



“Prozone Intu Properties Limited Q2 FY18 Results and
Business Outlook Conference Call”

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MODERATOR: **MR. PRANAV JOSHI – DOLAT CAPITAL**

Moderator: Ladies and gentlemen, good day and welcome to the Prozone Intu Properties Limited Q2 FY18 Results and Business Outlook Conference Call hosted by Dolat Capital. 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. Pranav Joshi from Dolat Capital. Thank you and over to you, sir.

Pranav Joshi: Thank you, all. Good afternoon, all. On behalf of Dolat Capital, I welcome you all for the Q2 FY18 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 hand over the floor to the management for the opening remarks, which will be followed by question-and-answer. Over to you, sir.

Ravindra Bhandari: Thanks, Pranav. This is Ravindra from Dickenson Seagull, IR Consultant for Prozone Intu. Thank you all for joining us on the Q2 conference call. It is a great pleasure to greet you all once again on behalf of our Board of Directors and Senior Management. We begin by thanking you all for joining today here for the call.

For any new participant, I would like to start with a short brief on our company. Prozone Intu Properties Limited, as the name suggests, is developed by Promoters and participated by Intu Properties UK Plc. Intu Properties is a FTSE-100 Company and they manage over 10 billion pound of assets and 10 of their shopping centers are among the top 25 centers representing 38% of the UK retail market share. Intu Properties Plc has more than 22 million square feet of retail space and over 400 million customers visit their shopping centers every year.

Prozone business strategy is to create, develop and manage world-class mixed-use development anchored by dominant shopping centers. The business strategy is to use 25% of land parcel to develop a lease, whereas 75% of land are Build and Sell model. So that cash flow from the Build and Sell model can be used to have debt free long-term annuity lease rentals.

This quarter Coimbatore Mall became operational and we are witnessing strong footfalls and trading activities in the initial few months of operations there. This year is an inflection point for our company as the number of operational malls are doubled and thus leading to a strong annuity income going forward.

Commenting on quarterly results, Q2 FY18 revenues are higher with rentals from Coimbatore Mall and Nagpur residential moving nearing completion. Revenue from Aurangabad Mall remains strong with 40% of mall space crossed threshold limit.

Regarding Aurangabad PTC and Nagpur residential, the current environment has normalized and construction is moving in full swings. We have initiated our asset monetization phase. Our Nagpur project has a healthy profitability, In compliance with RERA requirement, 336 units will be delivered under the project Phase 1. Revenue recognition in started in a phased manner and it will be recognized over next few quarters. Coimbatore Mall has received a phenomenal response with more than 85% of area already leased and few of other brands are under finalization. Coimbatore Mall has been received well by strong national and international brands, 13 anchor brands occupying significant mall space currently. Our Coimbatore residential project has been pre booked and we have booked 95 units till date. Construction is expected to start in Q1 FY19.

Our focus is also on asset monetization of other SPVs over the next few months. We have entered a new phase of consistent long-term growth and value creation. With the large land bank and project pipeline, our strategic focus is on timely execution of our project that will generate strong free cash flow.

With this, I would like to hand over to Mr. Bipin Gurnani to share his thought on the operational front. Thank you, sir.

Nikhil Chaturvedi: Hi, this is Nikhil Chaturvedi. while this has been the first quarter of Coimbatore operations , but obviously, the operational results do not reflect the full incomes potential and three months includes a lot of one-time expenses. And that would happen in the beginning of any mall, all the marketing expenses, brokerage expenses in the mall do not get capitalized. Hence the results which you see are having impact on this quarter and they will continue for the coming quarter.

Ravindra Bhandari: We can open the floor for Q&A session.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin with the question-and-answer session. We'll take the first question from the line of Dimple Kotak from SKS Capital and Research. Please go ahead.

Dimple Kotak: Sir, I have a couple of questions. The first is that the Aurangabad occupancy has come off from 70% to 80% in last year to 72% now. So why there is so much of decline? Plus the gross leased data which I'm seeing in your presentations across the quarter, there has been a volatility 5.5, 5.15. So just wanted to understand on that front?

Nikhil Chaturvedi: We had the hypermarket which was operational out there, and in between, the hypermarket had shutdown and hence the occupancy went down. In this current quarter, Big Bazaar has opened up there and has been received very well. It has got a footfall by almost 10% and hence the occupancy level will be back to the average.

