

Moderator Thank you. We have the next question from the line of Prakash Kapadia from Anived PMS. Please go ahead.

Prakash Kapadia Of the booking value of around Rs. 6,000 crore, how much of that would be because of subvention scheme versus normal payment kind of plans? And any risk to the subvention scheme we foresee?

Mohit Malhotra Prakash, we do not have too many subvention schemes in the previous year's numbers which you are referring to. Also, we have a very strict policy on subvention, we are very particular about subvention and the amount. So, typically if you look at our subvention schemes, the investment by the customer is 15-16% because 10% he has to pay from his own pocket and there is stamp duty and registration which are 5-6%. Then the customer again has to invest another share of his capital somewhere during the middle. So we make sure that the risk gets hedged, we do not do those 1-5% subvention schemes in the market.

Prakash Kapadia 10-15% or not even that?

Mohit Malhotra Minimum entry for an entry for a customer today on a subvention is 10%, and then immediately our registration is done which is another 5-6% from his pocket so there is a lock in.

Prakash Kapadia I was trying to assess the value. I got the point of 10% plus 5%.

Mohit Malhotra The booking value last year was Rs. 5,000 crore, it would be very small number, less than 5%, but I think Rajendra can confirm it for you later.

Prakash Kapadia Any update on the Mumbai market of the debris issue, any clarity, is it all sorted?

Mohit Malhotra I think there is a six months window currently open for approval. Beyond that I think it will again be by the board, so there is no final resolution on that.

Prakash Kapadia So it is like a piece meal, not a longer-term clarity or a solution?

Pirojsha Godrej That is right.

Prakash Kapadia And lastly, you mentioned about some of the drivers to the bigger and organized players like us. So if you could share some trends in terms of number of players shutting down or market share which we have seen moving up from a very low single-digit to mid-digits, what is happening on the ground in some of our focused markets, if you could give us some sense.

Pirojsha Godrej Today there are 10,000 – 15,000 or more real-estate developers in the country, so clearly I think many of those would not exist in business five years from now. The data we have seen suggests that over the last few years we have seen the top 10 to 20 players in each city double their share of the market. But at an overall level that share is still quite low, so we think there is significant room to grow. Certainly, our own experience is that earlier most of our projects being in partnership with land owners, today most of our projects are in partnership with other developers. 80-90% of our new projects are actually partnership through other developers. So, I think that change is quite visible more directly in our own company's new business development. Also in the sales data by city for the top 10 developers or top 20 developers versus the rest of the pack.

Prakash Kapadia Is it fair to say over the next 2-3 years we will be like 8-10% of industry share. Is that the right way to look at it from a low single-digit?

Pirojsha Godrej I think that would be easier said than done, today our share is probably 1%, so I think it will be quite dramatic to move to that kind of level. But certainly, I think the opportunity is there for this share to continue to grow and grow quite strongly. And that is what we will be focused on.

Moderator

Thank you very much. That was the last question for today. I would now like to hand the conference over to the management for their closing comments.

Pirojsha Godrej

I hope we have been able to answer all your questions. If you have any further questions or would like any additional clarification we will of course be happy to be available. On behalf of the management, thank you again for taking time to join us today.

Moderator

Thank you very much. Ladies & gentlemen, on behalf of Godrej Properties Limited, we conclude today's conference. Thank you all for joining us. You may disconnect your lines now.

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