

Prozone Intu Properties Limited
Q2 FY15 Earnings Conference Call
November 24, 2014

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Earnings Conference Call for Prozone Intu Properties Limited organized by Dickenson Seagull IR. We have with us today, Mr. Nikhil Chaturvedi – Managing Director; Mr. Bipin Gurnani – President; Mr. Anurag Garg – Chief Finance Officer and Mr. Amit Sabharwal from Dickenson Seagull IR. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference 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. Amit Sabharwal. Thank you, and over to you.

Amit Sabharwal: Thank you. Hello and A very Good Evening to all of you. This is Amit Sabharwal from Dickenson Seagull IR. We manage Investor Relations for Prozone Intu Properties Limited. We welcome everyone here present today for the Earnings Call.

Before we get started I would like to remind you that our remarks today might include forward-looking statements and actual results may differ materially different from those contemplated by these forward-looking statements. Any forward-looking statements that we make today on this call are based on the assumptions as on today and we undertake no obligations to update these statements as a result of new information or future events.

Dear Friends, basically, as you know we have come out with our new identity that is Prozone CSC is now Prozone Intu Properties Limited (Prozone Intu). Prozone INTU, as the name suggests, it is promoted by the Provogue Promoters and Participated by Intu Properties UK PLC. Intu Properties UK PLC is a FTSE-100 listed company and it is amongst the top 20 REIT in the world. They manage over £9 billion of assets and 10 of their Shopping Centers are among the top 25 centers in UK. The vision of the company is to create, develop and manage world-class mixed use developments and Shopping Centers. So the branding of Prozone CSC has now been aligned with the central branding of the Intu Properties UK PLC and that is a big commitment leap for the company from the UK partners also.

Now, coming to the business model of the company, just to reiterate, our business strategy is basically to create, develop and manage world-class mixed-use developments along with long-term Shopping Centers. The business strategy is to use 25% of the land parcels to develop build and lease asset, whereas 75% of the assets are basically 'Build and Sell Model' so that the cash flows from the 'Build and Sell Model' can be used to have debt-free annuity long-term lease assets.

Coming on to the Project-by-Project basis, currently, the Aurangabad Mall is already operational and the Commercial as well as the Retail part that is the PTC Phase-I & Saral Bazar Phase-I are almost in the final stages of completion. For Saral Bazar, the possession of the shops has already started.

For the Construction on the Residential project, the Nagpur project the Construction has already started, the contract was given to NCCCL and the Construction is in full swing, where we have more than 323 Units which are already sold equivalent to more than Rs.200 crores of inventory that has already been sold.

Coming to the Coimbatore project, the Construction of the Retail Mall has already started. Gannon & Dunkerly has been given the mandate for the Construction and the Construction is in full swing for the project. As far as the Residential project is concerned, the infrastructure has been completed, and the launch of the project is planned during the coming next 2 to 3-months.

Now coming on to the 'Results', the Rental for the Aurangabad Mall has been quite stable with increase of around 6.04% on a Q-on-Q basis as well our EBITDA has increased by 11.46% and margins have increased by 280 basis points on a quarter-on-quarter comparison. The Rentals have been stable and positive improvements have been seen across all the key parameters, such as the average trading density, the footfalls as well as the retailer sales. The Q2 FY-'15 retail sales have increased by 9.08% to around 429.5 million. The average monthly trading density for the quarter has increased by 8.03% to Rs.274 and footfalls have increased by around 3.64% from Rs.16.5 lakhs to Rs.17.1 lakh on a y-o-y basis.

Coming on to the new stores, basically around 3000 sq.ft. have been added with three new stores launched during the quarter that is the Wildcraft, Mats & More and ATN purses as well as another large format store of more than 30,000 sq.ft. that is Decathlon is in progress which would become operational during the current quarter.

Coming on to the 'Overall Results for the Quarter', overall income has been flat around Rs.88.7 million as compared to Rs.90.1 million in the previous quarters. However, our EBITDA margins have improved by almost 600 basis points to 42.3% as compared to 36.1% of previous quarter, mainly due to the cost rationalization and stable Rental. We intend to become more and more cost accretive as well as focus is on bottom line improvement and we believe that we would also start turning PAT positive as the time goes by, as we are into entering to the stage of monetization of all our assets.