Dimple Kotak: Okay. And sir, there is a volatility or a discrepancy on the gross leased area over the last one year?

Bipin Gurnani: We're also doing some churn, because we want to free up some key spaces for brands which are coming into the city and are also now at advanced stages of discussion with us. Unless and until we have those spaces available with us, it's very difficult to attract the new brands that want to enter the center. So deliberately we are trying to free up spaces on our ground level and key zones of the center from weak brands and with the progress on the stronger brands to come in, in the city. And that's why you keep seeing that while we open four brands, we might be closing down two or three brands to make sure that we continuously open up spaces. So you must understand the mall has been operational for now six years, this is the right time for us to create and rejuvenate the mall in terms of space creation and fresh brands for the city.

Dimple Kotak: Okay, sir, correct. Sir, second is around the PTC front, are we expecting to get 31 crores in Q1, I mean, as mentioned in the presentation and how much of debt which we would be able to pay by this year end?

Bipin Gurnani: So basically, that's what the amount is due from people who have bought and we expect that there will be some expenses out of it for the CAPEX. So the free cash flow that would be available could be roughly about 20 crores to 24 crores, out of the overall 38 crores which is expected to come. Whilst we are intending to hand over in Q1 FY19, there could be some push back on people taking possessions slightly slowly and money coming in, but from our perspective what becomes due from the buyers will be fully due because we would have handed over the possession of these units to the buyers.

Dimple Kotak: Okay, sir. Sir, earlier you were mentioning I think a couple of quarters ago that there were issues they did not pay up and all that. So has that resolved?

Bipin Gurnani: First, let me put it this way that to some extent that has resolved because we obviously started to build the units on from our funds. We have advanced the construction to a very advanced stage and we are also constructing fast. Looking at the construction speed, obviously, there is concerns with the buyers with respect to the fact that if they don't pay up, we have an option to terminate their agreement.

And I think post RERA implementation, so the project is now RERA registered. I think that has also given people confidence. And it is now that they have started to sort of apply for the bank loan for the different amount. We expect that between now and till the time of hand-over, They'll start paying up their dues. And we should be able to sort of reach and also the fact that they have met us and they are more confident in the project now. And we see things sorting out over a period of time, next couple of months.

Dimple Kotak: Okay. And sir from the accounting part, sir, we have seen there is about a rise in consolidated debt plus debtors have come down significantly and investments have doubled. So, can you just help me with the entry?

Dimple Kotak: Sir, the debt on a consolidated basis for the half, the debt is 282 crores versus March 270 crores. And debtors have 88 crores as on March and there are currently right now around 40 odd crores. And investments which was showing in around 39 odd crores to 62 crores. So just wanted to understand I mean, who are the debtors who have come and paid and why investments have jumped up and when can we see reduction in debt?

Bipin Gurnani: Basically the debt is we had refinanced our LRD loan in Aurangabad from the existing debt with IDBI. We had taken a top-up on the debt from LIC, this was basically primarily to address the issue of PTC, so that we could complete the construction without having to delay the process any longer. We are conscious of the fact that RERA implementation was there and we didn't want to really get into any odd situation. That was one reason for which we up the debt. Second is that we had an arrangement with Star Bazaar that we had taken a higher deposit from them and a lower rent with respect to the rent that was being charged. With their exit happening, it officially actually happened in the month of August. We repaid that, high deposit that we had paid up as well. So, that's one of the reasons why you see the...

Dimple Kotak: Debt going up.

Bipin Gurnani: Correct.

Dimple Kotak: Okay. And debtors have come off significantly from 88 crores in March to around 39 odd crores, 40 odd crores in this quarter?

Anurag Garg: Due to the realization of overdue in the Nagpur project partly due to realization. And because of the certain changes due to the RERA regulation, percentage completion of the project got changed.

Dimple Kotak: Okay, sir, and sir, the investments have gone up from 39 crores to 62 crores?

Ravindra Bhandari: We can come back to you on the numbers side.

Moderator: Thank you. We'll take the next question from the line of Sagar Parekh from Deep Finance. Please go ahead.

Sagar Parekh: My first question is on the Nagpur project, could you take us through the cash flows from this project going forward. So how much would be the cash inflows already done in terms from the units sold and what is the cash flow remaining from the units sold and what is the value of the unsold inventory and what is the cost of construction yet to be done for the project for the Phase 1?

