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August 10, 2020

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The National Stock Exchange of India Limited
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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
BSE- Security ID 75GPL23 – 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 Wednesday, August 05, 2020.

This is for your information and records.

Thank you,

Yours truly,
For Godrej Properties Limited

SURENDER VARMA

Digitally signed by SURENDER VARMA
DN: c=IN, o=Personal, postalCode=110018, st=Delhi, 2.5.4.20=2a12c79346d96eb4cd57f3bfc1eafeb184293ad97f93add03fb93e96260abe17, serialNumber=39b51483562ef7346fc0f374b6317b99e71395d685d61e54632f770e3d52081c, cn=SURENDER VARMA
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Surender Varma
Company Secretary & Chief Legal Officer

Encl: a/a

Godrej Properties Limited

Q1 FY 2021 Results Conference Call Transcript

August 05, 2020

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 phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Devrishi Singh from CDR India. Thank you and over to you, sir.

Devrishi Singh: Thank you, Janis. Good afternoon, everyone. And thank you for joining us on Godrej Properties' Q1 FY '21 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 would like to begin the call with opening remarks from the management, following which we will have the forum open for an interactive Q&A session.

Before we begin this call, I would like to point out that some statements made in today's call may be forward-looking in nature, and a disclaimer to this effect has been included in the results presentation emailed to you earlier.

I would now like to invite Mr. Godrej to make his opening remarks.

Pirojsha Godrej: Good afternoon, everyone. Thank you for joining us for Godrej Properties' first quarter financial year 2021 conference call. Firstly, I hope you and your families are all staying safe and doing well. I will begin by discussing the highlights for the quarter, and we will then look forward to taking your questions and suggestions.

This has been an incredibly challenging time for the entire world, and one that has been full of challenges, opportunities and learnings for us at Godrej. The rising number of cases in the country and continued lockdowns in some major cities have created a large degree of uncertainty. While we continue to focus on our core safety, we are at the same time working hard to ensure business continuity as most of our employees work from home.

The standout highlights for GPL in the first quarter was that despite a quarter in which overall real-estate sales crashed, we were able to grow booking value year-on-year by over 70% to Rs. 1,531 crore, through the sales of 2,130 homes, with a total area of 2.51 million square feet. This allowed us to deliver our highest ever market share across all our focus markets.

The strong sustenance sales across the portfolio was supported by our pan-India marketing campaign, which we called "Hope Has A Plan", which was introduced keeping in mind the homebuyers' current concerns in the wake of the lockdown.

The campaign was designed with a 10:90 payment plan as an attractive sourcing story and was appreciated by customers in India as well as throughout the international NRI community. The cost of this plan was fully built into the pricing. So we increased prices in proportion to the interest cost that the plan imposed. While our sustenance sales drove the quarter's performance, we also did manage to launch one project, Godrej Royale Woods in Bangalore where we delivered sales of 285 homes with 250,000 square feet of area at about Rs. 109 crore value. We were also able to lease about two lakh square feet of space in Godrej two here in Vikhroli to Maersk’s business units.

On the operations front, while construction activity has resumed on almost all our sites across the country, it has been severely impacted due to the complete lockdown for two months, followed by significant labor shortages which continue to be a problem. We expect the labor count to increase gradually and plan to operate at approximately 70% of the pre-lockdown workforce strength by the end of the current quarter. That compares to about 60% today, and at the lowest point, we were at about 30% of the pre-COVID workforce strength. Our construction time lines for various sites are expected to be delayed by six months due to this crisis. That number could change slightly depending on what we see unfold over the next few months. So that is our current assumption.

As a result of the lack of construction progress, our operating cash flows were significantly negative, and our revenues were extremely low at Rs. 165 crore. Our adjusted EBITDA stood at Rs. 44 crore, while we reported a net loss of Rs. 20 crore.

We do expect a weak year in terms of operating cash flows and reported earnings due to the significant linkage these metrics have with construction progress, and due to the significant knock our construction plan for the year has taken. However, developers with weak balance sheets going into this situation will have a difficult time surviving, which will create significant opportunities for consolidation and market share gains.

From a business development perspective, while we didn't announce any new projects during the quarter, we have strong visibility on further project additions during the rest of the year.

We recently raised Rs. 1,000 crore through the allotment of unsecured, nonconvertible, redeemable debentures on a private placement basis for a term of three years at 7.5%, which is the lowest NCD rate achieved in the real-estate industry. This fund raising and competitive rates will help lower our average borrowing cost and will ensure ample liquidity for any interesting opportunities that present themselves.

We remain confident of the future prospects of the residential real-estate market. And we will do everything possible to ensure we come out of this crisis stronger and well positioned to continue to grow our market share and set ourselves up for significant earnings growth in the years ahead.

On that note, I conclude my remarks. We would like to thank you again for taking the time to join us on this call and would now be very happy to discuss any questions, comments or suggestions that you have.

Operator: Thank you very much. Ladies and gentlemen, we will now begin the questions-and-answer session. We take the first question from the line of Abhishek Bhandari from Macquarie. Please go ahead.

Abhishek Bhandari: Congrats on a very good pre-sales. I have a couple of questions, the first if I can start with the pre-sales itself. You did mention in the opening comment that the 10:90 payment scheme was well accepted and appreciated by the buyer community. So do you think this plan will continue for the rest of the year?

And if you could also probably give a percentage of the total pre-sales, which came because of 10:90? The reason I am asking this is that we seem to have broken the trend of positive operating cash flow, which was there for us for almost last 12 quarters or so. I understand part of it is because of construction slowdown. But this 10:90 also has a very big role to play in that.

