

Prozone Intu Properties Limited
Q4 FY-15 Earnings Conference Call”
22 May, 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. Bipin Gurnani – President; Mr. Anurag Garg – Chief Finance Officer and Mr. Amit Sabarwal 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 Sabarwal. Thank you. And over to you.

Amit Sabarwal: Thank you. Hello and a very good afternoon to all of you. This is Amit Sabarwal from Dickenson Seagull IR. We manage Investor Relations for Prozone Intu Properties Limited. We welcome everyone here present today for the fourth quarter and full year FY15 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 different 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 Properties Limited as the name suggests, there is a joint venture between the Provogue Promoters and Intu Properties UK PLC. Intu Properties UK is a FTSE-100 company and is listed on the FTSE exchange and is amongst the top 20 REIT in the world. They manage over £9 billion of assets and 12 of their Shopping Centers are among the top 25 centers in the UK. The vision of this company is to create, develop and manage world-class mixed use development and Shopping Center. So even the branding of Prozone has now been completely aligned with the central branding of the Intu UK PLC and therefore the name has been shifted to Prozone Intu Properties Limited.

Now, coming to the business model of the company, I would just like to briefly highlight about the business strategy for the company. Our strategy is basically to create, develop, and manage world-class mixed-use developments along with long-term annuity assets at the shopping centers. The business strategy is to use 25% of the land parcel to develop build and lease asset, whereas 75% of the land parcel is used for Build and Sell asset so that the cash flow from the ‘Build and Sell Model’ can be used to make debt-free annuity assets which are the long-term assets for the company.

Now coming to the results for this particular quarter that is Q4 FY15. I would like to highlight that the company has shown robust growth in both revenues as well EBITDA. Our consolidated Revenues for Q4 FY15 have increased by 262.8% to 360.3 million as compared to 99.3 million on a Q-o-Q basis. As well as our consolidated EBITDA for Q4 FY15 is 62.2 million which has increased by 62.4%. The major reason for the increase in the revenues has been the threshold that we have crossed for Nagpur residential project. The revenue recognition for the project has started from this quarter onwards. EBITDA margins have also improved and are expected to further improve substantially as this quarter also included some marketing expenses as well as the admin expenses which were incurred at the start of the project which has been realize in the P&L in this quarter itself. We believe that going forward, since we have a very substantial improvement in the Nagpur project where we have sold more than 300 units out of the 392 units that we had launched in the phase one, we believe this revenue recognition would now start increasing and start improving over the next

few quarters and we see a robust improvement in our revenues EBITDA as well as hope to see PAT positive over the next few quarters.

With respect to other assets the Aurangabad mall has now been stable with a stable growth in the rentals as well as our EBITDA margins for the mall have been now stable at around 75%. We see good traction as almost another 10 stores are in discussion on the leasing front. At the same time the construction for PTC phase one is now in full swing and we expect to complete the construction for PTC phase one which is already sold 93% by end of this year. At the same time the Saral Bazaar phase one which is again at the Aurangabad build and sell model which is 65% sold. The possession has started the construction has already been completed and almost 12 stores are already operational.

Coming on to the Coimbatore asset, the construction for the retail center is in full swing and we expect the construction to be completed as per the scheduled timeline that is somewhere in the April 2016 and we have seen a strong interest from all the major brands and almost 30 to 35% of the mall is already pre-leased. With this I would like to now hand over to Mr. Bipin Gurnani to give his comments on the business and post that we can open the floor for Q&A. Over to you sir.