Now, I would like to hand over to Mr. Bipin for his some remarks on the results and post that we can have a Q&A. Over to you, sir.

Bipin Gurnani:

Thank you, Amit. Good afternoon everybody. I think Amit has broadly captured in terms of what has happened in the quarter, just a few things that I would like to add is that, as of now I think two of our main assets which is in Nagpur and Coimbatore are in full swing with respect to the Construction activity. Nagpur, we have also seen a lot more traction because we had shut down our sales interimly till such time that we taken off on the Construction, we intend to re launch it in the first week of December as we see the demand and traction in the market currently and we expect that we should be able to get further bookings on the Units that we had not sold out of the 392 that we had launched. So Nagpur seems to be on track for us.

Coimbatore also, since the Construction has started we have had a lot more interest from other key anchors other than who we signed. So there is a lot of engagement that we are in with the major anchors now. So that is something which is positive and we expect that over the next couple of quarters we should be able to sign up all the anchor spaces in the Center.

Aurangabad again I think the Mall has completed its 4-years of operations and we see a lot of stability, a lot of new enquiries in terms of Leasing spaces from different categories and there is a renewed interest in terms of people wanting to expand because overall if one sees there is limited amount of quality Retail that is being built, therefore brands that need to consider growth are obviously looking at existing properties which are quality assets to expand their brands. So from that perspective Aurangabad is seeing lot more enquiries from various plants that are not currently present in that market.

From our perspective the other thing that we are looking at now is because Nagpur we will be hitting the parameters of revenue recognition, we are over viewing in terms of the optimization of taxability, etc., and then we will take a call on when and how to start recognizing the revenue from a Nagpur Residential asset.

Overall, I think we see the period coming up to be fairly optimistic and I think the environment is very hopeful and optimistic and we expect that would translate for us as better closures in terms of whether it is leasing in Aurangabad or higher unit sales in Nagpur. So for us I think it is more about making sure that we continue the focus on execution and making sure that we continue the high-gear activity in terms of Construction at these two sites. That is broadly what we would like to communicate. Thank you.

Amit Sabharwal: Thank you. I believe we can open the floor for Q&A.

Moderator: Thank you. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press '*' and '1' on their touchtone telephone. If you wish to remove yourself from the question queue, you may press '*' and '2'. Participants are requested to use handsets while asking questions. The first question is from the line of Manish Manwani from Bonanza Portfolio. Please go ahead.

Manish Manwani: Sir, can you tell the status of the Indore projects and when were the booking started over there?

Management: No, Indore, we have not taken any bookings as yet and Indore market has been comparatively soft, so we are not planning the launch also currently, we are evaluating whether we should be selling a gated community of plots or should we be selling high rise like this, because the high rise realization in Indore is quite low. So most probably Indore will be looked at as a Bungalow development.

Manish Manwani: So when will you be expected to launch, next financial year?

Amit Sabharwal: Yeah, in the next financial year.

Manish Manwani: So you got the authority approvals pending before?

Management: No, we have not got any approvals, there we have not even finalized our plans as yet, so once we finalize the plan then we will apply for approvals.

Management: Just to share that we had got the colonizer's license and approval and the other applications that we had earlier put in were for all development from a high rise perspective, since we are now revisiting our strategy in terms of high rise development, based on the new finalization what we do in the new drawing we will then approach the authorities for seeking on the approvals for a Gated Bungalow Township project.

Moderator: Thank you. Next question is from the line of **Odile broussy** from Lombard. Please go ahead.

Odile broussy: I wanted to know that if you could shed a little bit of light on the cost rationalization that you were talking about earlier that has helped margins improve, can you be a bit more concrete about what has been achieved and how much more there is to achieve in that direction?