Pirojsha Godrej: Thanks, Abhishek. I think it contributed, first of all, in the first quarter about 3% of our sales were through the 10:90 plan. And there is no question, obviously, that this does impact cash flows. Keep in mind that none of these sales are for newly launched projects, so this is all for sustenance sales. Most of these projects have well into the construction cycle. A lot of them will be delivered in a reasonably short time frame, including some this year and certainly a large amount next financial year.

I don't think the correct way to look at it would be to say that if you had not done the 10:90 scheme, then you would have done almost the equivalent amount of sales in a regular plan. I think remember that there was quite a lot of stress, obviously, in the market, as is evident from overall residential sales during the period. So I actually think we are quite happy with the team's agility in quickly pivoting and recognizing what would be needed to ensure continued growth momentum.

And I think one of the advantages we have, Abhishek, with having going into this situation with a healthy balance sheet, where at the end of Q4 our net gearing was at 0.24:1, is that we do have the flexibility to ensure that we focus on kind of medium-term health and growth rather than focusing entirely on short-term cash flows. I think there is a different world where we could have played this by saying, look all we care about is maintaining short-term cash flows and doing everything it takes to ensure those.

I think what we are choosing to say is that what we actually care about is that we are in a very strong and stable position. And we are not taking any undue risks to the balance sheet. But that we are also saying that we are not giving up on growing during the year. So our expectation is that despite the severe shock this situation has presented, that we will grow booking value this year. Which in turn will, of course, grow net cash flows and grow earnings over the next couple of years.

So I think that is then the choice we have made. And I think that has resulted obviously in some impact on operating cash flows. But again, I would caution you in assuming that there would have been near similar sales under a regular construction plan, which I don't think is the case. And I would also add that the cost of this scheme is loaded on to the scheme in terms of price increases. So customers are paying a higher price if they choose to go forward with the scheme.

It's certainly not a perfect scheme by any means from the company's perspective; it's not something that we would like to use for the majority of our sales for the year. But I think it was a very important tool in our kit and well deployed to have used it the way we did in the first quarter. We are gradually starting to already phase it out and are not going to rely on it as much for sustenance sales. And certainly, none of our new launches will be planned in this manner. Of course, we do have a fairly robust launch quarter. Mohit, do you want to add anything to that?

Mohit Malhotra: No, Pirojsha. I think you have covered it.

Abhishek Bhandari: My follow-up on that, Pirojsha. Do you see any risk on these sales? Because some of your peers, especially in South India, they did have a quarter when there was a big cancellation coming through, citing very weak economic conditions and customers coming back to them to get cancellation request. So the question basically I want to ask is, what kind of safeguard measures you have for these kind of pre-sales what you do?

Pirojsha Godrej: There is no question. I think the big downside to this scheme, Abhishek, is exactly what you said. Actually, as I mentioned, the interest cost of the scheme is loaded onto the scheme, so there is no real hit to the P&L or reduction in effective pricing as a result of doing the scheme. We have been able to deliver good volumes. We do have a balance sheet that can provide for the short-term impact on cash flows this scheme provides.

So the big downside is this, what is the quality of the sale, and is there an additional risk element that you would see higher cancellations through this than you would otherwise see? And I think that's an absolutely fair risk that we are taking with our eyes open. And with the understanding that we do have 10% of the cash for the sale from the customer. If they choose to then cancel, we will forfeit that amount and would obviously also have the unit available for resale.

In many cases, the true cost to the customer is actually more than the 10% if they have to pay stamp duties or other charges at the time of registration, so that varies quite a bit from region to region. So with the total investment of 10% to 15%, that is not a thing that people walk away from easily. Now obviously, if you see real-estate prices coming up 25%, 30%, would some of these customers end up backing out? I am sure they would. But, again, I think, we have the protection of both having the cash they have already given us available, which would not be refundable and the ability to resell that apartment at that stage.

Abhishek Bhandari: Sure. And my last question is on your business development. In the last two years, you have added almost 73 million, 74-odd million square feet, this quarter you said it's soft. But could we expect a similar run rate in terms of at least 20 million to 25 million square feet kind of large projects getting incorporated?

And is there any change in this strategy? Because if I remember, last call you have said that if there are certain projects where it makes more sense for us to buy the land, we will be more open to do it. Or would you still facing the current environment, it would makes sense diversify the risk and keep some risk with the land owner also. That will be my last question. Thank you.

Pirojsha Godrej: Yes, thanks. I think we are open to both sets of opportunities. I don't think we have any hard and fast thing that we will only buy land or only through joint venture. I think what we have always said about is buying land outright is that we will look for a reason that doing that will allow us to generate the same kind of returns that we think we can in a JV project. And some of those could include payment plans that allow you to pay for the land over time as you start seeing some cash flows on the land. Or short-cycle developments like small developments or plotted developments and things like that. Or of course, one of the reasons could be just the stress and you are getting valuations that you think make a great deal of sense. So, all those would be argument for buying the land.

At the same time, we do see a lot of opportunity in continued partnerships. We would like to see in each of those partnerships, our share of profits in project to be higher as it has been the case over the last couple of years. So we are not as interested now in doing low share, low profit share partnerships and are not doing any more development management or pure development management developments. But in partnerships where our share in the profit is high, or in opportunities where we can buy the land outright, we are I think open to both sets of opportunities. So, I think time will tell on whether this year we deliver the same kind of run rate of business development as we did the last couple of years.

