



“Prozone Intu Properties Limited Q4 FY17  
Results Conference Call”

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**Moderator:** Good day ladies and gentlemen and a very warm welcome to the Prozone Intu Properties Limited Q4FY17 Results Conference Call hosted by Dolat Capital. As a reminder for the duration of this conference call 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 “\*” followed by “0” on your touchtone phone. I now hand the conference over to Mr. Pranav Joshi from Dolat Capital. Thank you and over to you Sir!

**Pranav Joshi:** Thank you. Good afternoon all. On behalf of Dolat Capital, I welcome you all for the Q4FY17 post result conference call of Prozone Intu Properties Limited. From the management we have Mr. Nikhil Chaturvedi, MD, Mr. Bipin Gurnani, President; and Mr. Anurag Garg, CFO. With this, I handover floor to Mr. Ammeet Sabarwal for opening remarks, which will be followed by question and answer. Over to you Sir!

**Ammeet Sabarwal:** Thank you this is from the management side. Welcome everyone to the conference call of Prozone Intu Properties Limited for the fourth quarter and full year FY17. It is a great pleasure to greet you all once again on behalf of our Board of Directors and the senior management. We begin by thanking you all for taking your time and joining us today for the concall. For any new participants on the concall, I would like to start with a short brief on our company. Prozone Intu Properties Limited as the name suggests it is developed by the Promoters and participated by Intu Properties PLC. Intu Properties UK Plc is a FTSE 100 listed company and they manage over 9.9 billion pounds of assets and 9 of their shopping centres are among the top 20 shopping centres representing 38% of the UK retail market share. Just to share more thing Intu Properties today managing around 21 million square foot of retail space with almost 400 million customer visits a year. At Prozone our strategy has always been to create, develop and manage world class mixed use development along with long-term shopping centres. The business strategy has been to use 25% of our land partners to develop, build and lease assets whereas 75% of the assets are build and sell model, so that the cash flow from the build and sell model can be used to create debt free long-term annuity assets. Over the last year, we have been talking about how our companies now turning PAT positive and this year would be an inflexion point for our company as the Coimbatore Mall starts operation very soon and thus leading to a strong annuity income along with Aurangabad Mall going forward.

Commenting with respect to our Q4FY17 results, our Q4FY17 revenue is increased by 16% on a Q-o-Q basis to Rs.163.7 million primarily because our sale of premises is up almost 50% recovering from the demonetisation in Q3, buyers are now again returning to the market and we are seeing encouraging response. The current environment has also normalized and construction is now in full swing for the Nagpur residential project as well as for the Aurangabad PTC commercial project. Revenue from the mall rentals has remained strong and stabilized with 40% of our brands crossing threshold limit at the Aurangabad centre. Our Q4FY17 EBITDA has increased by 44% on a Q-o-Q basis as a result of this as well as our PAT has increased almost 102% to Rs.22 million. We have initiated our asset monetisation phase. Our Nagpur project has a

healthy profitability where we have already sold more than 75% of the overall phase 1 and the sales have continuously been happening more in this project. The revenue is expected to be recognized over the next few coming quarters. Coimbatore Mall has received a phenomenal response with more than 84% of the area has been leased and another 10% under finalization. Coimbatore Mall rentals would start coming in from next quarter onwards as the mall starts operation by second week of June. Our Coimbatore residential project has been soft launch and we have already booked around 83 units till date in that project. Construction is expected to start somewhere in Q2FY18 onwards. Our focus is now on asset monetisation of all these SPVs over the next few coming quarters. We believe we have entered an exciting new phase of consistent long-term growth and value creation. With this large land bank and a deep project pipeline, our strategic focus is now on timely execution of these projects, which will generate free cash flows over the next couple of years. With this I would now like to handover to Mr. Bipin who would focus on highlight on the operational side of the business. Over to you Sir.

**Bipin Gurnani:**

Thank you and thank you Dolat Capital for organizing the conference call and welcome all participants. I think the first thing that I would like to share is that the Coimbatore centre has received its BCC; therefore, the mall is now ready for launch. We are just awaiting some of the anchor brands to complete their fit out and be ready for launch. We expect that by second week of June is what date commitment we had from the brands and we should be operational by then. We had a recent visit and preview of the some of the local people at Coimbatore and the response to the centre was overwhelming and all those people who had come to visit the centre as a preview really appreciated the centre. Some of the photographs we have included in our presentation and I am sure you all will also get a sense of what the mall is looking like. With respect to the response, I think the response from the retailers has been quite encouraging. We have almost every key anchor and retailer in the centre. We have also been able to attract above our expectation in terms of minimum guarantee rent and now we hope that as the mall starts to trade we will also get better revenue share from these retailers as well. So we are all excited about the launch. What this launch means for us is also that as soon as we launch this year we will see our EBITDA growing by almost 2.5x and that is something, which will start reflecting in the coming quarters that is on the financial side. Overall from the operating side, I think things do look good and we hope that the performance of the centre will be better than what we have even forecasting.