Bipin Gurnani:

Thank you Amit, and welcome everyone. I just like to quickly add on what Amit has said, for us I think the coming year is very exciting in all three of our sites work is at full swing and we are pushing hard to see that we are able to deliver whatever time frame that we have assigned to buyers to ensure that there are no delays on the project sites. Just on the Aurangabad quickly I think we are seeing reasonable confidence in the buyers with considering PTC and they have all now come forward and have sort of agreed to start paying the dues which have been delayed from there and they have ask for some additional time because of the market condition but they have now come forward and they engaged with us to say that we can push the construction and they are also willing to come forward and clear their pending dues timely so that has given a good impetus in terms of push on the PTC and it will also help the cash flows of the SPV further. On the mall side, overall it has been a positive sign where we have got a lot of inquiries from various brands to look at launching their stores with us. We have had some issues on trading volumes, there has been improvement but we would have expected a higher improvement. E-commerce has been an area where a lot of retailers have shown some concerns but overall from Aurangabad center we have had growth on trading destiny and we are pushing a lot of new marketing promotion to ensure that we continue to get the footfalls in the center.

Nagpur again is looking good buyers are happy with the fact that the buildings are progressing well. We have been organizing site visits for all the people who bought in the development. Overall new bookings have been slow as the market has been relatively muted but fortunately for us because our project has been well received in the city we have been getting reasonably better booking than rest of the competition and that is a good sign. Particularly because we have done all the infrastructure up front and now people can see a lot of activity on site so there is a lot more confidence on the project as well so that, we believe, will also subsequently translate into higher booking in this coming year as well.

On the Coimbatore front we have done some initiatives in terms of leasing, from the tenants perspective we have had some conferences and seminars that we have participated in and we have had key retailers from that region, large retailers from the Tamil Nadu region and the Karnataka region to come and visit the site and we have organized some greet and meet with them at the site itself so after looking at the site there has been a lot of interest on these regional retailers and we believe that for us to differentiate the center is important to get those regional retailers also in the center and we are working hard on getting those regional **retailers** into our center. From the construction point of view we are very much on the time line that we have set ourselves and we are working hard to make sure that the center is launched timely and with high occupancy and that has been the focus for us, will be the focus for us going forward in the next two quarters. Overall from a company perspective, I think as we have been mentioning earlier that this is the inflection point and I think we are now crossing that inflection point and on all sides in each of the projects we are reaching all the timelines and the construction activity that we had envisaged, we hope that this year will be

progressive for us and we are quite bullish on the years to come because for us now the actual monetization of the assets has actually started.

I think overall for us exciting year lies ahead, as I said, efforts will be on making sure that we complete the construction on time and focus will be on ensuring further sales in Nagpur and achieving the required leasing in Coimbatore. On the other project of Indore, we are hopeful that we will be able to look at launching it somewhere around Diwali subject to some last minute approvals that we need to still get, that also we are quite hopeful that we will be able to launch sometime Diwali and I think from our perspective we are moving as planned and we hope to make it a strong year for us in terms of both results that we are able to give for our shareholders as well. So thank you very much for joining in and I will pass it back to Amit for questioning.

- Amit Sabarwal:** So we can open the floor for the Q&A.
- Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Giriraj Daga from SKS Capital. Please go ahead.
- Giriraj Daga:** Sir my question is like how much was the Nagpur revenue in this quarter?
- Amit Sabarwal:** Nagpur we have recognized 26 crores of the revenues in this quarter.
- GirirajDaga:** 26 crores revenue you are recognizing in this quarter and what is the number annual guidance if you want to put it on Nagpur sales what was the number would be for FY16?
- Amit Sabarwal:** It depends upon the percentage completion method and number of units.
- Bipin Gurnani:** We expect that in the coming year we should be in a position to recognize another 60 to 70 crores of revenue from Nagpur.
- Giriraj Daga:** 60 to 70 for the full year?
- Bipin Gurnani:** That is right.
- Giriraj Daga:** Okay. Any other project going on the revenue stream stage in the next one year?
- Bipin Gurnani:** We have PTC and Saral Bazaar in Aurangabad but most of the revenues in those two projects has been recognized because construction in Saral Bazaar is complete and in PTC most of the construction is done we are at finishing stage. So, large chunk of the recognition has already happened in the last year.
- Giriraj Daga:** Okay, but the cash flow should pick up in the current quarter is that the possibility?
- Amit Sabarwal:** In this year so whilst the recognition happened in the previous year the cash flow in terms of balance payment coming in for buyers is going to be strong in this year.
- Giriraj Daga:** Okay, you talk about the launching for the year which project you are talking about launching in Diwali?
- Bipin Gurnani:** Indore project where we have actually and strategically now also decided to do a mix scheme in terms of plotting, low rise bungalow scheme and high rise apartments together as a mixed inventory so what we expect to start sometime in Diwali is the plotting scheme which is part of the overall inventory at Indore.
- Giriraj Daga:** Okay, but there we had some, if I remember there were some issue with some the high rise Indore project?