Management: Hi, Odile. what happened last year was that we used to get wind turbine energy which used to cost us much lower, in between the government had put a restriction on that, and therefore suddenly our cost for electricity had gone up, or we were not able to get the benefits, this year again we had filed a petition with the government and we managed to get the approval of the government in terms of allowing us the open access for wind turbines. So that is one of the large benefits that we could accrue into these last two quarters. The other thing has been in terms of marketing spends. What we did was that we engaged with the retailers a lot more and we have tried to involve them in our marketing plan. So effectively we were able to share certain costs on advertising, etc., with our retailers, so for example if we were to do a full page ad, we would invite three or four large retailers to participate in that advertisement, so we could spread the cost across and our cost on the Mall side would also reduce. So these are a couple of the key things which have really helped in terms of rationalizing the costs. The other has been that we had a certain level of manpower that we had engaged at our sites, till such time that we had the contractors on site, with now the contractors on site, all the manpower which was engaged for infrastructure development, etc., which was largely on the technical side we were able to get them absorbed either as part of the team with the contractor or they were shifted to other projects through the BMC that we had. So that also to some extent we were able to rationalize because our infrastructure work had already got completed and the work at site was now mainly the main building and the main construction which was done by the main civil contractor.

Odile broussy: When you were mentioning earlier that you had gotten a lot more interest recently from retailers on Aurangabad, do you foresee that this is going to increase the occupancy rate, and on which kind of time horizon do you think this interest can become more concrete?

Management: In the last 6 weeks is when we have had the likes of JLL and Knight Frank bringing a lot more opportunities of leasing of space at the center. So we believe that normally for a Vanilla store, it

normally takes us about 8 to 12 weeks to come to a closure level. So I think in the coming quarter we should be able to see a few of these opportunities or the enquiries closing in, but obviously opening may still take a little time because by the time they come in and they start their fit out, it would still, I think, may not happen in the coming quarter, but may be the first quarter of the FY-'15. But, yes, we are pushing very hard to ensure that we are able to get closure on them as quickly as we can. The bit excitement for us in fact is Decathlon which originally had come to us to sign only 12,000 sq.ft. space, finally when they started visiting the center and their MD had come down from Bangalore, they realized the potential and the opportunity for a larger space, currently they have signed up for 30,000 sq. ft. unit, they are under fit out, and there is a huge amount of excitement for that brand in the city and they are planning to open by Christmas. So we believe that is a big positive for the center. The other large space is being pursued by Max Retail which is also in the space of young value fashion, and they have also very eagerly looked at the 12,000 sq.ft. space with us. So if we put all this together, I think we should definitely have much higher space occupied and we should be able to cover up for vacancy, which has been there since the last few quarters.

Moderator: Thank you. The next question is from the line of Chintan Sheth from SKS Capital & Research. Please go ahead.

Chintan Sheth: Just wanted to get an update on your Aurangabad. You explained about Decathlon 30,000 sq.ft., build, how is the Rentals outlook going forward?

Management: Just to share that our focus is currently on making sure that we fill the center with the right categories in the right brands, and we expect the rental growth to remain slow and steady, I do not think we are treating this interest to the extent that we want to immediately start asking for higher rents, we want to make sure that we bring in the right brands, we are obviously making sure that they also come in with a revenue share option where it is a minimum guarantee rent or a revenue share, which means that in a way locking into the growth of the brand going forward. So we expect the Rentals to be stable and the occupancy to grow, and obviously the earnings will grow, the ability to amortize the CAM expenses across the larger occupied area will all help the center in terms of better realization on the margins.

Chintan Sheth: So, the 30,000 we basically intend to 5% jump in the occupancy next quarter, right?

Management: Yes, right.

Chintan Sheth: So going forward, around 85% occupancy?

Management: Correct, that is right, the single brand itself will obviously add a larger percentage, plus as we mentioned earlier, a lot more brands that we are engaging with and we hope that all this will start fructifying. The other thing which we have also done is that till now the parking at the center was free, we were making sure that people got used to and habituated to coming to the center, from the last month, we have also started charging for the parking, so whilst there was a cost of managing the

parking, now we are in a position where we will earn from the parking as well as those costs will get reduced. So overall net effect on the sales will be reasonably high over the next months ahead.

