

Prozone Intu Properties Limited
Q4 FY'16 Earnings Conference Call
May 23, 2016

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Fourth Quarter FY'16 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. 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. If 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, sir.

Amit Sabarwal: Thank you, Aman. 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 today for the Fourth Quarter and the Full Year Earnings Call for FY'16.

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 on this call are based on the assumptions as on date today and we undertake no obligations to update these statements as a result of new information or any future events.

For the new participants on the call, I would like to start with a short brief on 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 PLC is a FTSE-100 listed company and which manages over £9 billion of assets and 12 of their Shopping Centers are among the top 25 centers representing 38% of the UK market share.

Now, coming to the business model of the company, our business strategy is always to create, develop, and manage world-class mixed-use development along with long-term Shopping Centers. The business strategy is to use 25% of the land parcel to develop build and lease asset, whereas 75% of the land bank is used to prepare 'Build and Sell Model' so that the cash flow from the 'Build and Sell Model' can be utilized to have debt-free annuity long-term lease assets.

Now, coming to our project by project development, so first is basically our Aurangabad SPV. So in the Aurangabad SPV, we already have the Aurangabad Mall operational. The Mall

performance has been promising and the operations are stabilizing now. It is already operating at ~80% occupancy, the traction that we are currently witnessing is very promising and we expect that over the next two years to three years the Aurangabad SPV should be debt free and providing good amount of free cash flows to us annually. On the commercial side the PTC Phase I is now almost into the final stages of completion. Also for Saral Bazaar we have already started providing possession of the shops and around 40 shops are currently operational.

Coming to the residential project that is under the Nagpur SPV, the construction is well on track. The construction contract has been given to NCCCL and the construction is in full swing. Just wanted to highlight that we had initially launched the Phase I of around four towers comprising of 392 units of which almost 85% is already sold out, with more than Rs ~200 crores of inventory being sold out for which the revenue recognition has already started. We expect that the Phase II of Nagpur would be launched around the Diwali period this year and we expect a good response for the same.

Coming to the Coimbatore SPV, the construction of the Retail Center is in advance stage of completion. We expect the Mall to be operational by October-November this year and we expect the stabilized operational income to start coming from Q4 FY'17 onwards. Mall has got a very good response with some of the Marquee brands participating and signing up for the stores there. We expect the mall to be operational at around 75% occupancy.

For the residential project for the Coimbatore SPV, the infrastructure has already been completed with approvals in place. We have already started with the soft launch and the response that we have received has been very encouraging where a lot of enquiries have come in and we have already sold around 41 units in the process. The overall response has been very encouraging and we see a formal launch over the next few months and the construction to start somewhere in Q3 of this year.

Now coming on to the financials, basically if you see this year is where we have turned green. So our overall sales revenues have increased to Rs 862 million as compared to Rs 577 million, an increase of almost 49.3% on a Y-o-Y basis, this has been primarily supported by the revenue recognition that has started for the Nagpur residential project. In FY'16, 269 units qualified for revenue recognition as compared to 115 units in FY'15. If you see our EBITDA, our EBITDA has increased by almost 48.1% on a Y-o-Y basis to 314.4 million as compared to 212.2 million primarily due to again higher revenue recognition from the Nagpur residential project, stable rentals coming from the Aurangabad SPV and higher other income primarily due to the dividend income from the Mutual Fund that got accrued to the overall income.

Our PBT increased by almost 165% to reach Rs 79 million as our interest cost as well as the depreciation reduced. As you are aware that we had reduced our debt primarily in the Aurangabad SPV so, the Aurangabad SPV debt has reduced and it is currently only around Rs. 50 crores. FY'17 looks to be a very promising year for us since there is a good amount of asset monetization happening in this particular year.

Nagpur project has healthy profitability which is expected to continue and recognized over the next few quarters. Coimbatore Mall rentals are expected to start during Q3 FY'17 - Q4 FY'17 onwards and Coimbatore residential project is also expected to start during the FY'17. Primary focus is on asset monetization even for the Indore SPV, where we had already highlighted during the last quarter that we have plan to do the monetization of the Indore SPV through the sale of plotted development. So we have already applied for all the approvals. We have got most of the approvals, but we will wait till all the approvals are in place before we launch the sale of the plotted development.