The two factors that I think contradict each other a little bit on this front. On the one hand, I think the market is going to provide more opportunities than any other year because of the obvious stress and difficulties people are going through. That said, I think there was a lot of stress already in the previous couple of years as well. But certainly, I think, there could be some distressed opportunities that arrived this year. And we do want to be awake and attentive to those opportunities. At the same time, from our own kind of internal perspective, the pressure on business development is a little less. If I am being perfectly frank, I think three years ago our feeling was that without successful business development, the kind of rapid growth we wanted would be difficult. I don't think that's really the case anymore. Over the next two, three years we think we can deliver extremely rapid growth just from our existing portfolio.

I think the most important priority for the company is now to get all of these exciting new projects through the design and regulatory approval stage and get them actually into the market. And we think that will deliver the lion's share of the growth we hope to see over the next few years. But certainly, I think we do have the appetite for more if we get it at the right valuations. And particularly in some markets where our business development hasn't been as rapid as others.

Operator: Thank you**.** We take the next question from the line of Rohit Gulati from HSBC. Please go ahead.

Puneet Gulati: First of all, if you can give some more color on the nature of the sales, how much of the sales were digitally driven? And what percentage of these sales have actually been signed into a registered contract?

Pirojsha Godrej: Mohit, why don't you take this one?

Mohit Malhotra: Yes, Pirojsha. So, a couple of highlights for this sale. One is, we had a very large contribution from international markets in these sales, almost 50%. The second key highlight is that it's almost 100% digitally done. Because this was a period of extreme lockdown in the country and tactically people couldn't go and see their sites. And that's also one of the reasons why the share of international market was much higher than the domestic market. All of these sales are completely locked, fully contracts are in place.

And one thing which I would like to highlight is that unlike some of our competitor who recognize sales on very low booking amount, we as a policy don't recognize a sale unless we have 5% of amount collected, so completely fully secured sales. Anything else you want to ask me, specific?

Puneet Gulati: Yes. But they wouldn't have registered, right?

Mohit Malhotra: Yes. So I think one of the questions was about also collections. And the real challenge is getting registrations done, both for new sales and the sales which happened in Q4. Because the government machinery wasn't really operating effectively. And even now customers are a little hesitant about registration. But I think we are finding new ways of coming up with solutions around this. Government is also creating new solutions around it. So I think registrations should now pick up pace as things are relaxing more, and then it becomes more like a normal system. So after 10% customer sales, we have to mandatorily register the contract and pay stamp duties.

Puneet Gulati: Right. And you would have collected because most of these, 50% of the sales you said was 10% in 10:90 scheme, right?

Mohit Malhotra: 80% was 10:90. So yes, the registration should follow. But again, there is a little bit of an issue in physically getting it done in the registration office right now.

Puneet Gulati: Okay. My second question relates to the fact, while I appreciate collection would have been low, but the construction spend wasn't as low as one would have thought. Any color on that?

Mohit Malhotra: So again, there are two things. There is a billing which happens at the site. So supposing you are a contractor and you do work, so suppose you have done work in, say, February, March. Then what happens is that after you have done the work, there is a person who certifies your bill. That also has a lag, and we typically keep a lag between when a bill is raised to when it is paid. So a large amount of these are actually work which has actually happened in the end of Q4, which is spilled over and outflow of the construction happened from that perspective.

Puneet Gulati: So Q2 would be much lesser?

Mohit Malhotra: I hope we can ramp-up actually the construction in Q2 and come back on track. But it will have a lower than the desired numbers that we would have ideally liked.

Puneet Gulati: Okay. And my last question is, for some of your old customers, have you seen any lags in payment of their dues?

Mohit Malhotra: See, we track something called collection efficiency. So when a bill is raised to a customer of, say, Rs. 100, what is the amount or percentage of customers are paying, that's called collection efficiency. Now for the first two months, which was April and May, we saw a dip in collection efficiency, which means when the bill was raised customers chose not to pay. There was also a lot of confusion, because government had created, there was a lot of noise whether who can pay, who cannot pay interest charges, etc. But from June onwards, we saw our collection efficiency back to (+90%) level. So now that issue is resolved. And all of the customers are paying on time.

Puneet Gulati: Great. Sorry, just one more. So you already had Rs. 2,200 crore of cash. You are adding another Rs. 1,000 crore. Are you looking to deliver close to Rs. 3,000 crore in a year?

Pirojsha Godrej: Yes, in the next couple of years, that will be fully deployed.

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

Abhinav Sinha: Sir, congratulations on the strong sales number that you have shown. I just wanted to check, we have a six month sort of a lag at least between sales and execution now. And do you think that if execution is like really stuck at 70% odd levels even two months from now, you want to press ahead with more launches and higher sale?

Pirojsha Godrej: I am not sure I fully got the question. But, yes, I think our expectation is that the launches we will do will be on fairly regular payment plans. So it's not that we would be doing it on the 10:90 or anything like that. And that we think despite the market conditions, given the brand, given some of the locations of the projects we have, and the project positioning, that we will be able to do well. Now obviously, we have to demonstrate that and we will obviously course correct if we see anything in the early launches that gives us pause. But as of now, our sense is, that we will be able to maintain our intended launch calendar for the year and that we will be able to grow our booking value for the full year.

Abhinav Sinha: Okay. See, my question was more on the context of that execution is slipping behind the already launched pipeline, and is it like fair to sort of think you can manage the pace on even the new launches that you do from here on?

Pirojsha Godrej: You think, we think we can manage the additional construction, or...?

