

Prozone Intu Properties Limited
Q3 FY16 Earnings Conference Call
February 12, 2016

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Third Quarter FY16 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, Mr. Nikhil Chaturvedi – Managing Director and Mr. Ammeet 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 would now like to hand the conference over to Mr. Ammeet Sabarwal. Thank you. And over to you, sir.

Ammeet Sabarwal: Thank you, Karuna. A very good morning to all of you. This is Ammeet Sabarwal from Dickenson Seagull Investor Relations. We manage Investor Relations for Prozone Intu Properties Limited. We welcome everyone here present here 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 any future events. For any new participants, I would like to start with a short brief of our company.

Prozone Intu Properties Limited as the name suggests, we are promoted by the Provogue Promoters and participated by Intu Properties UK PLC. Intu Properties UK is a FTSE-100 company and is amongst the top 20 REITs in the world. They manage over £9 billion of assets and 10 of their Shopping Centers are among the top 25 in the UK. The vision of this company is to create, develop and manage world-class mixed use developments and Shopping Centers.

Coming to the business model, 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 parcel to develop, build and lease assets, whereas 75% of the assets are for 'Build and Sell Models' so that the cash flow from the 'Build and Sell Model' can be used to make debt-free long-term annuity lease assets.

Coming on to the project by project basis, in our Aurangabad SPV the Mall is already operational and the commercial development that is the PTC Phase I is almost in the final stages of completion. For Saral Bazaar, the possession of the shops have already started and quite a few shops have already opened.

For the construction of the residential project that in Nagpur, the construction has already started and we have received a very overwhelming response where almost 85% of the Phase I of the project has already been sold out. We have sold more than 200 crores worth of inventory and currently it is under construction.

Coming to the Coimbatore SPV, the construction of the Retail Mall is in advance stage of completion and we expect that the revenue will start coming in next financial year onwards. As far as the residential project is concerned, the infrastructure has already been completed and the launch of the project is expected during this current quarter that is the Q4 of FY16.

Highlighting on our financial results, I would like to highlight that for this particular quarter our EBITDA has increased by 3.6% on a quarter-on-quarter basis to Rs.85.2 million and our margins have increased substantially to 48% on a Q-on-Q basis, as the current quarter also had a higher percentage of revenues from retail as compared to the residential. Therefore, the margin profiles for both the segments have also played a part in the same.

Our Q3 FY16 profit before tax, PBT grew by almost 53% on a Q-on-Q basis due to the better control over operating expenses, lower finance cost and also supported by additional treasury income. Our revenues have been lower by around 32% on a Q-on-Q basis, this is primarily due to the lower number of units that have crossed the revenue recognition threshold during the concerned quarter and we expect that these projects would start providing stabilized revenues over coming few quarters.

Our EBITDA and PAT especially the EBITDA is going to witness a significant improvement over the next few quarter as the revenue recognition improves. One of the things I would like to highlight that since we have a higher depreciation therefore we need to see our EBITDA levels at the same time.

Now coming on to the operational center of Aurangabad, all our performance parameters have increased in during the current quarter Q3 FY16. If we compare our retailer sales, it has increased by 10.8% from Rs.505.5 million to Rs. 559.6 million on a Y-o-Y basis. Our average monthly trading density has increased by 8% to Rs.346 on a Y-o-Y basis. Our footfalls have increased by 19.5% to 18.8 lakhs on a Y-o-Y basis. Quite a few new stores were added during the particular quarter with brands such as Audi, Arrow, Numero Uno, Cotton Culture, and Dosa Plaza. And we have seen a very strong traction on the leasing activity as another seven brands are under discussion with over 27,000 square foot of leasable area.

Our rental incomes have stabilized on a Y-o-Y basis and if you see our EBITDA, it has also been increasing and increased 8.5% on a Y-o-Y basis in Q3 primarily due to the stable rental income and better cost control measures taken during the quarter.

With this now, I would like to handover to Mr. Bipin to throw some light also on the other operational projects before we open the floor for Q&A. Over to you, sir.

Bipin Gurnani:

Good afternoon, everybody and thank you for coming on the call. Just to take forward from what Ammeet said, basically, we have had a reasonably good quarter in terms of the bottom-line. One of the key reasons for the better performance has also been that in the last quarter we had done a rights issue and we had paid back the large portion of our debt therefore, our finance cost have come down substantially in Aurangabad and the Mall now is able to sustain all the interest payments and repayment of the existing loan from its existing cash flows and the total debt balance on the books is around 50 crores. So Aurangabad has now obviously over the last few quarters also seen reasonable traction in terms of new leasing and existing brands have also been performing better than previous quarter. So we feel that Aurangabad is in the operations side on the right track.