Bipin Gurnani: No, the approvals had been delayed from high rise perspective but looking at the current market environment we have re-strategized our thought process there and we have decided that instead of doing a completely 100% high rise inventory we have sort of distributed the inventory into plotting scheme, ready low rise bungalow scheme and 30% to 35% has now been retained for high rise construction.

Giriraj Daga: Okay.

Bipin Gurnani: The strategy is that in order to be able to quickly monetize project of Indore we will start portion of our land parcel there on a plotted scheme.

Giriraj Daga: Okay. And my last question, like you said that the market has started improving at Aurangabad malls since tenants has started paying without asking for concession time period so once we go for the reset you would be able to achieve like able to get a hike about 10 to 15% from them?

Bipin Gurnani: No, if you ask me clearly right now I think the focus at Aurangabad is to fill up the vacancy and also to provide some stability to the existing tenants so that they are also able to stabilize their business with us. So in current year we are not pushing hard to get any increase in terms of rental income from the existing retailers, only one part of it that is an advantage for us is that in most of the cases we have duel arrangement with tenants, where we have minimum guarantee rent or a percentage of their turnover whichever is higher. While we don't expect to get any increase on the minimum guarantee rent, we do expect that in more cases this year we will have higher rent coming in from revenue share because we are seeing some strong growth for some of the key brands there.

Giriraj Daga: Okay, so what is the debt at the console level and standalone level?

Bipin Gurnani: Debt is only at the SPV level so as the standalone level for the company there is no debt level.

Giriraj Daga: Okay, and how much that number would be at SPV level?

Bipin Gurnani: The total debt is 230 CR we had taken a debt of 180 crores in Aurangabad which is now currently at around 95 crores. And we have disbursed a debt of almost 130 crores in Coimbatore for the mall construction, the total debt sanctioned there also is 180 crores.

Giriraj Daga: Okay, understood.

Bipin Gurnani: But both the debt are at SPV level.

Giriraj Daga: Okay, thanks. That is all from my side.

Moderator: Thank you. The next question is from the line of Prem Khurana from B&K Securities. Please go ahead.

Prem Khurana: Sir I had just one question actually I joined a little later I am not sure if you already answered this or not. Actually want to get a sense on Indore as well as Coimbatore launch so we were planning to have residential in these two cities as well apart from Nagpur which is already underway, so what is the status there?

Bipin Gurnani: Correct. Indore we are expecting that, as I mentioned earlier I think you missed out, in Indore because of the way the residential market is we believe that there is an oversupply for high rise apartment and we have re-tweaked our strategy in terms of the inventory mix in Indore and we have now allocated about 40% of the land parcels to do a plotted scheme there. Plot is doing exceptionally well in that city. A part of that about 20% to 25% is what we have allocated for constructed bungalow low rise scheme and balance 35% is what we have retained for the high rise apartment block that we have been planning. Purpose of doing that is that, while we await some part of our approvals on the high rise apartment building side

we are able to quickly launch and start monetizing our asset in way of doing a plotted scheme.