Abhinav Sinha: Yes. Exactly.

Pirojsha Godrej: Yes. Certainly, I think we have always said that we do not see ability to construct as a limit in any way to our growth. I think there is obviously a financing limit and an ability to construct if you are not able to generate cash flows from the project. But assuming, as we do assume that we will be able to sell well in these projects, we certainly don't see any challenge in taking on additional construction volumes.

Abhinav Sinha: Okay. So by the end of the year you should be around, whatever, 100% construction pace where you were in terms of labor, etc.? Is that an assumption we are working with?

Pirojsha Godrej: Yes, I think we should be there over the next few months. As I said, look at it this way, from the start of June to the start of August, we have moved from 30% to 60% in those two months. Assuming there is a little bit harder move from 60% back to 100%, given some people may just want to stay on in their villages and so on. But I don't think we see that as something that will take more than the next two, three months to get pretty close to back to normal.

Abhinav Sinha: Okay. And just one question I had on the cash flow front, on Slide 18, where the land and approval outflow was about Rs. 246 crore for the quarter. So this seems to be the rough pace for the year. And then broadly also, which quarter do you think you will break even again on cash flows now?

Pirojsha Godrej: On operating cash flows or on net cash flow?

Abhinav Sinha: So one on operating cash flows. And secondly, on the land and approval related outflows.

Pirojsha Godrej: Yes. So I think including land and approval related outflows, I would not expect us to breakeven any quarter this year for sure, because we have a larger number of business development investments already committed and significant visibility on further increase in those. So, I would say, if we are talking about kind of net cash flows at the overall level, I would not expect a positive number in any quarter this year.

At the operating level, we think things will get better and better. But I would say we had a strongly negative number last quarter, we will probably have a negative one this quarter, and then can hopefully get back into at least slightly positive operating cash flows in the second half of the financial year. But I think it is fair to say that based on current visibility, I think this year's numbers on net profit, on operating cash flow are going to not be very flattering.

But I think the main intention for us here is to make sure we use this year as a key platform to get to our medium-term goal of 20% ROE, which we would like to achieve over the next three years. And the way we think we do that is to make sure that the projects we launch sell well. That the construction progresses as fast as we possibly can give the constraints and that we lock in a significant amount of cash flow through sales this year for FY '22.

Operator: Thank you. We take the next question from the line of Mohit Agrawal from IIFL. Please go ahead.

Mohit Agrawal: My first question, again, is on the sales period, I am trying to understand it better. So you said that about 50% of the sales came in from the NRI customers. Just wanted to understand how do you see that going forward as to the sustainability of that kind of a mix? So what we understand is that a lot of people unfortunately may be losing jobs, and they may be buying homes. You think that 50% can be replaced easily, and you think that momentum can be sustained going into second quarter, third quarter? That's my first question.

Pirojsha Godrej: Look, nothing is going to be easily sustained. I think we, obviously, will have to keep working at it. But our assumption has always been that given the advantage we have with our brand, given the advantage we have, hopefully, of creating better thought through better design projects than many others in the sector offer, there is no reason that if we have the right locations and right products, that we cannot see a dramatic increase in market share. So we have already seen that to some extent in the last few years where our sales growth has been reasonably good, while the industry has been consistently contracting. Now if that continues, obviously there is some limit to that. But I think when we are talking about a low single-digit market share, as we currently have; I think the opportunity to grow market share gains can, at least in the short-term, overwhelm the disadvantage of the overall pie shrinking. And it will be our endeavor to make sure that we do deliver booking value growth through that, irrespective of what happens in the broader market.

Now obviously, if this situation considerably worsens from here and deteriorates beyond expectations, this all might prove impossible. But I think everything we are seeing now makes us feel reasonably good about this expectation, including, if you look at markets like China where the disease has come under control a bit sooner, residential real-estate demand has actually rebounded very well and is already at pre-COVID level.

So our sense is, we actually don't share the hugely bear case that most people think for the overall residential demand environment. We actually think there are a lot of aspects about this current situation that will boost demand, not subdue it, including the people's desire for their security that home ownership offers. But irrespective of how that plays out and whether we are right or wrong on that point, we definitely see nothing stopping us from moving our market share up if we have the right projects in the right locations.

We have, we think, more flexibility than other developers to find ways, to meet the customers' expectations without affecting our own requirements. So for example, I would say in the first quarter was a good example. One of the reasons we could immediately in April, launch the 10:90 scheme, and I think take a lot of market share was that we do have a liquidity position that allows it, whereas many of our peers, unfortunately, at this moment, don't.

So I think that flexibility that we have because of the financial position of the company, the advantage that we have because of a strong brand, which is already a big factor in a customer's mind. But as you can imagine, in a situation where people are hearing about COVID, hearing about the difficulties of the real-estate sector, if they are choosing to buy an under construction property, it's probably not going to be from a developer whose financial sustainability they have any doubt on. So I think there are a lot of advantages for us on a relative basis. We will obviously have to be strong enough to withstand any overall sectoral hits that this situation creates.

Mohit Agrawal: Sure, Pirojsha. I think that point is well understood, that was helpful. Just wanted to double check this momentum that we are seeing on the NRI part is sustaining in the initial months of second quarter as well?

Pirojsha Godrej: Yes. And I think, frankly, our goal is, we don't want the NRI sales to be at 50% forever, that's probably not the most healthy dynamic. We actually want our sales from locals to go up significantly. But I think it was a good thing in Q1 to fill an obvious gap. But we have seen a continued sustained demand in at least July from NRI. But again, certainly, and we are not suggesting that we expect for the full year to see 50% of sales from NRIs, nor would we consider that desirable.