With regards the commercial building in Aurangabad, as in the past we have said that there were issues related to the payments by buyers in terms of certain issues that they wanted us to resolve. Just want to bring it on board that those issues have now been resolved with MIDC and this was in this month itself though so, we expect that things will start moving in on the PTC front in terms of the collection and plus the construction anyway is on and we have now almost finished the complete civil works for the building.

Saral Bazaar also, we now have as on date about 32 operational stores with another six - seven expected in the next three weeks to four weeks. The movement has still been slow but things are improving on that front in terms as now these stores doing reasonable business and also footfalls coming into the Saral Bazaar. So we expect that by the end of coming fiscal we should be able to stabilize Saral Bazaar as well. We have also signed some very interesting brands in the center like MAX which performed reasonably well and it is their first store in Aurangabad or rather in the entire region. So there are a few new stores which we have signed which are probably the first in the region. We have also revamped the complete Family Entertainment Center and expect that it will be launched in this month as well. So on the Aurangabad front I think there is a substantial stabilization which has happened and our cash flows are also improving at the center.

Coming to Nagpur, the construction has been on for the First Phase and I think, what we have also done in between is that we have given a renewed push to the sales and we have also launched subvention scheme in Nagpur to ensure that we get consistent steady sales and since our building's have reached advance level of civil construction this is the right time to offer a subvention scheme because there is a definitive period by which we expect the handover of these buildings. So we have launched that and we had some reasonable response and of course it was just done in the last couple of weeks so we hope to see things improving at Nagpur as well.

We have also put a plan together and are at advance stages of approvals for our Phase II expect that next quarter we should be able to launch Phase II as well, that is what we are planning and we are waiting some key approvals before we do that.

Coimbatore, the construction of the mall at the advance stages of completion. Hopefully, we will have the first fit out start in this month end and then we will start to get more brands to come and take these places for fit out. The traction on the leasing side has been quite good and we have had a very good response from a lot of brands who currently even do not exist in that city so, the mix will be probably 50% of the brands will be brands which are first time brands in the city and 50% of the brands will be brands which are already doing quite well in that city and we hope that we will be able to start with the high occupancy rate and the incomes will stabilize far more quickly in the Coimbatore Center.

We have also planned as Ammeet already mentioned, the launch of our Coimbatore Residential, we have already started the process in January so of course we will come back to you on the outcome of that in the next quarter. It will mostly be a pre-launch so we are making sure that our pricing is sharp so that people can take advantage of the pre-launch pricing. So Coimbatore on that front I think both residential pre-launch done, mall nearing completion and fit out is getting started. We expect that in the coming fiscal again, the revenues from these two asset classes will start reflecting in our books as well.

On the Indore front, we are still awaiting one of the main approvals, we are all geared up to our sales there but once we get this approval we should be able to launch within a month of that and that since I may have mentioned last time around, that we have done a more developed plotted scheme in Indore and we have had a lot of enquiries for that, but we are waiting for this approval to come in so that we can start the sales of the plotted development as well.

So overall from a company perspective, this coming quarter and the next four quarters are quite interesting for us. Coimbatore Retail revenues will start, Coimbatore Residential revenue recognition is expected to start in the coming fiscal. Nagpur of course is in advance stages with Phase - I, Phase - II launch to happen in Nagpur in this coming quarter and following quarters ahead and also Indore. So from a company point of view I think we will, we hope to see steady cash flows coming in and improved EBITDA as Ammeet mentioned that you know since we have heavy depreciation on account of the Mall where currently all the **CWIP** and now it will move to inventory and therefore, depreciation will be much higher in the coming fiscal. But if we view the EBITDA there will be a substantial improvement in the EBITDA from this year to next year.

So we are looking forward to the coming quarters and hope to come back to you in the next quarter with more changes and more sales and more revenues.

Ammeet Sabarwal:

So with this, I believe we can open the floor for Q&A.

Moderator:

Sure, thank you very much, sir. Ladies and gentleman, we will now begin the question-and-answer session. As there are no further questions from the participants, I would like to hand over the floor to the management for their closing comments. Over to you, sir.

Ammeet Sabarwal: Thank you everyone for participating for the earnings call. In case if anyone has any further queries or any questions, you may please contact us our details are there in our Investor Presentations as well as on the website. Thank you.

Moderator: Thank you very much, sir. Ladies and gentlemen, with that we conclude today's conference call. Thank you for joining us. You may now disconnect your lines.