Chintan Sheth: Coming back to your Nagpur project where the launch is expected in first week of December, that is 1-2 weeks away, the major of the your three stage revenue recognition has been covered for Nagpur, right, so your policy towards recognition...?

Management: Yeah, we are expected to hit the three parameters for revenue recognition in the coming quarter, but we are looking at it prudently from a tax angle and booking of the revenue and the impact on tax, so we will look at it more carefully, we have engaged with some consultants to ensure that we do the right thing in terms of the revenue recognition without having too much impact of tax. So whilst we will hit the parameters, the decision to start recognizing is the call that we must take.

Management: We must put it like this that, we will have to recognize the revenue in this quarter or the next quarter, we would not be able to delay it beyond that, that is for sure. But, all we are trying to do is trying to make sure that we are as prudent as possible about taxation.

Chintan Sheth: So that means that in the next two quarters we will definitely book the revenue but depending on the tax efficiency we will skew it in terms of recognizing it either in the Q3 or Q4?

Management: Correct.

Chintan Sheth: You have hired the two contractors for the Construction work. How are you going to basically charge it on the P&L – whether you will book the cost in front first and then write-off at the later stage or you will write-off as and when the expenses would be incurred and put the burden on the P&L rather than accrue it over a period of time?

Management: We follow the percentage completion method for revenue recognition. According to that whatever the Construction cost plus the land cost as the capital WIP inventory in the balance sheet will hit on the proportion of expected cost incurred revenue is recognized and same proportion of the cost is charged to the P&L account.

Chintan Sheth: Q4, we will see the revenue jump as well as the cost of ...?

Management: Matching cost will also be there in the P&L.

Chintan Sheth: So we look at both the chunk from the cost side and the revenue side going forward?

Management: Together.

Chintan Sheth: In the Coimbatore you mentioned that there are few approvals still required for the launch, how comfortable you are that you will make through all the approvals and launch the project in the upcoming festive season?

Management: Very clearly, I think we have applied for all our approvals well in time and I think we are focusing and making sure that we put all the efforts to get the approvals, and our launch obviously will be subject to getting all the approvals because as a principle we do not launch any project till we have all the approvals in place. So we will have to keep making the efforts to ensure that our approvals come on time.

Management: But in that city we have got already got our approvals for the Mall, so we are used to all the systems and we have worked with them already, so even the Municipal Authorities and everyone understands our project altogether, so it is not like going to them for the first time.

Chintan Sheth: Rs.180 crores of bank debt loan you have taken for the Retail project at Coimbatore is specifically for the Retail only, right? it would not get used for the Residential purpose?

Management: No-no, we have specifically asked part of the funds for Residential also, they go towards only building the entire Club House infrastructure, so the entire Club House infrastructure will be ready on day one when the sales start and that we expect will also give us the price jump and a huge amount of credibility because of which sales for us is quite easy. So if you see Nagpur also without giving any adverts, we have had huge amount of sales because we have already built Club House so people can see infrastructure in the place.

Chintan Sheth: Right, that is the model we are following over the years, so first complete the project and then go for the sales and finalize from the sample flat you book the sales and complete the project?

Management: What we do is we make the Club House infrastructure, make the sample flat also within it and the marketing office also within it.

Chintan Sheth: But if I see the consol balance sheet the total debt still stands flat at 1700 million. So going forward we will see doubling of the debt on the consol balance sheet by the year end?

Management: The debt will go up only to the extent of whatever we will keep drawing down at Coimbatore. But for that we have no intention of applying for any new debt. Once we finalize our plans for Nagpur Mall we can look at maybe taking some debts for the Mall, but at the moment there are no plans.

Chintan Sheth: So what kind of a peak debt you are seeing by the year end, what can we expect this financial year?

Management: Rs.1700million maybe go to Rs.2000 million.

Moderator: Thank you. The next question is from the line of Apoorva Saha from Dimensional Securities. Please go ahead.

Apoorva Saha: Can you please take us through what is the market condition and where do we stand in terms of projects status for each of our major projects?