Bipin Gurnani: Firstly, let me tell you that Nagpur obviously, we are in advanced stages of construction, so I would say roughly about 68% to 70% of the construction cost has been done and that's one aspect. And the second part is to answer your question is that with respect to the cash flows that are required and what we would be getting, I think roughly the margin is about 20% to 25% is what we would make from the Phase 1. And that is because initially when we had launched Nagpur, we had launched at a very aggressive pricing, the initial number of units and therefore Phase 1 was deliberate for us to put the strong brand in the city. And therefore, the margins that we would make is about 20%-25%. In terms of actual detailed numbers, I would suggest that we can connect offline and we can share those numbers with you exactly and you can sort of understand the details separately then.

Sagar Parekh: Sure, no problem. So basically Phase 1 is 7.8 lakh square feet, am I right?

Bipin Gurnani: 336 units.

Sagar Parekh: And in terms of saleable area would be how much?

Bipin Gurnani: 5.74 lakhs.

Sagar Parekh: And in terms of new launches except for Coimbatore and for residential and commercial, any other new launches in the pipeline?

Bipin Gurnani: As of now, I think our intention is also to start construction on for Nagpur retail and we're just awaiting some final clearances on that. And Coimbatore of course is a big one to start because Phase 1 is 540 units, that's a big launch that will happen. So I think roughly in this year this would be what we would launch and also our preparation for Phase-2 for Nagpur residential is up. Once we have delivered the Phase 1, we want to make sure that you know we have people moving in and that sort of enhances the location substantially and that's when we want to launch our Phase-2. So this year of course, focus is on ensuring that Coimbatore retail settle down and Nagpur residential launch, completion of the Phase 1 of Nagpur, delivery of PTC Phase 1 and completed the planning for Phase-2 of Nagpur residential and start up construction on Nagpur retail.

Sagar Parekh: Sure.

Bipin Gurnani: So, I think there is quite a lot to do.

Sagar Parekh: Okay. And PTC Phase-2 should we expect launch in FY19 or FY20?

Bipin Gurnani: We don't have any intention as of now to launch Phase-2. We want to wait and see how the market evolves once the existing units are occupied by the buyers. Perhaps based on that if we see enough demand, pre-demand then we will think about building the Phase-2. We won't build it and then try and sell it, I think if we get enough demand from the market and it substantiates the need for a Phase-2, we will take that up.

- Sagar Parekh:** Sure. And sir, how is the Indore, that plot sale going?
- Bipin Gurnani:** We haven't started the plot sales. As we had mentioned last time around, there were some statutory requirements in terms of some DP Roads which are passing through land for various landowners there and we were also partially affected by that. And we expect that, that issue is now cleared. And once I think the government puts that to rest, we will apply for the permission to sell the plots, whilst we have applied we still await those, so once that happens and also we think that should happen in the Q1 FY19. But as of now, we are ready with our planning, but we await the final clearance from the authorities on the verdict for the RE-2 which is a DP Road which runs through various plots in that area.
- Moderator:** Thank you. We'll take the next question from the line of Deepan Kapadia from KDK Capital. Please go ahead.
- Deepan Kapadia:** Sir, first thing, could you give us some update on the AIF?
- Bipin Gurnani:** Sure. As you know that we've already applied for forming an AIF and an application is being studied by SEBI. The last update we have is that all the queries that they had raised, we have responded to those and now it is moving up on in the process for final approval. Hopefully, mid-Jan, we should be in a position to get that approved. Once we have the approval on the formation of the AIF, we will start the next leg of the process.
- Deepan Kapadia:** Sir, could you give a tentative size of the AIF??
- Bipin Gurnani:** As of now, it's difficult to give a specific number because once we form the AIF is when we will have final discussion with our partners and shareholders. And the final decision will be taken on what opportunities are existing in the market because one of the reasons for forming the AIF is really clearly to create growth funds for new asset development. And while I think we have all the investors very keen to invest, I think more important is the opportunities that come up and we are able to close will determine the actual movement on the AIF.
- Deepan Kapadia:** Okay, sir. On the Nagpur Retail, are we looking at construction to start from Q1 FY19, am I right in my understanding for the Nagpur Retail?
- Bipin Gurnani:** Nagpur retail Q1 FY19 is what we want to target, yes because it's all subject to statutory approvals coming through.
- Deepan Kapadia:** Okay. So that was my second question, is the approval there in place or it will still take two quarters before we can realize it will happen or not?
- Bipin Gurnani:** We obviously applied for the approvals and at the current level which we are, we are hopeful that we should be able to move, but if there is any delay on that, that could obviously correspondingly hit the timeline.

