

Prozone Intu Properties Limited
Q3 FY15 Earnings Conference Call
February 10, 2015

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. 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. Amit Sabharwal. Thank you. And over to you.

Amit Sabharwal: Hello and a very good afternoon 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 third quarter and nine months earnings call for the company.

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 from those contemplated by these forward-looking statements. Any forward-looking statements that we make today are completely on the assumptions based as on today and we undertake no obligations to update these statements as a result of new information or future events. Before going ahead I would just like to start with a brief introduction on the company and the business model of the company. Prozone INTU, as the name suggests, it is promoted by the Provogue Promoters and Participated by Intu Properties UK PLC. Intu Properties UK 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 even the branding of Prozone CSC has now been completely aligned with the central branding of Intu and therefore the name has been shifted to Prozone Intu Properties Limited.

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 retail centers. The business strategy is to develop use 25% of the land parcels to develop build and lease asset, whereas 75% of the land assets are basically for the Build and Sell asset so that the cash flows from the 'Build and Sell Model' can be used to create debt-free long-term annuity retail center.

Commenting on to the results for the company, I would like to highlight that during the Q3 FY15 our total income from operations have increased 11.95% to 99.3 million as compared to a Q-on-Q basis. Also our EBITDA without other income has increased by 2.13% to 38.3 million in Q3 FY15 on a Q-on-

Q basis. Our EBITDA along with other income has been flat at around 49.6 million on a Q-on-Q basis. Our EBITDA margins have reduced from 42.3% to 38.5% mainly due to the increase in other expenses which mainly represented the marketing expenses that were increased due to the festive season during the quarter.

Commenting on the mall highlights, I would like to bring to notice the mall vendors have been stable at around 89.3 million as compared to 91.3 million on Q-on-Q basis. Our EBITDA has been around 33.1 million as compared to 38.9 million on a Q-on-Q basis, again the margin has been little bit on the lower side due to the increase in marketing and advertising expenses during the festive season for this particular quarter of Q3. With this I would like to now handover to Mr. Bipin Gurnani just to give a brief highlight on all the projects which are currently under construction or operational. Over to you sir.

Bipin Gurnani:

Thank you Amit, and welcome everybody. I am going to just start with Aurangabad, I would like to appraise all the people who are attending the conference that last quarter launched large sporting goods retailer called Decathlon, they have occupied almost about 20,000 sq. ft. with us and we have had a very good response for that retailer it is unique concept and I think for a city like Aurangabad it has definitely created a lot of buzz for us and at the mall as well. The quarter ended December 31st which also had the festive season as gone on well with us footfalls largely were very good during Diwali however we saw a little dip post Diwali and then subsequently they picked up back in December. The trading density at the center are up by about almost 7.5% so retailer has done better than last quarter and as compared to the same quarter last year. Most retailers have done better business over last year so roughly about 11.22% increase over same quarter last year.

On the leasing side we have actually now seeing a lot of traction and currently I think we are in talks with almost about 12 brands of which three we have already finalized so Pizza Hut is something which we have closed in this quarter, we have close Cantabil and we have also got Samsung as a standalone store that we have closed other than that there are almost as I said another 12 brands that we are speaking to and we hope that those will be finalized soon as well. On the mall side I think there has been stability steady growth and we believe that over a period of time things will keep improving slowly from a moral operation specific. On the PTC front we had a good break through with the buyers up in till now we have been talking about the buyers not coming forward to pay their dues, we have had a very good constructive meeting with the set of the buyers where have agreed on certain understanding basis which they will start paying their dues linked to how the further progress of the construction will happen at the PTC levels. So construction is back in full swing now in fact in the last one month we casted 50% of one's flat and balance 50% which will get casted in this month, we will unleash about 18% of the dues from these buyers so I think on PTC front we are on right track there is a good understanding that we have done with the buyers.

On the Saral Bazar front as we have informed that we not got the completion certificate and Bazar phase one is ready and we have launched the same we have got about three units which have started and five units which have completed their fit out in and are expected to start, over and

above about 8 other buyers have taken their units for fit out and about 16 odd buyers are now in the process of finalizing their agreement and soon to start fit out. So we are looking at close to about 40% to 50% units being operational over the next 6 to 8 weeks which will then give the Bazar credible number of stores wherein they can start trading properly. In between we had supported through marketing initiatives to create more buzz around the bazar and mostly to entice the buyers to open soon so that the Bazar can get established. So on that front we are making progress in terms of getting the Bazar occupied and operational and we believe that over the next six months period we should be in a position where maximum number of stores that have been sold in phase 1 will get operational. So that is basically overall Aurangabad.