On the other side with residential in Coimbatore, we are seeing something changing. We have already applied for our building license permit, which is expected in next one or two weeks, which means that we would be in a position to start construction immediately post the rain viz. sometime in August or September. The enquiries at the project have been moving up. We now have a lot of people coming and showing interest. We also expect that once the mall will get operational and we expect to have more than a million visitors in a month. We expect that all those people will also get a preview of what is coming up on the residential side and that will have a substantial interest from these people and the fact that they will get expose to the project because of the retail mall starting. So I think on the residential side also we feel that as soon as the mall starts we will see increased interest from the community there and we hope that with the

construction starting that should further support closures with people who have been sitting on the fence. So, overall I think Coimbatore now looks poised to give the growth that we have expected, so this year should see that.

Aurangabad, coming to the mall, the mall has been faring well. We have in the last year more than 40% of the brands that have contributed revenue share margins to us, which is a good sign of how the trading densities are moving up in that city. In between we have made some changes in the centre, which is related to tenants. Star Bazaar, which was the hypermarket, which we had been running for the last six years. They had come back to us and they were wanting to reduce size of the store plus also they were requesting for no increase, the normal escalation that we have three years. They had requested us to not increase the rent. We were not able to sort of accept the request and they decided to move out. Whilst we had six months of timeframe notice period with them. We have now signed Big Bazaar in the mall. The Big Bazaar has agreed to take almost smaller space to what we had with Star Bazaar and on better rentals, so that should help the mall in fact on both levels, one is of course we will have increased revenues from the space for hypermarket space plus we believe that Big Bazaar has a franchise, which resonates with the population of Aurangabad. They were there in that city for many years, unfortunately they had shutdown because of some issues related to property and we believe that with them coming back with a new format in our mall will bring further footfalls and excitement with the consumers. So that is the big change that we expect will also have a positive impact with the mall. Other than that, we are shortly launching Max Lifestyle Store, which is another anchor and we have almost 11 new brands that have been signed and finalized and are in the process of fitting out or confirming and agreements being signed. So this year for Aurangabad also seen on the retail side, on the mall side to be exciting. Saral Bazaar is also stabilizing with almost 85 units operational and we expect that in this year another 30 to 40 units will become operational. So as a concept we believe that is also stabilizing for us. May be once we have almost 125 units, which become operational, we expect that the balance units that we have will also create a pull factor and we hope that will also result in more cash flows for us.

PTC is fully under construction and the committed date for delivery is December. All the process with the buyers has been initiated and now there is a lot of excitement because the work has been happening at full scale and we hope, that will also unleash a large amount of cash flow for us, which has been stuck because buyers were not willing to pay till they knew the end date in terms of the committed timeline. Nagpur is on time, we are scheduled as expected to start delivery of the towers one by one starting from November going up to March, finishing work is going on and a lot of excitement with the buyers because they can see the product now taking shape and I am sure that if people who have seen the presentation would have got a chance to see some of the photos, which will obviously indicate that the work is on advanced stages. We are also seeing a revised interest from the buyers, so Nagpur is seeing a lot of new buyers coming into close as they see the project getting completed there is a renewed interest and we have done some new bookings in the last eight weeks and we will see the impact of that in the coming quarter, but Nagpur seems to be a city where a lot of development work is happening and we feel that all that work that is happening in the city will help the project in terms of not only what is the balance

inventory with us, but also supports the next phase that we are planning to start by Diwali. So we feel that Nagpur residential will show a lot of increased renewed interest and we feel that should all come in this year as well.

On the retail side our approvals are yet to come, but they are at advanced stages. We expect that three months from the time we get the approval we should be able to start work on the retail mall for Nagpur. Fortunately by then we would have already opened Coimbatore and Coimbatore would have been running for three to six months and therefore stabilization would have also started and that is when we will start construction of our third centre. We already have a lot of interest on the anchor side on our Nagpur property. The brands are asking us to start work fast and they are very keen to, because they all understand the potential of the city and we are also excited about that. So this is basically on the three live projects. On the other projects, there is still work in progress. We have in Indore sort of waiting for some market to pickup before we start initiate the sale of our plotted development that we have planned, but we just want to make sure that when we go out and launch the product that there is enough demand, so we can see some changes, but we still would like to wait for some more time may be by Diwali after reviewing we will take a decision on that. Jaipur, we have started planning residential development there, but that will come only in the next year. One more thing that our company is now focusing on and making sure that we are absolutely completing that process is the move to RERA. We have already put together a crack team to make sure that all our applications for registration of our projects and all the compliances related aspects of RERA are all now in pipeline. We have consultants who have come on board to help us transit to the RERA regime. We believe that RERA will actually benefit players like us because the buyers confidence will come back because now they know that if there is something, which does not go as per the committed timeline or delivery from the builder side they have a fallback in terms of actions that can be taken clearly, so we feel that RERA will actually benefit players like us who are already following a lot of these compliances, internal sort of checks and balances, so we feel that, that will be helpful to us. In the next 30 days all our projects should be able to get compliant to the RERA standards and RERA requirement, so that is something, which the company is also focusing on.