Management: Let me just put it like this for you that, as a company we are in one of the soundest positions as per the market, because if you see we bought all our land parcels in the year 2006-2007, thereafter the value of the lands have gone extremely high, so even if you take the net asset value right now our land parcels would be in excess of Rs.1500 crores, and what has happened is that in India while demand for Residential is under pressure in particular pockets, but Residential demand at the price of Rs.3500 and Rs.4000 is extremely strong which is where we exist. So I think we can look forward to something very-very positive if we see the demand trends. Also, if you see the way the economy is moving, the stock markets is a reflection of how the money will flow in the future and a lot of people invest into real estate at such times in a very-very big way thus the challenge for people is when their property is very high-priced, fortunately for us our properties are priced between Rs.3500 to Rs.4000 where bulk of the demand is and that is why we do not have demand shortage but as soon as we are ready we are able to supply.

Apoorva Saha: Sir my question is like understand your points but my question is like since last two quarters we have been facing some problems in Rental in Aurangabad, same thing is like for PTC-Phase-1 and Saral Bazar like we have observed some slow collection, so my point is have we seen some sort of improvement in particularly for Retail and PTC or Saral Bazar?

Management: Yeah, just to tell you that the Saral Bazaar the entire project has got completed. The people need the final OC, once the OC comes, they have committed to pay to us. They need to start their subs and our OC has not come as yet, we are expecting the OC within a week and a half - two weeks.

Apoorva Saha: Earlier we have guided by Q3 FY-'15 that project should be complete and PTC Phase-I by Q4 FY-'15, so are we on track to achieve those deadline?

Management: For Saral Bazar we are fully on track, for PTC we are moving slowly, as we keep getting money we keep building more, so PTC is going to be dependent on the cash flow from the people who are paying us, but PTC is also progressing, and our expectation is that people will be able to pay.

Apoorva Saha: But looking at your commentary I am sure you had not finalized plan for PTC Phase-II and Saral Bazar-III or have we finalized something for...?

Management: We have not finalized it. We expect Saral Bazar III will be much easier, PTC Phase-II we are looking at selling the whole building to someone.

Apoorva Saha: Coming to Nagpur, we have received very good response in earlier phase. So we are planning to come out again in December this year, right?

Management: Yeah, 7th December.

Apoorva Saha: So how do you see market environment over there, how has been price improvement have you seen or if you can ...?

Management: The most important thing is that first of all I have got very limited inventory. Our objective is that we will open the bookings but we are not targeting more than 60-80 flats.

Amit Sabharwal: Apoorva, basically, the Phase-I was 392 Units, out of which they have sold around 323 Units, so the rest of the inventory is only 69 Units...

Management: Now, we are planning to sell. The thought is that we will make a big noise about it. And within a week's time, we will say bookings are closed. So, it creates a very positive feel in the market and that is the intention. Actually we do not even do a campaign, we are confident that by March we will be able to sell it off anyway. But the campaign is being done with the perspective that when we come out with our Phase-II of 280 Apartments, a lot of people would have seen it in ad, lost the opportunity, the demand for 280 flats will also become very-very strong. This is just as a strategy we are putting it, but currently, we do not need to advertise or do anything to sell.

Apoorva Saha: And a final question is on Coimbatore. This time we have written in our presentation we have signed agreement for Multiplex and some Fashion brand. So, out of this 6.6 lakhs GLA, what kind of areas we have already signed, I do not want any specific number, but approximate number or maybe...?

Management: About 20%.

Apoorva Saha: Approximate rate if you can throw some light?

Management: It will be in the range of around Rs.40.

Moderator: Thank you. As there are no further questions I would now like to hand the floor over to the management for closing comments. Over to you.

Amit Sabharwal: Thank you, everyone. I would like to take this opportunity to thank everyone for participating to the Earnings Call of Q2FY15 for Prozone Intu Properties Limited. We Dickenson Seagull IR manage their investor relations. In case any of the investors have any queries, please feel free to contact me at amit.sabharwal@dickensonir.com Thank you and Good Evening to everyone.

Moderator: Thank you for joining us and you may now disconnect your lines.