Coming to Nagpur our construction for residential as you know is in progress and I think we will the first plinth of building first two buildings will get done in this current month and following I think in the next 30 days and 60 days and the other buildings will also reach plinth level. Post the plinth level the construction speed will take off because then you come up the ground and I think the progress is much faster because the floor plates are similar and the construction becomes much more faster. Also in December we re-initiated our bookings for the 392 units which we had opened yet for some period we had stopped the booking, in December we did a launch again and we started sales of the balance units, we have booked about 15 units, the response was average considering the market where a lot of other projects which hardly had any sales we manage to do about 15 closures in that month and so I think there is a positivity about the project in the city and we believe that over a period of time as the construction will progress we will get further response on the sales.

Also what we would like to share with all the attendees is that in the coming quarter is where we will start recognizing the revenue from Nagpur project, we had earlier estimated that the same could possibly happen in Q3 but we are very sure that now we will be able to start recognizing in the coming quarter and we will pace the recognition based on all the closures that we keep doing with the buyers. So that is something which is now quite certain and we would like to go ahead and start booking the revenue from Q4. On the other sides in Nagpur I think the city overall the sales and absorption has been average and we hope that we will keep continuing to sell and we are also looking at once we reach a certain stage of construction we will open up the next inventory for sales again.

On Coimbatore the construction of retail which is in progress is also on schedule and we are expecting the mall to get operationally by Q1 FY17. And we are already aggressively initiated the leasing in terms of both anchors, anchors we were already started leasing out but now following quarter we will also start opening up small inventories to start leasing line stores as well. Target is that by Q3 FY16 we should at least be 75% lease so that at the time of the opening of the center we can push maximum occupancy as we open on in Q1 FY17. On the residential side in Coimbatore we move forward on the approval process and we hope that, the same will get sorted in the next two to three months post which we will of course we do the launch of the residential, as regards our readiness, as you know that we are fully ready to take up the launch. All our infrastructure is already in place and once we have a little more confirmation on the approval front we will start finishing that

infrastructure to be able to coincide with the launch of the project at Coimbatore. Coimbatore we believe that in terms of what is available in terms of current inventory we feel that our project will definitely create a big differentiator in that area and we should be able to garner a substantial interest on the project.

On the other side with Indore we are hoping that in the next three months we should be able to announce the launch and we are working on getting all the statutory approvals where in final clearances has been pending over the last few quarters. So this is basically the update on the four projects with regard our Jaipur project, we are reinitiating the planning, process based on what survey we are conducting for that city in terms of what would be the best use as the current environment for that project. So we will come back to you in the next quarter may be with some more information on the Jaipur project. So largely overall from a company perspective we see Nagpur recognition starting Q4, Aurangabad looks quite stable post PTC issues getting resolved. Coimbatore retail moving project, construction moving as expected and on scheduled and Nagpur also which we will continue to push marketing in terms of getting more sales and mean time obviously our construction is going on in full fledge. So that is basically on the update so I will hand it over to Amit.

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

Moderator: Thank you. We will now begin the question-and-answer session. Our first question is from the line of Giriraj Daga from Instant capital. Please go ahead.

Giriraj Daga: Just a couple of question like you said first these three companies have been signed so what kind of occupancy now we can see or you can give us the area occupied by these three new entrance Pizza Hut, Cantabil and Samsung?

Bipin Gurnani: The total area is approximately about 7500 sq. ft. because these are smaller vanilla stores therefore they will probably contribute about 0.5% to the overall occupancy or little lesser than that.

Giriraj Daga: Okay. And if I ask about the rate would it be like substantially higher than what we are currently getting?

Bipin Gurnani: The average rental is same as what currently the rental at the center. Our intention is to make sure that we get the best brands and we bring the best offering in the city. And we are making sure that whatever are the components of our offering which we believe is missing in the center is where we are focusing on.

Giriraj Daga: Okay. But we could have start like with a small center, like small spaces so couldn't we start bid out premium compared to overall thing?