Deepan Kapadia: Okay. Sir, last question from my side. Hammerson taking over Intu in UK, one, what would be the change in the plans and will it trigger an open offer?

Nikhil Chaturvedi: Hammerson taking over Intu in the UK, it's not a takeover, it's a merger of 0.55 to 0.45. And because it's a merger we have checked, it does not trigger any open offer. But the new management would come in and take a call. Post January, we should be able to sit with them and take a view of what their call on India is, but we believe that they are obviously focused on growth and that's why they have done the merger and India is a very large growth market for any company

Deepan Kapadia: It is true, because the Intu management is not going off, the Intu management is merging into Hammerson, right?

Nikhil Chaturvedi: Yes, it's very true.

Deepan Kapadia: So basically statutory requirement does not require them to give an open offer point one, and we will come to know in January how things will shape up going ahead for us, it will not impact the AIF investment?

Nikhil Chaturvedi: Yes, it shouldn't impact any decision making which has been going on. We have spoken to the management there and they expect India's business as usual at the moment.

Moderator: Thank you. We'll take the next question from the line of Dimple Kotak from SKS Capital and Research. Please go ahead.

Dimple Kotak: Yes, sir. Sir, just a follow-up question, so what would be the growth rate in terms of your topline and what kind of margins do we see at the end of this year? And as you mentioned in the starting commentary that we will see some one-time cost going ahead in the coming quarters, so will we see a profitability on FY18 consolidated basis?

Nikhil Chaturvedi: The first thing I will tell you is that about the quarterly I think I'll allow Bipin to answer, but your question about growth in the coming year.

See, we're looking at organic and inorganic growth methods, so it's very difficult to pinpoint how and when we would get an opportunity for the inorganic growth. So we are actively scouting looking for inorganic ways for growth. But for organic ways of growth, I can only put it like this is that in the current year, whatever incomes comes from Coimbatore, a lot of expenses also come in the beginning quarters, okay. So next year would be able to capture the entire what you call income of Coimbatore as a whole. So you can very well be sure that next year will be a big year where we would almost double our numbers.

Bipin Gurnani: Just a couple of things, just to answer your question about one-time cost, so things like launch expenses cost, brokerage that we pay on the leasing, all those actually come and hit your P&L in the first two quarters when your transaction is closed, that's one. Second big one is that, up

until now, our debt was operating on the construction finance which was at 13% plus rate of interest. We are moving that balance debt to lease rent discounting, the interest rates will be substantially lower than the current level of interest rate.

- Dimple Kotak:** That will come in Q4 or from FY19 onwards?
- Bipin Gurnani:** That we expect it to come in Q4 itself. But obviously this year we will have pressure because of the fact that these one-time costs will come in plus any new mall that opens, your occupancy progressively goes up. And also during the initial stages to attract the people to come and open with us early, we offer rent-free period or only pure revenue share deals just for the initial period. So that's why I think when Nikhil mentioned that I think, if one wants to really see the actual impact of Coimbatore operations, it will happen starting from the FY19 period.
- Dimple Kotak:** Okay, sir, got it. So maybe, it's a similar replica of H1 we'll see in H2 for Coimbatore and the entire numbers?
- Nikhil Chaturvedi:** Yes. See again H1 is always, see revenue shares do not kick in, in normally in H1, always H2 is normally slightly better than H1.
- Dimple Kotak:** Yes, sir. Sir, but I'm just to ask on the profitability part, on a PAT level, will we be positive for FY18?
- Nikhil Chaturvedi:** See companies like us are normally not judged on PAT at all, we are judged on EBITDA anywhere in any part of the world because companies could have a different level of depreciation because of the CAPEX which they have involved or they could have a different level of interest because of the borrowing at that particular point of time. So if you ask me about EBITDA yes, there will be a substantial growth in EBITDA.
- Dimple Kotak:** Okay. And sir finally, the incremental cost for Coimbatore, sir, what would be the CAPEX for the Coimbatore residential?
- Nikhil Chaturvedi:** Incremental, see CAPEX, the reason why we don't count CAPEX in that because it is self-funded. So what we have done is we've already built the club house, the infrastructure for marketing is already in place and now we are only busy selling the apartments and like Nagpur, it will be a self-funding structure.
- Moderator:** Thank you. We'll take the next question from the line of Sagar Parekh from Deep Finance. Please go ahead.
- Sagar Parekh:** Yes, sir. In terms of your P&L for Nagpur, how much in terms of value have we sold already, you mentioned about 336 units. So can you give us some value in terms of rupees crores?
- Bipin Gurnani:** See, it's around 180 crores.