Other thing advantage in plotted scheme is that the revenue recognition happens almost instantly, your chunk of most of your money comes in the moment you sold the plot. Particularly more so because on the infrastructure development side we have almost completed most of the infrastructure development earlier itself so the club house, the landscaping the part of the roads, the drainage system, etc., had already been completed about a year and half back. So from our perspective the moment we are able to launch the plotted scheme we should be in a position to getting the revenues from Indore also in this year itself may be in the Q4 FY16.

Prem Khurana: Okay. So how much would be spend for this infra that we would have done it Indore as in the club house and the landscaping that you talked about?

Bipin Gurnani: In each of our projects the infrastructure spend has been in the range of about 15 to 18 crores. Towards the complete development of the club house the sales office, show flat, landscaping, general infrastructure like boundary walls, water drains, sewage lines so all that getting power connections on the side, completely in the range about 15 to 18 crores.

Prem Khurana: Sure. Now if I were to sell plots so would I have the right to construct as well as I mean or it would depend on the discretion of the end user whether they want you to kind of do the construction work for them or?

Bipin Gurnani: No, we are not offering them. The planning of the plots has been such that the plotted area is in one side of the part so we are allowing people who are buying plots to start construction although as part of the agreement we are saying that they are obliged to start within 12 months of their purchase of the plot if they don't we have an option to take it back from them but in effect I think largely it will be dependent on the plot owner and we are not defining any design or any specifics except they can't go beyond ground and first floor.

Prem Khurana: Okay, and when would we plan to launch this row houses that you talked about, we will start with plotted first so.

Bipin Gurnani: We will just go ahead and do the plotted sales and let the development on that start, the next will be when we will see once we get a market sense the plots people have actually preferred plots based on that if we feel that constructed row houses and constructed bungalow is not what people are looking at then we might even add more area to plotting. Play by here because the Indore market has been quite fluctuating in terms of the inventory class which is preferred there but we will make sure that we will take it step at a time. The plan is basically based on current survey that we have conducted but if we feel in six months' time or a year's time that it might be more prudent to just do plotting so that we can monetize the assets much earlier we might even relook at that.

Prem Khurana: Okay. And how about Coimbatore property?

Bipin Gurnani: Combinatory I think our approvals have reached the final leg of signing of from the local authorities, we expected that it will be through by May, now we think that it might take another three to four months. We are completely ready at Coimbatore in terms of launching so that our infrastructure is already built and ready, all our sales team and the sales office and show flats everything is ready to go. So the Coimbatore has been a tricky one so every quarter we feel next quarter we should be in a position to launch, approval had been a bit of a concern there and we hope that in this next three, four months we will have our approvals in place if that should happen we would be ready to launch it within 15 days of that.

Prem Khurana: Okay. And sir have we done any test market in the Coimbatore market because what I learned or what I gather from my channel the market is going little slow establishment are facing issues in terms of pushing volumes.