Mohit Agrawal: Sure. Last question from my side. I mean, what we have been hearing also is that banks, in some cases, are tightening and they are going back to customers asking for those who are in jobs and all asking for documents and trying to reverify whether they still have a job or not. And just broadly, do you consider this issue a big one and has it impacted our collections? And how do you see this problem? Is it going to be a big one according to you? Or this is a minor issue for a month or two and it would get resolved easily?

Pirojsha Godrej: I don't think we have seen any major issue on this so far in terms of our own collections, but Mohit do you want to add anything?

Mohit Malhotra: Yes, Pirojsha. We have not seen anything. So obviously, the mortgage disbursements are slow because, I think, the attendance are very sparse in those offices, but we have not come across any such cases where the loans are getting refused to the customers and bank is going to the house and wanting to reverify those.

Operator: Thank you. The next question is from the line of Adhidev Chattopadhyay from ICICI Securities. Please go ahead.

A. Chattopadhyay: I am referring to Slide 13 on the launch pipeline. So just the question, so in the last three months, in terms of both the regulatory approvals and overall market conduciveness to any launches, which you had planned at the beginning of the year, has that changed in any manner?

Pirojsha Godrej: Mohit, do you want to comment on this?

Mohit Malhotra: Yes. See, the approval processes are slightly challenged because governments are also facing their own set of issues and they are all fighting the COVID related problem. There are cases where the whole department actually suffered from COVID and things got delayed. So I think there is going to be a bit of disruption and has already happened. But as of now, we remain confident that we will be able to make up the lost time and remain confident to deliver on our launch pipeline guidance, which we have given.

A. Chattopadhyay: Okay. And I mean you see currently even the demand situation being available to absorb all these launches in the market, whatever you have indicated or has that changed anything in the last three, four months because the location was not accessible in that case?

Mohit Malhotra: I think Q1 kind of answers that question that there is a demand for the quality product from a quality player. So I think we remain pretty confident, and even our one launch which happened in Q1 was actually in Bangalore, right in the middle of the lockdown where people were also not able to travel to the site. So I think there is a clear demonstration that we have been successfully able to launch projects and sell projects.

As I said, the challenge always has been getting approvals on time. And this has slightly got worse off because the government are also fighting COVID. So there is a bit of distraction, their work force is also limited in their offices. So launches are getting slightly delayed. But as and when the launches are coming on the board, we are seeing very strong response from our customers.

A. Chattopadhyay: Okay. Fine. And the second question is for the total collections of Rs. 420 crore. How much of that collection could be from the sales we have done in the current quarter?

Mohit Malhotra: I don't exactly know the exact number, but it will be very less. Rajendra, do you have the exact number?

Rajendra Khetawat: No. So we can come back to you with the exact number. But as Mohit said, it would be very less. But most of the sales would be for the billings, which has already done in the previous quarter, maybe in the month of February and March; and to some extent, what the collections we have received would be from the billings of April.

A. Chattopadhyay: Okay. So that 10:90, which we have sold, I think, roughly up to 80%, I think, Rs. 1,200 crore plus for the quarter, so you have collected the 10%, is that correct? If I understand correctly.

Mohit Malhotra: We would have collected 5% for sure. And balance, you give 30 to 40 days to customer to pay the balance. So some of it would have got collected in the quarter and some would be now collected in July.

Operator: Thank you. The next question is from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.

Sameer Baisiwala: Sir, this is regarding the new project launches. So, as when you get approvals, would you be ready to launch? Or are there any demand indicators that you are waiting for?

Pirojsha Godrej: No. I think on the ones that we have listed in our launch guidance, these are all ones we intend to launch. And obviously, our current assessment is that we can launch them from a demand assessment perspective. So they will all be linked to regulatory approvals.

Sameer Baisiwala: Okay. Fair enough. So when you get approvals, you will be out in the market, I mean?

Pirojsha Godrej: That is right.

Sameer Baisiwala: And sir, any updates on the three key projects; Ashok Vihar, Bandra and Worli?

Pirojsha Godrej: Mohit, you want to take this?

Mohit Malhotra: Yes, Pirojsha. So on Ashok Vihar, we have made excellent progress and all our designs are ready, the entire master plan along with multiple phases, designs are ready. So teams have done actually quite a fabulous job in turning this around and using the lockdown to full advantage. So we are planning to file for approval very shortly.

On Bandra, we are already on a fairly advanced stages in terms of approvals. And now the focus is on getting site clearance done. And now of course, the work was halted because of the COVID and the lockdowns etc. But now I think there is a very large focus even by government in getting funds cleared and promoting SRA projects. And there has been a lot of announcement recently done by government. So I think the moment things become a little better on the ground, we expect a strong momentum for us to clear slums.

On Worli, we have, again, a very, very strong progress on design. We have received the revised LOI. So, a lot of positive progress. Again, the key constraint on Worli and Bandra is actually just the site vacation. And in both of these, I feel, given what has happened in the city with the COVID situation, the kind of effect it had on slums, both government and the people there would be more positively inclined to get relocated. So hopefully, in the second half of the year, we should see a very significant progress in both the projects on slum clearance.

Sameer Baisiwala: Okay. And for Bandra and Worli, once the site is 100% cleared up, did you need to make their rehab units there before you launch your own project?

Mohit Malhotra: No, we can launch it simultaneously and construction of sales and construction of rehabs are linked in SRA projects. But once site is cleaned, we can go ahead and launch the same project.

