



“Prozone Intu Properties
Q2 FY2020 Results & Business Outlook Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to Prozone Intu Properties Q2 FY2020 results and business outlook conference call hosted by Dolat Capital. As a reminder, 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 for 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 Pranav Joshi from Dolat Capital. Thank you and over to you!

Pranav Joshi: Thank you. Good afternoon all. On behalf of Dolat Capital, I welcome you all for the Q2 FY2020 conference call of Prozone Intu Properties Limited. From the management, we have Mr Bipin Gurnani, President and Mr Anurag Garg, CFO. With this, I hand over the floor to Mr Nachiket for opening remarks, which will be followed by question and answer. Over to you!

Nachiket Kale: Good afternoon everyone. On behalf of the management of the company, I extend a warm welcome to all of you to the conference call of Prozone Intu Properties Limited to discuss the financial results for the quarter ended September 30, 2019. Our retail assets are continuing to do very well, and they are already providing a stable lease rental income with good margins. Coming to key highlights for our performance and developments in this quarter; for Q2 FY2020 we have generated consolidated revenue of Rs.27 Crores, lease rentals have grown by 14%, consolidated EBITDA was recorded at Rs.17.6 Crores, and the margin was 79.5%. Cash PAT for the quarter is at Rs.4.8 Crores. We have seen some strong operating performance in the malls. Leasing at Coimbatore Mall

stands at 95% now where footfalls have increased by 40% year-on-year. At the Aurangabad Mall, footfalls are stable and at a good level. During Q2, we opened three new stores at Aurangabad Mall and seven new stores at Coimbatore Mall and in the upcoming quarter we have a good lineup of stores to be added in both malls. With this, I will now hand over to Mr Bipin, President of Prozone Intu Properties to further takeover.

Bipin Gurnani: Good afternoon, everybody, and thank you for joining the call. Q2 was a tough quarter for most businesses. We were conscious of the fact that we could have a difficult quarter and we pushed in a lot of marketing efforts in this quarter to ensure that we get consistent footfalls.

Coming to trading density, while it was lower than that in the first quarter, we still managed to achieve reasonable levels. Overall, the traction at both the centres in terms of leasing has been good. As Nachiket mentioned, that the pipeline for upcoming stores is good. While Coimbatore is a very new centre, we have already started working on ensuring that if there are brands which are struggling at the centre, that we allow them to exit and replace them with brands which have been waiting to establish a presence in our malls.

On the build to sell vertical, it was a sluggish quarter, and we do not expect that it will pick up for another couple of quarters. We hope that post this financial year, things will start improving because a lot of our construction in Coimbatore and Nagpur will be completed and on the advanced projects we will see improved traction. We have used this time to ensure that buyers who have not met their commitments are asked to fulfil their commitments within a period.

In case of failure to do so, we are happy to refund the money. We have realised that while we keep the asset units blocked, we are not able to generate any cash flow. Hence, there is no point continuing with those buyers who are sitting on the fence. We have done that in our commercial building in Aurangabad, and that has worked for us as we now have the right inventory available to sell in the market.

Overall, the focus from the company's point of view is to continue to put in a lot of efforts on our retail assets. We have realised that this is an opportunity to keep improving our revenues. On the sale of assets, we continue to struggle, and we will see how things must be done as per the market dynamics. We are not trying to spend too much money on marketing the sale of assets because we have not seen the ROI on the efforts that we have taken.

On the other side, we are focusing on the construction of our residential project, which has started in Coimbatore. We are working towards completion of the Nagpur residential phase one so that we are completely ready to handover the flats to buyers. Although we will have to wait and see because we are still trying to resolve the issue with AAI. We are in the process of engaging with the authorities at various levels, and we hope we will have some solution by the end of the third quarter.

Overall, we will remain focused on improving operational efficiencies across the retail assets and continue to keep an eye out for the best time to market our assets for sale. We can open the call for Q&A.

Moderator:

Thank you. Ladies and gentlemen, we will now begin with the question and answer session. Ladies and gentlemen, we will wait

for a moment while the question queue assembles. The first question is from the line of Manoj Dua, an Individual Investor. Please go ahead.

Manoj Dua: I want to know what are the residential sales in this quarter, and what is the completed inventory and uncompleted inventory?

Bipin Gurnani: This quarter, we have not sold any inventory. As we have mentioned in our presentation, in Coimbatore, we intend to start new sales once the construction has reached a slightly advanced level. We expect to achieve that by January. We feel that it is important to make sure that the buyers can see construction in full swing. In Nagpur, we are not selling because of the issue with clearance from AAI. We want the issue to be resolved before we make any new commitments on the Nagpur sales.

Manoj Dua: Can you describe the AAI matter further, and what could be our worst-case scenario?