- Amit Sabarwal:** Market absorption has been slow in most part of India and the only difference that we see is the residential asset classes that if you have a good product and let say in a city the absorption is X if you have a good product, good location and people are excited about your development you get larger chunk of that absorption which is happening in that city. Yet there is no doubt that the overall absorption has been slow and the customers are vary but I must also tell you customers are vary of projects where approvals have been calm or infrastructure is not ready but in our case we feel that we are anyway going to start sales only post approval are there and our infrastructure is already in place the other advantage that we get is that our retail building construction is happening. People come and see 500-600 labor at site the confidence on the developer is greater because they know that they already developing a 1 million square feet overall constructed space. Those are big advantages we have seen that in Nagpur for example while our competition is perhaps not even selling one or two units in a quarter we are still achieving 9-10 units every quarter so if Nagpur is an example to go by in terms of the traction for our project or the kind of project that we develop we hope that in Coimbatore we will be able to do the same thing.
- Prem Khurana:** Okay. And how about Aurangabad mall there the rental seems to be coming down quarter-on-quarter basis so last year we were doing around Rs.60 odd million, this quarter around Rs.54 million.
- Bipin Gurnani:** See retail has been going through a tough phase as we know earlier consumption has in fact come down has not grown as this e-commerce which is playing havoc in terms of deep discounting and so obviously retail has been going through a phase of uncertainty in terms of sales and retailers are concerned of about their profitability and about their continuity to a large extent. For our perspective it's very important that we align ourselves to this interest of the retailer as well. So wherever required we have positively discussed with retailers and allowed for some close ended review assuming that market will pick up as well but there are two parts to it, one is that we have had some retailers who have renegotiated, the other side we have a very good traction of new retailers who want to come into the center so we have had both, for example Pizza Hut was someone who we have been chasing for the last one and a half year and they were always said that their survey or their research says that Aurangabad is not ready for a Pizza Hut but finally they decided to come in and they have opened with us. First month itself they have sold double of what they have budgeted so I think it all depends, we are also going through change of mix so we are also realizing which are brands that will do well, which are the categories that are doing well so we are also over a period of time making sure that the churning is happening aligned to what the market reality is.
- Prem Khurana:** Okay. So if I look at our presentation currently our occupancy is 79% odd and how does the pipeline look like where would this pipeline take this occupancy number to, if you were to have these inquires and get these confirm to firm arrangements.
- Bipin Gurnani:** Most of these inquires or discussions are happening with line stores which is vanilla retailers. So they are all in the range of 700 to 1000 square feet, so while it may not add substantially to the percentage occupancy change, it does adds a lot of shop fronts in the center, it adds a lot of new categories coming in the center, it gives a new traction, so for example part of that 20% vacancy, **majorly** which we had allocated was for banquets so you can assume that about 6% of the area out of 20% is area which we might have to relook at usage in terms of whether we continue to hold it for a banquet or then give it out as office space because the way it was located is that people could access the area directly without having to go through the mall. So as I said whilst we might realize we might think that it's only adding a may be 2% or 3% to the occupancy. All these retailers who are speaking with they will tremendously add to the overall consumer experience. That sort of creates momentum overall and we hope that all this will then lead to And we are assured that we are able to continuously gain on the occupancy.
- Prem Khurana:** Okay. And how about Nagpur Mall I think we are ready with our design but given the fact the market is going a little slow so would you want to go ahead with that mall now or could wait for some more time till the market is going to revive and then only look at that development?