Sameer Baisiwala: Okay. Great. And one final question for my side. Have you availed off any moratorium for your own debt book?

Pirojsha Godrej: No.

Operator: Thank you. The next question is from the line of Swagato Ghosh from Franklin Templeton. Please go ahead.

Swagato Ghosh: My first question is, I just want to understand, what is the yield on our liquid investments that we have on our books, about Rs. 2,000 crore? And in that context, I also want to understand the timing of using of this Rs. 1,000 crore of NCD.

Rajendra Khetawat: Sorry, you asked what is the yield on the Rs. 2,000 crore what we have on the balance sheet?

Swagato Ghosh: Yes.

Rajendra Khetawat: Yes, around 5% to 6%.

Swagato Ghosh: Yes. So then why did we go ahead and raise the NCDs at 7.5%? That is my question then.

Rajendra Khetawat: So the 7.5% debt has been raised to replace short-term debt. So this is not something which we are going to keep it parked into mutual funds. This has already replaced our high cost debt. So in effect, this will bring down our average cost of borrowing from 7.75%, which is presently to 7.5% in coming months.

Swagato Ghosh: Okay. So we had that amount of debt, which were coming up for maturity. Is that understanding right?

Rajendra Khetawat: Yes.

Swagato Ghosh: Okay. Fair. And the second question is on the launches. Because you said that you will anyways go ahead with the launches that are mentioned in the presentation, so the price points for the launches would they now be slightly adjusted downwards because of what has happened in the last few months versus our initial maybe assumption of pricing?

Pirojsha Godrej: No. As of now, I don't think that is the case. As we mentioned in Q1, we obviously think things were at their worst, including in April and May. We were able to sell without any price reduction. So I think the expectation from the team is to deliver the business plan as underwritten. Obviously, we will have to project by project evaluate the market and see exactly what's happening before launching the project and gauge the response to our launches. But as of now, our assumption is that we think we can maintain prices and continue to see good responses.

Operator: Thank you. We take the next question from the line of Abhinav Bandari from Nippon India. Please go ahead.

Abhinav Bhandari: I had two, three questions. So first of all, to start, I was just comparing the last presentation. In terms of key projects which have contributed to the booking versus this quarter and the two or three bigger projects last quarter like Hillside 2, Boulevard, RKS and Garden City Ahmedabad, some of which were above Rs. 200 crore-plus in terms of booking value are not even featuring in the top 12, 15 projects of this quarter. So they are not even touching to Rs. 30 crore, Rs. 40 crore kind of booking as well. So I understand the Q1 related disruption, which has happened, but is there anything beyond this explanation for some of these bigger projects?

Mohit Malhotra: Yes, I think good observation. Actually, Q1 sales were a very large amount was done in between Rs. 50 lakhs to Rs. 1 crore bucket. And many investors found value there. Some of the projects like RKS, we had many inquiries ready for closure, but the people wanted to see their site before they give the final check. Now actually quite happy to say that some of those things are actually concluded now, and we see there some of the phases of these projects also picking up.

But it's largely a function of, if there is a very end-use project, then people would like to see the site before making a payment. And for projects which are Rs. 50 lakhs to Rs. 1 crore, there were larger predisposition to do sales only through digital channels. But just to answer your question, some of these projects are now back on track. The Hillside and all, we have actually fully sold out. So some of these projects are now fully sold out, and we will have to wait for a new launch before we can sell any further on these projects.

Pirojsha Godrej: It's not very unusual because we have activations in certain projects in certain quarters and then different ones in other quarters. So it's not a very unusual part of the sales cycle.

Abhinav Bhandari: No, I mean, the only unusual thing was if the momentum is there in terms of selling Rs. 200 crore plus in a quarter from a project, it should at least do Rs. 30 crore, Rs. 40 crore in the next quarter, but that was just a surprising part.

Mohit Malhotra: So as I said, for RKS that momentum is revised. And the Hillside is actually fully sold out.

Abhinav Bhandari: Sure. The second question was on this line item which we have in the cash flow, which is adjustment for JV projects. This number has been about Rs. 100 crore exactly for the last two quarters. Before that, it was roughly about Rs. 150 crore, Rs. 170 odd crore. Just trying to get a better sense on what this adjustment is related to?

Rajendra Khetawat: Yes. So this adjustment is basically what we try to do is we try to marry the cash flow to the net debt number. So many times in the JV project there are certain times there is a JV partner who is contributing into the cash flow. While the cash flows over the top reflects gross inflows and gross outflows so in order to tie it up with a net debt number, we make this adjustment into this line item. Suppose just for example, in Godrej 2 we have a partner who contributes 50%. So while the gross inflow and outflow get reflected on the top, but when the out of that 50% gets contributed by the JV partner in terms of cash flow so that adjustment is being made in the form of a line item.

So in the same sense, some projects are funded to external debt, a case in point again is the Godrej 2, which is a commercial project. So whenever the outflows are completely shown as a part of cash flow over the top. But then if the outflow is funded through external debt, that is being adjusted as a line item over there. So the idea is to just to tally a gross inflow minus cash outflow to net debt, GPL is shown showing in the balance there.

Abhinav Bhandari: Got it. And just one last one. You delivered about 5.3 million square feet last year. So in terms of scheduled delivery, I understand for the kind of delay which is happening, but typically FY '21 and '22, what's the scheduled completion target in million square feet?