On the other side of course as Ammeet had mentioned that our absolute intent is to keep improving and optimizing our operational capabilities and execution capabilities and we feel that we have a good team who is now experienced enough to execute projects timely and within cost as budgeted. Also on the operating side, on the asset management side, the teams are now geared up for ensuring that we are able to run our centres more efficiently with more focus on marketing and delivery in terms of footfalls, etc., into the centres. Another focus that we are putting this year on the asset management side is CRM, so customer relationship management is something, which we are focusing a lot on, that will also help us to some extent going omni channel in terms of the app we are creating with respect to consumers being able to use those and download those applications and using their applications to find out all the promotions going on in the centre, all the brand offers, the events and promotions that are happening in the centre and slowly we will move it to an advanced stage of people being able to use those app for m-commerce and e-

commerce applications as well. So another focus for this year from the asset management side is on the CRM and that move is basically keeping in mind that we have to see the alignment between brick & mortar and online in terms of how to become omni channel from a mall perspective. So that is another area of focus for us this year. So there is a lot happening in your company this year and I think as we are getting an opportunity now to actually monetise and ensure that our cash flows move forward with respect to all the plans that we have. We are looking forward to this year and looking forward to better performance this year in terms of overall operationally as well as on the project side, so hopefully this is something we have all our budgets done based on all the efforts that we want to put this year and we put together a full team around that and I think we should be able to get that so that is something that I thought we will share from you and over to Ammeet!

- Amit Sabarwal:** We can open the floor for the Q&A.
- Moderator:** Sure thank you. Ladies and gentleman we will now begin the question and answer session. We will take the first question from the line of Arun Prakash, Individual Investor. Please go ahead.
- Arun Prakash:** Good afternoon Sir! Just a quick question. What is the over annual rental expected from the Coimbatore Mall?
- Bipin Gurnani:** The overall annual rental expected from the mall is about 40 Crores once it is fully leased and we get a full operational year.
- Arun Prakash:** Thank you Sir!
- Moderator:** Thank you. We will take the next question from the line of Vatsal Mehta, Individual Investor. Please go ahead.
- Vatsal Mehta:** Good afternoon Sir! How are the cash flows for PTC expected to pan out this year?
- Bipin Gurnani:** Basically currently the total overall balance amount that still needs to be collected on delivery is about 38 Crores, so we expect that in this year we should be able to get the 38 Crores by March 31, 2018 because if we finish and handover by December, so we are keeping one quarter, three months more for people to come and take possession and handover and pay up the balance amount, so the expected recoveries from the buyers is to the extent of 38 Crores out of which roughly about 12 Crores is further what is expected to be utilized for completing the construction of the PTC towers.
- Vatsal Mehta:** Thanks so much.
- Moderator:** Thank you. We will take the next question from the line of Dimple Kotak from SKS Capital & Research. Please go ahead.

- Dimple Kotak:** Sir, just a basic question since I am seeing the company for the first time, Sir why we had subdued revenues for the full year FY17, the profits are down by about 19%?
- Anurag Garg:** See in March 2016, bulk of the units sold in Nagpur project were considered for a revenue recognition as per the percentage completion method. Around 200 units were considered in March 2016, alone, we have recognized the revenue for few additional units and the cost incurred.
- Dimple Kotak:** What is the kind of growth you are looking at in your topline in your revenue from real estates and rentals?
- Anurag Garg:** In this financial year, we expect to continue to get a higher than current year's revenue for the Nagpur project. For the Coimbatore project, the construction is expected to start in Q2 and we expect that the minimum threshold required for revenue recognition, which is 25% of percentage completion will happen in next financial year.
- Dimple Kotak:** For Nagpur?
- Anurag Garg:** For Coimbatore. Nagpur we will have continued to get healthy revenue from the existing unit sold plus as Mr. Bipin has told we have seen the improvement in buyer sentiments, so we also expected to add few more units, so expected to be better than Mach 2017.
- Dimple Kotak:** What is the capex required for you this year?
- Anurag Garg:** Coimbatore Mall is ready and residential model is self funded. The funds are already tied up for Nagpur residential as we will use the receivables from the buyer for completing the construction. As Mr. Bipin has mentioned that we are planning for third centre in the Nagpur, so basically which will be mainly funded from the term loan from the bank.
- Dimple Kotak:** Would you be taking further debt?
- Bipin Gurnani:** We would take construction finance for the Nagpur Mall once we start the construction of the centre.
- Dimple Kotak:** What would be the quantum?
- Bipin Gurnani:** We normally take a debt of anything between 150 to 180 Crores, balance is funded by equity.
- Dimple Kotak:** Any repayments during the year we are planning for F2018?
- Bipin Gurnani:** Repayments as of now depending on the surplus that we get, yes we will look at some repayments mainly in Aurangabad because we will have some surplus funds coming in from the PTC recovery, so on that account we will do some repayments. Other than our regular