Bipin Gurnani: As I said earlier the important part for us is to ensure that we get the brands that we believe will complete the offering for the center. And what we are also obviously as a principal which we have always been doing is that we would rather look into the growth of the brand therefore we make it a point that there is revenue share on percentage turnover percentage. And obviously the mall will also gain from those by getting the percentage of the higher sales as the sales will grow.

Giriraj Daga: So can we assume that percentage share for newer brands not particular these three but new brands is higher than compared to the incur tenant?

Bipin Gurnani: I don't think you can charge higher percentage I think there is a propensity to absorb a certain percentage by every category, certain brand you can play but obviously you can not charge any brand substantially higher if the category per say does not allow it to share more in a certain percentage based on their gross margins, etc.

Giriraj Daga: So what all the marketing expenses were made during the quarter?

Amit Sabharwal: We had done our Diwali promotion, a very large Diwali promotion and we have also done a fairly aggressively campaign during Christmas so basic intent was we are the only total value we spend in marketing is about 35 lakhs over the last quarter. Which is as per the plans, we normally allow a larger amount of our spends which we have budgeted are always done during this season because that is the time when the maximum footfalls are expected and the brands also expect us to support them during the festive season.

Giriraj Daga: Okay, so my next question is on Nagpur, what is the revenue with recognition will be up in quarter four. So when you give the volume number like we will be booking lot more amount of, how much amount of volume in quarter?

Amit Sabharwal: Roughly the revenue that would come in, see I will tell you the total sales value that we sold is roughly about 200 crores. So based on the parameters that we would hit which is 25% of construction cost, 25% of the project number of units being sold and 10% connection of those 25%.

Giriraj Daga: Yes.

Amit Sabharwal: We should be able to recognize and agreements being signed which we are able to recognize about 35 odd crores out of that in this quarter.

Giriraj Daga: Okay. And how much collection we have got till now?

Amit Sabharwal: Basically what we have collected right now is the 10% of the booking amount and also now we are collecting the balance 10% which will take it up to 20% of the values sold.

Giriraj Daga: So number can be around 40 crores at the right assumption right?

Amit Sabharwal: Right. And flows coming in as well.

Giriraj Daga: Okay. And on the Coimbatore you are saying that tenant work has been close to finalization right?

Bipin Gurnani: No, what I said was that until now we were only channelizing our focus on signing up the anchors and as a predefined plan we had said that four quarters before the launch of the mall we will opening up the vanilla stores.

Giriraj Daga: Okay. So can you give me debt level at consol number?

Bipin Gurnani: Debt level at consol number is around 215 Cr. 100 crores at Aurangabad SPV and one 115 crores at Coimbatore SPV.

Giriraj Daga: Okay. Thanks a lot sir.

Moderator: Thank you. Our next question is from the line of Anand Bagdani from PPFAS Mutual Fund. Please go ahead.

Anand Bagdani: I had two questions, first of all if you can give me the completion timelines for various projects and second for each of the projects if you can give me the ball park revenue from sale of the commercial and real estate as well as steady state ball park revenues from the leasing side of it.

Amit Sabharwal: Just to quickly answer your question basically you know what you are asking will obviously need us to explain in lot of details across three to five years but just to give you an understanding that in the coming year what would be happening is that we would obviously be recognizing the revenue of Nagpur for the sold units say roughly about 100 units will start reflecting in the coming quarter in terms of sales recognition. On the mall side obviously from next year onwards we will also start annuity income on Coimbatore center which means Q1 FY17 so that will be in additional which is based on the construction activity which is going on currently and obviously Aurangabad where we already have an existing operational center those revenues will also continue to reflect in our financials. On top of that Prozone trade center and Saral Bazar from a recognition point of view we would have already recognized most of the revenue but for new sales that will start kicking in those revenues will also start reflecting. The impact of PTC and Saral Bazar more will be on the cash flow rather than on the revenue recognition. All the other projects point of view there are defined timeline for example for Nagpur which is the second phase of the residential, Coimbatore in terms of residential starting off and its recognition coming may be in FY17 and Indore so I think what I would suggest is that we can connect with you offline in terms of taking you through all the details and maybe we can share with you the complete revenue plan for all the projects. Roughly you can assume that once we have all the three centers operational which is expected by FY18 the three malls would give us close to about 125 to 130 crores of annuity income from that year. So that basically from the annuity income side. On The sale side there are various, parameters of recognition and total potential just to share with you that we have roughly about 17.9 million sq. ft. of saleable

FSI so if you were take an average rate of in terms of out of which about 2.5 million will be towards the mall balance is towards residential and some amount of commercial. Taken an average rate of about Rs.4,000 – Rs 5,000 you will be able to roughly get the estimated potential of all these projects at the revenue level.