Pirojsha Godrej: It will definitely lower this year, because I think the way to look at it is, this year it's sort of like a half year, because we have basically lost six months. So I think we will just wait and see how quickly we can ramp things up before talking about that. But obviously, at about a three year lag from sales, we should see deliveries broadly tally in a normal year. Although as I said, this year is a bit of an exception given the situation.

Abhinav Bhandari: No, I was trying to understand from a RERA time line perspective. In terms of that, how much would be the number in terms of million square feet, which we have to deliver this year and next year?

Pirojsha Godrej: Rajendra, do you have that off hand? Rajendra?

Rajendra Khetawat: So, maybe I don't have the exact numbers which you are asking, but there are certain projects which we are intending to deliver, and the delivery is on track. Like there is a project called Island in NCR which we is currently under delivery, and OC is expected very soon. But from a RERA perspective, all our projects are actually very well secured. And RERA has also extended to the COVID situation. So we don't see any risk of getting delayed beyond the RERA time lines on any of our projects.

Operator: Thank you. We take the next question from the line of Alpesh Thakkar from Motilal Oswal. Please go ahead.

Alpesh Thakkar: Congratulations for a very good set of numbers, sir. Most of my questions have been answered, just one small query. So for last few couple of years, the things were changing dynamically, like the sales were shifting to the end consumer user. But now, again, like the NRIs are coming back, and we have been hearing from a lot of other developers also.

So do you see that this investor driven sales will continue to drive or would there be, again, a structural shift in the change the sales are doing in present time? So just wanted to understand on that part.

Pirojsha Godrej: Yes. My sense is, you will have a bit of both. Look I do think there are investors today who see the current state of the market, see that there are good deals on the table and are interested in playing the kind of upside opportunities that exist. And I think some amount of that is healthy to exist. We obviously don't want that in any way overwhelm the sector or rapidly driving up prices and so on. But I think that healthy coexistence of largely end users with some amount of investor demand is probably what's best. And probably what we will see.

Again, our view is that there is absolutely no reduction in the desire for home ownership as a result of this crisis. In fact, our view is that there is a strong increase in intent to pursue homeownership. There obviously may be deterioration in the ability to pursue a given some people may be losing their job or facing salary cuts for the uncertainties. But as we always say, we are also going into this with affordability at very healthy levels by standards of how the real-estate market in India has performed over the last two decades.

So I think once we do see more economic stabilization, it's not just this COVID situation. Unfortunately, I think India was not in a good economic position even before this. But I don't think our view is that the country is going to face a medium term difficult situation. It is in a short-term difficulty. It will find its way out of that over the next couple of years. And this sector will be one that clearly benefits as a result. And I think both the investors and the end users will participate.

Operator: Thank you. The next question is from the line of Kunal Lakhan from CLSA. Please go ahead.

Kunal Lakhan: Pirojsha, you mentioned earlier that we plan to expire 20% ROEs over the next three years. So in that case, looking at our current equity base, are we looking at clocking profits of about Rs. 1,000 crore for the next three years, which is almost 4x of current run rate?

Pirojsha Godrej: That is the goal, yes.

Kunal Lakhan: Okay. Sir, a related question is that, what would be the drivers to achieve that profitability, both in terms of pre-sales as well as in terms of completion run rate and in completion run rate and margins?

Pirojsha Godrej: Yes. Look, I think whether we get there in this time frame we have laid out will depend basically on three things, whether we can launch the critical projects that will help us get there, including things like Ashok Vihar on time from a regulatory approval perspective. Because clearly if we have a two year delay in some of these big projects, then they don't contribute, then that becomes more challenging. So, one would be the sort of time to launch.

Second would be effectiveness of launch, and the ability to sell the volumes we expect to over the next three, four years, especially in these critical projects. And third would be, can we construct them on time, so that from a revenue recognition perspective we are able to see that the projects are completed in that kind of time frame. So projects like RK Studios, or Okhla, which are already under construction or projects like Ashok Vihar and Mumbai SRA projects, etc., we are able to at least complete some of the phases of those projects in that time line.

So I think those are the three challenges, that is very much the kind of focus of the team. And I think if we execute against all three of those, we do think we can get there.

Kunal Lakhan: That's very helpful. Also, in terms of commissions to channel partners, like the sense that we are getting from market is that the commissions are kind of inched up over the last few years. What's the sense you are getting and if these commission rates would be sustainable going ahead?

Pirojsha Godrej: Mohit, why don't you take that?

Mohit Malhotra: Yes, you are right. Actually, we observed the same trend that the commissions of brokers were going up. So this year we have actually, in Q1, taken a very proactive of capping the maximum commission a broker can earn through various schemes which we run at the project level, nationally, etc. And there is a very strong focus on bringing the commissions down.

Also, the width of the channel has to expand more, so that has been one key area which the teams are working on to have more number of brokers participating. And the third is, of course, the contribution of direct channels, loyalty and referrals is something which we are focusing on to bring down the cost of sales. But clearly, there is a very significant focus now to significantly bring down commissions of the channel partners.

Kunal Lakhan: Sure. That's helpful. But you mentioned that you were planning to bring down the channel partners, number of channel partners or rather bring up the number of channel partners to avoid the competition in commissions. That is actually a little contrary to the old tie up with Anarock, right, like they being your exclusive channel partners on those projects, how does that work out for you?

Mohit Malhotra: So what we do is sometimes for a project or two, on a sustenance project when we are seeing that there is a need for bringing a specialized partner, whether it is Anarock or whether it is Square Yards or sometimes we work with other people. That's a very specific window which we create for these people to use that capability. And usually these assignments last for a period of two to three months. And after that, they go back to the regular way of operating.