- Bipin Gurnani:** Right, actually the strategic decision that we have taken is that we will first launch Coimbatore, allow it to at least settle because there is lot of effort that goes-in, in getting the tenants & making the operations up and running so we want to focus and utilize our entire bandwidth that we have currently on Coimbatore because that is a center we have already started to build and invested almost (+150) crores on the construction let alone on the land. So our decision is to very-very clearly utilize the entire bandwidth to make sure that we do a successful Coimbatore launch. And then subsequently come to Nagpur so we are trying not to be in a rush to parallel open to center. Each of the centers are very large dominant centers and they need a lot of management attention, funds so and as it is if you look around only people who are specialist players in the shopping center business are now building centers. All the developers who building malls because they thought that they will create a new asset class have all disappeared and only people who are very specific operators for shopping centers are now building new center. As far as my knowledge goes there are only three centers currently being built in India, i.e. good centers. So there is not a very huge pipeline so, and also currently retailers are not that bullish that they want to open multiple stores and they also want to be cautious in their new launches. One of the big thing for us is that, our leverage is very low so in terms of cash flow and our ability to ensure that we do a sustained financial planning has because we are leveraged quite comfortably.
- Amit Sabarwal:** Also Prem basically by the time Nagpur Retail start, the residential of Nagpur would have start giving lot of free cash flow, so at that point of time they might not have the requirement to take even a huge amount of debt for the Nagpur project.
- Prem Khurana:** Sure. No, basically what I wanted to understand is see, the market is going through a rough patch now, so if I were to start, the underlying assumption is that the market would revive for sure somewhere down the line right. So if you were to start construction and by the time you were to finish it hopefully the markets would have revived now if I were to start my construction when the markets are good and if the cycle was to turn then it becomes a little difficult to kind of manage a mall which is kind of up but then there are no takers only and which is what we saw, everyone wanted to have malls when the markets were good and by the time these malls were ready you did not have demand only. So, how do we kind of control the cycle?
- Bipin Gurnani:** You can't time the market right. And please read the two reasons of our timing Nagpur center, one is that we want to focus on Coimbatore so that we don't divert our attention and for us there are huge investments that go behind building a shopping center. The second is as Amit did mention whilst the resi is doing good for us in Nagpur and we want to make sure that when we start Nagpur it's also about how much money you put in and the amount of debt you take so both ways we feel comfortable that if we give it one more year before we start the construction of the Nagpur center that would perhaps be the best decision that we can do and we have consulted a lot of retailers as well. I think they are aligned and are in sync with our approach that we should wait for another year and then start construction of the Nagpur center.
- Prem Khurana:** Okay. And sir in Coimbatore do we have any LOIs in place?
- Bipin Gurnani:** Yes, we have of course got the multiplex signed up, we have fashion retailers signed up we have the consumer durable retailers signed up, in advance stages of signing up the hyper market and in terms of line store we ourselves haven't launched, we expect that we will launch the leasing for the line store sometime by July-August. They don't want to sign too much in advance especially people who have 800 to 1000 square feet stores.
- Prem Khurana:** Sure. And just one last book keeping question, if I look at our numbers of the quarter we seem to have done top line of around Rs.360 odd million now given the fact that we had more than Rs.200 crores of booking in Nagpur and if I were to hit 25% revenue recognition threshold it should have been at least Rs.50 odd crores number from residential itself?
- Bipin Gurnani:** As a good corporate governance and good control we only recognize revenues for sold inventory where we have done the registration of the agreements. So whilst we do an

allotment letter and we sign our LOA ideally we are comfortable with only recognizing revenue where at least the buyer has signed and registered the agreements. Whilst we have sold an X inventory we have recognized only a certain portion of that inventory because the fact is that we have been able to register those agreements.

Prem Khurana: But then we sold these units, a while back it has been almost a year now so why is that we have not been able kind of register these properties.

Bipin Gurnani: We are asking for home loans so till you don't touch the 25% threshold the banks, the first 20% has to be paid by the buyer so once you have crossed the threshold is where the banks also now start lending to the home owners and then they are comfortable they just take the agreement.

Prem Khurana: Okay, sure. Thank you that is it from my end.

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

Apurva Shah: Sir just wanted to know what will be the margin in Nagpur because if we deduct 26 crores from our top line in the current quarter and roughly taking that EBITDA margin as same as last quarter for our Aurangabad unit and roughly it comes to around 9 to 10% so is my understanding is correct or I am missing something?

Bipin Gurnani: We will end up doing the margin about 20 to 25% currently because we had front-ended all the cost of advertising when we did the launch to the first at the time of the revenue recognition itself. Going forward when we start booking the revenue the cost that will get assigned will be lower and therefore you will see a far you will see a correct EBITDA margin which will then get reflected.

Apurva Shah: Okay, so that will be reflected by the yearend so like for yearend you are guided for 60 to 70 crores of total revenues recognition from Nagpur project and that will be with 20 to 25% of margin right?

Bipin Gurnani: That is correct yes.

Apurva Shah: Okay, sir thank you and all the best.

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

Amit Sabarwal: Thank you. Thank you everyone for participating at the conference call. In case of any further queries please feel free to contact us we have shared our contact details along with our presentations & my email id is ammeet.sabarwal@dickensonir.com. Thank you everyone and have a good day.

Moderator: Ladies and gentlemen with that we conclude this conference call. Thank you for joining us and you may now disconnect your lines.