So FY'17 looks very promising and since we have turned into being PAT positive in FY'16, we expect to see overall a significant improvement in our financials in this current financial year.

Now, I would like to handover to Mr. Bipin to give his overall views on the projects and post which we can continue with the Q&A.

Bipin Gurnani:

Thank you very much, Amit and a big welcome to everybody who is on the call and thank you for participating. Just to take it forward from what Amit was saying, I think from our perspective we see this coming year to be an exciting year for us. One of the key elements of course, is the launch of our Coimbatore Center in the 1st week of October. I think that is the big event that would happen in this year. We have had a very good traction from the brands in terms of being at the center, we have got almost all the big national, international brands, that have signed up with us and I think from our perspective for the city and the region we would be at least taking about 20 such brands which would be the first time stores in that city.

Focus also has been in terms of creating dominant entertainment zone with a Nine Screen Inox Theatre, a dominant leisure destination with a family Entertainment Center and also good mix of F&B. I think collectively we are looking at a very powerful center. Our expectation is that even our occupancy at the time of launch should be relatively good although in most cases occupancies slowly increase in case of such large dominant center. We expect that we should be able to open up with a good occupancy level. So in Coimbatore I think the exciting part is about the center starting.

As Amit mentioned, we have also witnessed traction in our residential project in Coimbatore which we pre launched during first week of March. I think the acceptance of what we are

creating has been very promising and encouraging, we have had huge amount of enquires and slowly the team over there is ensuring that each of those enquiries result in closures. Yes, there has been a shift from earlier days where closures use to happen very fast. People are taking more time there, to do more due diligence on the project, they are doing more homework on the project before they sign up. So whilst the time taken is slightly longer, we are very confident that most people who have come and enquired are slowly coming forward and we are getting closures on those enquiries.

In Aurangabad, we are continuously seeing a positive shift, we get good vibes now from most brands, more and more brands are now reaching revenue share rentals and that is very encouraging and I think that is also making sure that the message going out to other brands is that there is tremendous potential in the center and I think that is something which is helping us get more brands to get attracted to open with us.

We are hoping to look at a few new concepts and formats for the center. Focus for us this year is to dramatically improve our dining offering at the Aurangabad Mall. I think that is something which we still believe that the center is not as strong in and I think that should be our focus and this year we have decided that we will make Aurangabad Center the most sought after F&B destination. That is one of the strategies for the year.

I think from a shopping perspective we are catering to almost whatever the needs and wants of that city and region are, I think more importantly now we need to focus on alternate categories which will ensure continuity of footfalls, and improvement in footfalls and trading densities. We are starting new concepts like Pop-Up Stores wherein certain brands that do not want to be in Tier-II, Tier-III cities as yet, but can come in and open their stores or sell their merchandize for the period of 15 days and we will make it like a pop-up retail option for the consumers of the city. We have spoken to brands regarding the concept and brands are also excited about that. That will also give them some sort of indication of what to expect in the cities before they decide to perhaps enter these cities. That is something which is exciting.

We have seen movement on Saral Bazaar, more and more buyers are coming and opening their shops. We are targeting that we should open at least 100 stores by the end of this financial year which is FY'17 and that would really ensure that the market gets fully developed and that will also obviously help us in terms of the any unsold inventory that we have in Saral Bazaar.

PTC is moving steadily, we have had a new launch close to our center where our office block is coming whilst we have sold at a certain price. The new rate in that area is now almost 40% to 50% higher so the buyers are very excited about the fact that they have had a good deal. So we are seeing them coming forward and now working with us to see that the office block opens

faster and slowly all the cash flow hurdles that we were facing with them are getting ironed out and they are coming forward and supporting us on that.