- Sagar Parekh:** Okay. And so basically, 180 crores will come into P&L in the coming quarter, right, some part would have been booked?
- Bipin Gurnani:** Not happen in the coming quarter, it will start, because large part of your demand is on handing over. So that's roughly about 10%, so over the next two or three quarters, you will see all the PAT coming in.
- Sagar Parekh:** Right. So out of this 180 crores, how much would have been already being booked in P&L?
- Bipin Gurnani:** Can I suggest that, we can connect offline on this, I'll give you all the data.
- Moderator:** Thank you. We'll take the next question from the line of Vishnu Bharath, an Individual Investor. Please go ahead.
- Vishnu Bharath:** I have two questions. The first question is, what would be the size of the retail development in Nagpur, would it be on the lines of Coimbatore and Aurangabad, it is 4 lakh square feet something like that?
- Bipin Gurnani:** Basically Phase 1 of Nagpur retail will be exactly same as Coimbatore which is half a million square feet with potential to develop another 200,000 to 250,000 square feet in Phase-2 based on demand.
- Vishnu Bharath:** So, it can go up to 5 lakh square feet?
- Bipin Gurnani:** No, it is starting 5 lakh square feet, it will go up to 7.5 – 8.0 lakh square feet.
- Vishnu Bharath:** Okay, so, it's going to be huge, okay. Second question is, I see Aurangabad is already a seasoned mall and your this quarter rent is around 4 crore gross rent. And I understand that your Big Bazaar has come and your hyper facility was not operational. But going forward the season what could be the optimum rent for quarter you would get from Aurangabad?
- Bipin Gurnani:** So there are two things which are happening in Aurangabad, one is of course, as you rightly said that we will also kick in the rent of the Big Bazaar, which will start from the coming quarter, because Big Bazaar is just launched in December, so the full revenue will be reflected in Q4 FY18. Second is that we have also a lot of advanced inquiries on large spaces now. Up until now, we were getting lot of inquiries on smaller spaces, now we have some three large players who we are speaking with. And we expect that, that if those come through, the gross income at Aurangabad will substantially reflect those changes. So as of now I think potentially, you can see a 10% to 12% growth which is normal growth based on revenue share and additional new leasing etc. But the quantum leap jump in growth will be expected once we will get these things even the Big Bazaar coming in, will automatically anyway add to the current quarter's number.

- Vishnu Bharath:** Okay. So lastly about the Coimbatore Mall, as for potential say a year or two ahead, do you think it will beat the Aurangabad mall in revenues?
- Bipin Gurnani:** Yes, no doubt about that, absolutely.
- Nikhil Chaturvedi:** It's a bigger city.
- Bipin Gurnani:** It's a bigger city. Our rentals are already much higher, average rentals that we secured are much higher than Aurangabad already plus the trading density, the total volume of business that happens at the city is much larger than Aurangabad.
- Vishnu Bharath:** And a small clarity on how do you sign your rental agreement, there is a threshold limit what you speak in the investor presentation.
- Bipin Gurnani:** There is a minimum guarantee fixed income or a percentage of the topline, whatever is high.
- Vishnu Bharath:** With your anchor clients and other client, everybody, is it?
- Bipin Gurnani:** Everybody.
- Moderator:** Thank you. Ladies and gentlemen, as there are no further questions from the participants, I would now like to hand the conference over to Mr. Pranav Joshi from Dolat Capital for closing comments.
- Pranav Joshi:** Thank you, management for taking out time for the call and thank you all the participants for attending the call. Thank you so much.
- Bipin Gurnani:** Thanks, everyone.
- Moderator:** Thank you very much. Ladies and gentlemen, on behalf of Dolat Capital, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.