repayment, which is part of the scheduled bank repayment. Any additional repayment, advance repayment will only be in the case of Aurangabad.

**Dimple Kotak:** Thank you so much.

**Moderator:** Thank you. The next question is from the line of Kushal Bhammar from Bhammar Investments. Please go ahead.

**Kushal Bhammar:** Good afternoon Sir! Just a basic question regarding PTC, so you guys have taken some debt to complete the project early, now in that case when it comes to Indore and Jaipur, in case you guys not able to collect the revenues from the sale for asset of time how you are going to fund construction going forward, is this going to be a debt model that your guys want to go on with or is this going to be equity fund?

**Anurag Garg:** Our principle and philosophy of anytime before we start construction our focus is that 50% of the inventory that we want to open up is sold because I will tell you what we have done initially just to help you understand all the infrastructure, etc., has already been built in these cities, so which means the club house, the infrastructure related to roads, all that is already funded built by equity, which means that what we need now is purely the construction of the apartment. In case of resorts, currently the first phase of what we will start is the plotted development, which means all infrastructure is already ready, so there is not too much funds required before we start selling these plotted development. Second is that in case of plotted development, we will obviously initially first sell an X amount of plots before we even invest the balance amount of money, which is required to make it completely ready, so effectively 90% of the infrastructure is already ready, the 10% will be once we have sold an X amount of plots, the initial funds from that will be sufficient to complete that project, so from the Indore point of view we are fully funded. From Coimbatore point of view we have already pre-sold almost about 80 plus units. We are expecting to sell another 60 to 70 units so once we sold 150 units, the two towers that we are building in phase 1 are actually funded enough for the construction of these two towers. So the intent of the company and the project is that we first pre-sale up to a certain level, which we know that even if there is a 25% to 30% delayed payments on those units, we are able to still complete and meet the construction cost for those units.

**Kushal Bhammar:** That is all my question. Thank you Sir!

**Moderator:** Thank you. We will take the next question from the line of Anubhav Makkar, Individual Investor. Please go ahead.

**Anubhav Makkar:** Good afternoon Sir! Though I am not asking for any guidance, is it fair to assume that the bottomline could see improvement of around 60 to 70 Crores in the next three years or so depending upon the rental?



- Ammeet Sabharwal:** We do not give any forward guidance. What we can say is that we have entered a phase where the asset monetisation has already started, so the cash flows would start coming in with respect to the rentals, so if you see we will be having rental now from Coimbatore as well as Aurangabad project, which will further enhance the bottomline as well as the Nagpur project to get added with the Coimbatore residential project. So definitely over the next few quarters, you will see a significant improvement in the EBITDA and PAT numbers, but I would suggest we would refrain ourselves from giving any forward numbers or any guidance.
- Anubhav Makkar:** For Coimbatore probably you have said that it could be in tune to the 40 Crores, how about the Nagpur, will add one to it?
- Ammeet Sabharwal:** So Nagpur, construction has yet to be started for the mall project, so the mall project will take another 24 to 30 months before the project get started.
- Anubhav Makkar:** What is your expected rental income in case it comes after three years?
- Bipin Gurnani:** The current projections that we are making is that we are building about half a million similar to sites to what we have done in Coimbatore, we believe that the Nagpur should give us at least 50% higher average rental than Coimbatore.
- Anubhav Makkar:** Thank you.
- Moderator:** Thank you. As there are no further questions from the participants, I now hand the conference over to Mr. Pranav Joshi for closing comments.
- Pranav Joshi:** Thank you management for taking your time for the call and thank you all the participants for attending the call. Thank you.
- Bipin Gurnani:** Thank you everybody.
- Moderator:** Thank you. Ladies and gentlemen on behalf of Dolat Capital that concludes this conference call for the day. Thank you for joining us. You may now disconnect your lines.