In Nagpur, construction work is in full swing and we are on target with only the minor delays in the Phase I so, that is moving as planned. Our target for Nagpur is that, since we have applied for all the planning permission for our Phase II, we hope to get that through and then we can target to open our Phase II as well which will be sometime around Diwali again. We expect that the launch of our new Phase will give us a new push because obviously what happens when you start a new phase is that there is pricing difference between what is already constructed and new construction. Also, any buyer who comes in the current phase is obviously expected to pay upfront about 62%, so some of them who want to stretch their payment schedule over a period of three years for them we think there will be new inventory which will also help us. What we have done in Nagpur also is that there were a set of buyers that were not paying their demand charges on time, so therefore, we spoke to them and we are cancelling their allotments and opening up the right inventory for people who are genuine buyers and are willing to pay the 50%-60% demand which has been raised already. We have done that in several cases and that has been helpful to us both from a cash flows perspective plus the fact that we are not blocking good units which are you know premium units with buyers who are not paying up on time. So that as a strategy is a continuous process and this of course we are doing it after speaking to these buyers giving them enough opportunity to come back and complete the requirements but if they have not then we are making sure that we release those inventories to genuine buyers who will pay up the money up front based on whatever is the demand then. So Nagpur I think is relatively steady and going strong.

From our overall perspective, I see a lot of our assets are now stabilizing in terms of operations, construction & sales. I think we are now as we have said earlier the next three years for us is the time of peak monetization and we are poised towards that clearly and we are excited about this year and we are excited about Coimbatore Center launch and looking forward to creating a new landmark and benchmark now in Coimbatore. So I think and also from the results point of view, I think it is a positive sign that we have towards being positive at the bottom-line level. I think it will only ensure that going forward we are able to steadily improve our financials, both bottom-line and top-line. Focus remains on ensuring that we deliver best quality product and ensure that we look at areas of where we feel we need to strengthen our operations and that is something which we are focusing on. From our perspective, we are looking forward to a good year. Thank you very much.

Moderator:

Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Gaurav Joshi as an Individual Investor. Please go ahead.

Gaurav Joshi: Good afternoon, sir, thank you for this opportunity, I have a couple of questions. First is both Saral Bazaar and PTC Phase I have been delayed. So when can we expect the cash inflows happening for these projects?

Bipin Gurnani: Hi, basically for Saral Bazaar I think the movement has already started since last two quarters as people are coming forward to take possession of their stores and they are paying up their balance amounts left on the shops that they need to pay. So, I think this year when I said that we will look at almost opening 100 stores, we expect a lot of the funds that have been delayed from the buyer's side should get released and we should be getting the cash flows in this year. In PTC, also a large chunk of what the cash flows lost, were due to buyers not making their payments on time, will get opened up in this year itself. So I think I would say from the existing debtors on both PTC and Saral Bazaar front, we should be able to unlock at least 60% of that in this year itself.

Gaurav Joshi: Okay, thank you and coming to my second question. A lot of good brands seem to have signed up for the Coimbatore Mall. So can you give more color on the competitive land scape in Coimbatore as in the average rentals expected by you?

Bipin Gurnani: The current environment in Coimbatore is that there are two existing centers; both of them are smaller centers obviously, they have been there for some time and are doing reasonably well. Our philosophy is slightly different while they are more city centric shopping centers; our center is a dominant center which means our focus is not only on the shopping aspects of the consumer requirement, but also a large entertainment & leisure center and dining experience. So I think from our perspective we are more of a destination center which will attract people from not only within the city but from the outskirts of the city as well. The other advantage that we have is that with the brand offering and the category offering that we bring to the table from a consumer point of view, would be more extensive and offer a more fulfilling experience from a consumer perspective. Our belief is that the larger wallet share of the consumer should get met at our centers because of the availability of a larger number of brands, and with us being a larger leisure and entertainment destination. So from a consumer point of view, we should be able to attract substantial wallet share is what we believe our model will achieve. Average rental for a line store ranges from anything between Rs. 80 per square foot to Rs. 100 per square foot and for an anchor store would be anything between Rs. 35 per square foot to Rs. 50 per square foot, which is probably the standard rentals at which we are currently signing the deals there.

Moderator: Thank you. Ladies and gentlemen, as there are no further questions, I would now like to hand the floor over to Mr. Amit Sabarwal from Dickenson Seagull for closing comments. Thank you and over to you, sir.

Amit Sabarwal: Thank you everyone for taking time out and attending the Q4 FY'16 conference call for Prozone Intu Properties Limited. In case of any further queries our coordinates are there in the investor presentation, please feel free to contact us in case of any further details are required. Thank you. Good day to everyone.

Bipin Gurnani: Thanks everybody.

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