Anand Bagdani: Okay, and sir in terms of the prospects for the other three cities Indore, Jaipur and Mysore?

Amit Sabharwal: On the Indore side as I already told you we are working on getting all our statutory permissions in the next three to four months and we expect that by September-October we should be in a position to roll out the sales there and that seems to be getting closer in terms of things getting tied up with statutory permissions, etc. Jaipur we are relooking at in terms of the best use for the plot we have already decided that we will not go ahead with the retail center Jaipur but at the same time in terms of even residential we are doing some amount of research to demand what would be the end use residential also whether we should go completely high rise or to a mix development of high rise and midrise. So that is something which we are working on and may be in the next couple of quarters we will have more clarity in terms of final plans for rolling out Jaipur as well.

Anand Bagdani: Okay, and sir Mysore?

Amit Sabharwal: Mysore is a plot which has been reserved for the mall itself so we will wait till the market there if the growth in the market is suitable for us to venture in to start building the market so we have done some homework but we still feel that we would like to wait may be another year before we start and before starting Mysore we will obviously like to start the process for our Nagpur center and then may be give it another six months before we get into Mysore.

Anand Bagdani: Okay. And broadly in terms of the retail rentals just wanted to understand that lot of commercial retail consumer durable business is moving online so, just wanted to understand what do we anticipate the long term impact of these trends have you sort of changed your strategy?

Amit Sabharwal: Yes we obviously had to relocate some aspects of our plan, we are now also looking at more experiential contribution of more experiential categories in the center for example multiplex at Coimbatore is a nine screen multiplex, the size of the FEC is about 18,000 sq. ft. which we will then also segregate between a family entertainment center which is purely for 12 and under and something which tracks teen and going up to 20. A larger presence of F&B at the center in terms of both food court as well QSR and restaurant basis. Secondly, if we have also looked at new categories which at our center for example in Aurangabad we already have two car showrooms we have almost signed up one two wheeler showroom Honda so we are also creating other categories which can be brought into the mall for which people will obviously come to the center and also differentiates us from rest of the category.

Anand Bagdani: Okay. And sir in terms of overall top line growth given the projects in Nagpur project will start kicking in this coming quarter, how do you see top line?

Bipin Gurnani: As I said because of the fact that we will start recognizing revenues on Nagpur in the coming quarter you would look at a substantial increase in the top line because first time around when you book revenue a larger chunk of the revenue gets kicked in and recognized, in the coming quarter the top line will be substantially higher than what has been in the past few quarters.

Anand Bagdani: And Nagpur if I were to assume correctly we have 1000 odd units planned.

Bipin Gurnani: We have got a total of 41 acres land parcel so what we are developing and what we have planned for right now is over 12 acres that gives us about 1000 odd units of that 392 units is what we have launched as phase one and that is what we are making sure that we are building that and we sold that and the next phase would be another 280 units once we reach a certain level of construction here and in terms of sales we have already touched fairly high percentage of the units from the inventory that we have released and then going forward we will then look at the other project. So we have got enough inventory in pipeline which will ensure that going forward now quarter-on-quarter the company will be able to report revenue recognition, it will start coming in from Nagpur subsequently followed by Coimbatore and then Indore. So, I think going forward now every quarter we will see revenues flowing in as the various projects reach the stage where revenues recognition can be kicked in.

Moderator: Thank you. There are no more questions in the queue sir.

Amit Sabharwal: Thank you for participating for the earnings conference call for Prozone Intu Properties Limited. In case of any further queries feel free to contact me at ammeet.sabarwal@dickensonir.com as well as our coordinates are shared in the presentation itself. Thank you.

Moderator: Thank you gentlemen of the management. Ladies and gentlemen that concludes this conference. Thank you for joining us and you may now disconnect.