Bipin Gurnani: We have taken legal opinions, we are in talks with the authorities. We have also requested for review by the appellate committee. Our legal team's view is that we have a strong case. The towers are built based on legal, no objection on height certificate given by AAI. The project was completed within the timeframe under which the NOC was available. Unfortunately, due to red-tapeism, no one is willing to reverse the ruling. We are parallelly looking at approaching the courts to get relief. While we are confident that we will be able to get the ruling in our favour, the critical issue is about the time taken to settle the issue. We have been engaging with our buyers to ensure that they are fully aware of the matter. They are supported as they have seen all the legal documents. We

are hoping that by year-end, we should may a resolution. Worst case scenario is that we will not be able to get OC for those flats which are beyond the clearance of new height NOC. We have initiated a request for part OC from the Municipal Corporation to the extent of the revised height granted by the AAI.

Manoj Dua: How much height they have proposed?

Bipin Gurnani: The top three floors are probably affected, and the rest of it is clear under the revised height norms.

Manoj Dua: What portion of the project has been sold?

Bipin Gurnani: Out of 336 units, we sold 272 units, 64 units are yet to be sold.

Manoj Dua: When we get the OC, will we recognise the revenue in that quarter, or we will recognize as we hand over to buyers?

Bipin Gurnani: As per Ind-AS, we are following the project completion method. The buildings have been ready for the last two months to apply for OC. But unfortunately, due to this issue, the Municipal Corporation has not shown any willingness to accept our application. We have pursued with them to at least accept the application. If they wish to reject it, that is their judgement, but we should at least have the right to apply for the OC. They have accepted that, and they are positive because we have taken them through all the paperwork. They know that we have built as per all the approvals which we had received. It is just a technicality that unless we have a valid height NOC, they are not able to process OC. We are trying to take special sanctions from the corporation to issue part OC.

Manoj Dua: Do we have a good margin with this project?

Bipin Gurnani: Yes, the margin in phase one was about 25%. It is a large project overall, and this was phase one. We invested a lot on the infrastructure in terms of the clubhouse, services and sports amenities. All those areas have been built to meet the requirement of phase one and phase two both. The costs are relatively higher and loaded more on phase one, but then phase two will be more profitable and have a higher margin.

Manoj Dua: Can you comment some on Indore residential market?

Bipin Gurnani: We are only doing plotted development in Indore. We have applied for RERA registration, which is expected in the next 10 to 15 days. We have had a lot of enquiries and demand; we believe that as soon as we have RERA registration, we will be able to convert enquiries into sales.

Manoj Dua: And Coimbatore market?

Bipin Gurnani: In Coimbatore market, the advantage we have is as of now other than us may be one or two other projects have been launched, and ours is one of the most prime sorts of projects in the city, we are part of an integrated township. The ball is up and running. We get almost a million visitors a month there, so everybody is familiar with the location and the advantages of the location, the accessibility and one of the reasons overall the mood across India with respect to residential is that people are more comfortable when they see either a construction completed and the project having occupation certification or at least construction at an advanced stage of build. So we are very clear that we do not want to enter the market at a time when sales will trickle in, so we want to reach a certain level of build in terms of the project and then

start marketing it aggressively, but we are quite confident that in Coimbatore because of our location and the fact that we are part of an integrated setup we will have traction that we are expecting.

Manoj Dua: But do we like to conduct presales, which helps in cash flow?

Bipin Gurnani: We have done some presales, and we do not want to sell more than what we have sold already in the presale.

Manoj Dua: Thank you and best of luck.

Moderator: Thank you. The next question is from the line of Mehul Kadam from Kadbro Advisors. Please go ahead.

Mehul Kadam: We are witnessing a slowdown in the economy so how do you see this impacting the malls business?

Bipin Gurnani: Let me put it this way, what you are saying is correct for overall consumption. We stand at an advantageous position because our mall in Aurangabad is the only centre in the area, so we have an opportunity to aggregate the entire consumption, We have not grown substantially in terms of trading, but we have maintained our trading densities. Consumers have appreciated the mix at the Coimbatore mall, and some of the business from the existing point of sales like high streets has moved to the mall now. I mentioned that there is no doubt that we have had to do a lot of promotions and marketing and create demand and interest from consumers to come into the centre. Overall there is a slowdown; there is a drop in consumption levels. Although we have not finished Q3, because of festivities we may be in a comfortable position at the end of Q3. We are yet to see a

dramatic fall in consumption at the malls, but there is cautious spending and brands are under pressure with respect to inventory.

Mehul Kadam: I believe footfalls may not get so affected, what can be the impact at the store level in terms of revenue and profitability?

Bipin Gurnani: There is a huge shift from traditional shopping to malls which have been able to create, develop and add more experiences around their centres. Such malls have not seen a significant drop in the footfalls. So as long as we can create experiences for consumers and keep giving them reasons to come back, we feel that we will be able to sustain the footfalls. There will be pressure on topline because of drop-in average per-customer spend.

Mehul Kadam: That is all from my side. Thank you.

Moderator: Thank you very much. The next question is from the line of Ninad Sabnis from Sabnis Financial. Please go ahead.

Ninad Sabnis: Last year Coimbatore Mall had lower occupancy; now it is at 95%, Aurangabad Mall occupancy has been in the range of 75%. Can we attribute a significant rise in rental income from our malls majorly to Coimbatore? Do we assume rental income and margins are now saturated or are there any room to grow further from here?