So these are something which we do on a very off basis, typically this is not our regular way of selling. This is something we do once in a while, depending on the need for the project. And again, as I said, effectively when these partners are selling through other channel partners, so idea is to widen our own net and tap that directly.

Kunal Lakhan: But in fact, there is no cascading effects of commissions on us, right? So effective commissions, even when you select the partners like Anarock, overall expected commissions out of our pockets, is it in line with the industry standards or slightly on the higher side?

Mohit Malhotra: Yes. See, the way we work out with Anarock is there is a very clear understanding that the overall cost is something which we significantly control. So our overall cost of sales, whether if we are selling through Anarock will not be significantly different from our top channel partners, which we call Partner Premia. So that balance is maintained, always. And again, the idea is to keep on reducing those cost of sales as we move forward. So there is a very significant shift to reduce that.

And I am very happy to say that in Q1, actually, despite COVID and despite all the pressure, and despite record sales, our cost of sales in Q1 was significantly lower compared to the last year, with the same set of channel partners.

Pirojsha Godrej: But I think, certainly, applied to the broader industry, these costs would be lower than the average industry. Ours have also been trending upward compared to our own cost. But I think, certainly, compared to the industry our average cost would be significantly lower.

Operator: Thank you. The next question is from the line of Manish Jain from Gormalone. Please go ahead.

Manish Jain: First of all, hats off to the team on outstanding sales bookings, especially in the COVID period. And I had a main question was on what have been some of the key changes in customer expectations that you have seen during COVID from the homes that they are looking to buy?

Pirojsha Godrej: Mohit, why don't you go ahead?

Mohit Malhotra: Thanks, Manish, for the compliment. Manish, this is really a very tough question and a very deep question. See, it all depends on how the trend of work from home continues, and the impact it has. But if that continues, the need for a special space which could be used either for the children, for their school or for people to work from their homes, it's something which is now being more and more discussed and demanded.

And at the same time, we also see there is a significant pressure from set of customers who are asking for lower ticket size and even micro apartments. So it's a very interesting trend. I think there is a segmentation which is naturally evolving in our market today, where there are people who are graduating towards larger spaces. And there are people who are graduating towards smaller spaces.

And there, I think, the whole idea is about how to intelligently design them, how to create flexibility. So a lot of innovation going on, on both of these fronts, Manish. But in all fairness, we are still at a little early stage for me to answer your question very comprehensively. Maybe after a couple of months, as we study our consumer more, I will be able to answer this more comprehensively.

Manish Jain: That's very helpful, Mohit. And secondly, whilst everyone has been talking about their digital sales capability. But you and your team have demonstrated with very robust sales focus. So if you can just give some insight on what is it that differentiates Godrej's digital sales capabilities over the peers, or competitors in the market?

Mohit Malhotra: Yes, thanks for asking this. Actually, incidentally, the digitization of sales was a program which started almost year and a half ago, where we actually, me, our sales head and Rajendra, we all sat together and said, Is there a way we can think about selling homes online through our website? Almost like creating an amazon kind of thing for our own channel. So obviously, that sounded pretty weird and crazy idea that day. But we said, why don't we just move towards that journey.

And the first step of that was actually complete rehaul of our back-end process for sales, and the team did fantastic work on it. Actually the front end is pretty easy to design, the back end is very, very difficult to handle. So almost it took us a year to refine our processes, change our way of launches in sustenance sales. And the back end was completely ready. But it took us almost a year of work for the back end to be ready. Now obviously, we never thought the COVID will come in and suddenly we will be hit with this scenario. But somehow that work which was going on for year and a half made us very ready to handle this situation. Once the back end was ready, it was more about how to effectively use the front end.

And there, again, I think, all of us have adapted to video conferencing in a big way, the kind of tools teams have created for marketing, because our big thinking was to launch a GPL customer app, so a lot of content was also ready for these projects which we could provide. So while we haven't launched the app yet, all that digital content was ready for that, which we started using to sell. And of course, I should not take away the kind of passion and the commitment our teams, and the innovations our teams come up with in any kind of tough environment. So this whole thing, even though the app was not launched, but to make this ready in the front-end, all credit goes to our sales team for making it happen.

And I think after the fabulous sales which happened in March, it gave us a lot more confidence that this is actually something which is realistic and can be done. So we took our mission that in Q1 we will definitely not give up despite a complete shutdown, which was going on. And we are quite happy with the kind of response we had seen. And actually, the acceptance level of digital channel is very, very high. And I think the big change which will happen is, I don't think we will ever go away from a site visit to conclude the sale, but 90% of the processes could be now done digitally. We are working on GPL customer app, hopefully, in the next couple of months we should launch it. And then maybe even you can sit in your room, select the inventory and transact completely end-to-end through our app and buy the property.

Manish Jain: Wow. So, really hats off to your entire team, phenomenal job. And one last housekeeping question was, we didn't see Vikhroli in the launch plan. Pirojsha had mentioned some challenges in the last call. So those are yet to get resolved?

Pirojsha Godrej: Yes, Manish. Those still persist.

Operator: Well, Ladies and gentlemen, that was the last question for today. I would now like to hand the conference back 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 information, we will of course be happy to be of assistance. On behalf of all of us, thank you again for taking your time to join us today. And please stay safe and all the best.

Operator: Thank you very much. On behalf of Godrej Properties Limited, that concludes this conference. Thank you all for joining. You may now disconnect your lines.