Bipin Gurnani: Your first observation is correct that a large part of our rental growth has come from Coimbatore. To answer your second question, in Coimbatore, we still have a huge opportunity to grow the revenue because we are still not hitting revenue share for a lot of brands. While a substantial number of brands are under the revenue share model, which is more than the minimum guarantee rental, there is

still room for improvement. In Aurangabad, we had reached a fairly decent occupancy level. Unfortunately, we lost one of the anchor stores. Westside has decided to move out of smaller cities and focus more on the larger cities. Because of that our occupancy percentage dropped. Fortunately, in Aurangabad, the revenue share from the brands is now substantially high. We feel that the growth for Aurangabad mall in terms of revenue will come from new lettings and lesser from revenue share. Does that answer your question?

Ninad Sabnis: Yes, thanks a lot.

Moderator: Thank you. The next question is from the line of Pranav Joshi from Dolat Capital. Please go ahead.

Pranav Joshi: Uncertainties are prevailing in the Maharashtra Government formation. What is your view on the real estate sector in terms of regulation and policies? How will this pan out if a new government is formed?

Bipin Gurnani: It is too soon to comment, but we feel there will be a slowdown in terms of decision making and ongoing projects will probably suffer. We feel that it may impact new project approvals and ongoing projects. But projects which are ready for delivery and have got OC and yet have some inventory to sell will not be affected much.

Pranav Joshi: We have seen a significant slowdown in the rural area spending and extended monsoon has played a dampener for the Q2 real estate as a sector. So when do you think rural spending will revive?

Bipin Gurnani: We do not see that happening shortly. The sector will take some time before it sees any bounce back. Retail real estate remains fairly

underpenetrated, so the opportunity remains, and the base is low. Concerning residential, I feel that it will take some time before we see any revivals.

Pranav Joshi: Thank you so much.

Moderator: Thank you very much. The next question is from the line of Manoj Dua, an Investor. Please go ahead.

Manoj Dua: Sir we have land parcels in other cities like in Jaipur, so are we planning to launch projects there?

Bipin Gurnani: We have been working on some plans to launch Jaipur, but as of now, we are focused on the land parcels where we have started work. In the last quarter of this financial year, we will decide what we want to do with other land parcels.

Manoj Dua: Any plan of selling any parcel of land to get some money?

Bipin Gurnani: In case of Jaipur, we are open to looking at an opportunity to sell the land if we get the right price. That might bring in more cash flow which can be utilized for opportunities that we are exploring in Mumbai. But if we do not get the right price and the right terms, then we will still hold the land because value of land parcel has grown substantially from the time we bought it.

Manoj Dua: How is the company strategising for the future, from a 2-3 years perspective?

Bipin Gurnani: In the current environment, things are sluggish, yet there is an opportunity, which is rare in a bullish market. We are getting enough leads in terms of opportunities for us to do joint ventures. We are

very clear that we will not take up anything in a Tier-2 city now as most of our projects are in Tier-2. We are exploring two or three opportunities, and one of them is at advanced stages as well. For the future, we will look at an opportunity in Mumbai because that is equal to three or four opportunities in Tier-2 towns.

Manoj Dua: Can you give more details about the Mumbai project, in which area we have some land, or we are looking?

Bipin Gurnani: There are three or four opportunities. I would rather not share that right now till we reached a stage where we have a legally binding understanding.

Manoj Dua: I understand retail is not just building; it is an art. In Mumbai, will it be an asset-light model and the land will be from JV partner?

Bipin Gurnani: There is absolutely no intention to purchase. Only the co-development model is feasible for us in Mumbai. It will have a redevelopment land parcel, and we bring in the expertise with respect to design, development, build, manage and operate that centre. In Mumbai, because residential is not doing well, some prime land parcels are now available for alternate use. Malls and retail business is a specialised sector. We are offered opportunities by landowners who are not doing residential anymore would like to develop a mall with us together. Retail real estate is the only asset class, which is a living asset class. Every day there is a requirement to bring in footfall, the business has to happen. We are getting various offers to put our expertise to use and take advantage of the opportunity.

Manoj Dua: Thank you.

Moderator: Thank you very much. The next question is from the line of Ankita Jain, an Individual Investor. Please go ahead.

Ankita Jain: What is the update on the litigation with the developer in Mumbai?

Bipin Gurnani: The court had ordered the developer to put forward a proposal for reconciliation with respect to refund of the investment we have done along with the preferred return. We had received a proposal from the developer, which we have rejected and we have asked them to improve the terms. We have moved another notice for securing ourselves and asked them to list down their assets. The resolution may take some time, but we are moving in the right direction.

Ankita Jain: That is it from my side.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Mr Pranav Joshi for closing comments. Over to you.

Pranav Joshi: Thank you management for taking out time for the call and thank you all the participants for attending the call. Thank you.

Bipin Gurnani: Thanks, everybody.

Moderator: Thank you very much members of the management. Ladies and gentlemen, on behalf of Dolat Capital that concludes today's conference call. Thank you all for joining us. You may now disconnect your lines.