



Prozone Intu Properties Ltd

4QFY20 Earnings Conference Call Transcript

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Pavitra: Good afternoon, ladies and gentlemen. I am Pavitra, moderator for the conference call. Welcome to Prozone Intu Properties Ltd. Conference call to discuss its fourth quarter FY20 result. We have with us today Mr Bipin Gurnani, President, Mr Anurag Garg, Chief Finance Officer and Mr Sagar Gosar, AGM Accounts & Finance. At this moment all participants are in listen only mode, later we will conduct a question and answer session. At that time if you have a question please press star and one on your telephone keypad. Please note this conference is recorded. I would now like to handover the floor to Mr Nachiket Kale of Dickenson World to take it forward. Thank you and over to you sir.

Mr Nachiket Kale: Good afternoon everybody. Hope everybody is keeping well and safe and sound in their homes. As we know, from the second half of March, Covid outbreak escalated to another level in India and the Government of India put the country under complete lockdown. The entire retail industry faced an impact of this, but we hope that we will be able to overcome this soon. We are following strict guidelines as per the government guidelines even going a step further in improving in some ways. I will now take you through the financial performance of Q4FY20. The revenue Q4FY20 was 224 million versus 318 million in Q4FY19. The full year revenue in FY20 was 1052 million versus 1338 million, EBITDA Q4FY 20 was 145 million in versus 190 million in Q4FY19. Due to increased rental revenue as a proportion of the entire revenue the EBITDA margin has improved from 68.2% to 81.5%. For FY20, EBITDA was 686 million versus 761 million seen in FY19, the EBITDA margin again has improved from 64.4% to 80.6%. Cash profit for the year which is profit after tax plus depreciation is 292 million. The corresponding figure for FY19 was 405 million. With this I would now like to handover to Mr Bipin Gurnani, president to take over the call and proceed with it.

Mr Bipin Gurnani: Thank you Nachiket and welcome everybody to the Prozone Intu Call. We all are going through a fairly uncertain period. For us at Prozone Intu, in the last year, the performance was quite good in the first three quarters. We were seeing a good trajectory in our numbers at both our centers with respect to trading densities, footfall and we were very happy with how our leasing was shaping up and how the brands were performing with us. Until February the response that we had was very encouraging. Unfortunately, due to Covid 19, none of us had expected the situation to get as difficult as it has been. The initial lockdown was expected to last for perhaps two to four weeks period, but we have had an extended lockdown. There have been uncertainties in terms of how things will move and there has been a global impact and

we have had our share of issues in India. From the company's perspective, we took the situation fairly seriously and in the initial stages of the lockdown itself we tried to understand how and what could be the worst-case scenario for us and how do we handle the impact. We realized that with respect to how the international market and what was happening globally, this could be a situation where the pain could last longer than what initially everybody perceived. So, we immediately ensured that we brought down our fixed cost because it was important to ensure that we are able to sustain a period of zero income and zero cash flow. We took some very quick decisions on that side. We also ensured that we followed every government regulation and requirement that was being put out for our offices to ensure that our people were safe. We reached out to all our customers and we kept updating them with what was happening at our end including our brand partners. We ensured that we spoke to each one of them to inform them that we are in it together. We understand the relationship and a partnership between ourselves and retailers, and there has to be a situation where both have to sustain this period. From the last year's performance you can see that in first three quarters and to a large extent part of the fourth quarter from our perspective we were hitting our numbers. Unfortunately, during two weeks of lockdown and one week before that the multiplex actually had closed on 6th March and slowly, we started seeing some impact and then we had just notification of lockdown of the malls on 15th March and that impacted us. Here we can safely say that our relationship with our retailers has always been very strong, and we have managed to speak to most of them, now we are working with them together to ensure that both the retailers and ourselves are able to sum up with the arrangements which will support the business eventually. We are fully ready to re-open, but unfortunately for us both the states in which we are present, Maharashtra and Tamil Nadu have not allowed for shopping malls to open. The lockdown has further got extended till at least 31st July is what we believe and we hope that post 31st July we will be allowed to open both our centers. In between we have made sure that we have taken all precautions and we have done everything at the centres to ensure customer safety, customer comfort, customer convenience. SCAI, which is Shopping Centre Association of India has formulated certain SOPs, which were common to operations of all the centers, shopping centers across India. We wanted to make sure that the consumers were aware that it's very very safe to visit a mall. We already seen that from lot of malls which have opened in India. So, from our point of view, we have done everything and we are ready to welcome our consumers back in a safe and secure environment. From a retailers point of view also we have engaged with them on a one on one basis and with most people we are in sync with how we will work together ahead and our expectation is that things should start coming back to normal post October around Diwali. We have also done some forward analysis of how the things will look for this year, and we have armed ourselves and kept ourselves ready in case if the pain was to persist, then at least for this year we are able to make sure that we have enough cash flows to sustain for a longer period. But our expectation is things should improve by October and we are looking forward to that. One of the things that has worked well for us is that we could start construction of our Coimbatore residential project last month. We had done a lot to take care of the labors which were with us. Unfortunately, we lost quite a few in terms of people going back, but we manage to retain at least 50% of the labors at our sites. Therefore, we were able to start work. Slowly the momentum of work has come back. We also did a very aggressive digital launch for our residential in Coimbatore and that is performing well. We have got enquiries, and we have closed about over 20 sales. We expect that people will close a few more deals. On other fronts it's a bit of a status quo as of now and we will have to

wait and see how things emerge. From the company's point of view, we have geared ourselves up for this year completely. We are making sure we will be working on the new normal keeping all the protocols and keeping our employees , our team safe. We will be able to share more with our shareholders and investors once our centers open, but from our perspective we haven't had any major casualties in terms of retailers. We have been able to speak to them and our full focus is to make sure that we retain most of them, and work around with them to ensure that we both come out of this situation and we will go back to our normal trading and rentals hopefully by third quarter of this year. We can open up the floor for any Q&A, so we can answer questions.

Pavitra: Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question please press star and one on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request you may do so by pressing star and one again. I repeat ladies and gentlemen, if you have a question please press star and one on your telephone keypad. We have first question from Mr Amit Khanna from AK Capital. Please go ahead.

Amit Khanna: Good afternoon and thanks for taking my question. My first question is on the reduced rental which we might witness after the reopening, so what are the plans to temporarily offset those , are we planning to increase any variables in order to balance the reduced rental? My second question is on the F&B business. What is approximate from F&B business and are we expecting any significant change from the F&B itself going forward? And third is I might, I joined a bit late so I might have missed if you have spoken about it in your opening remark. Have we given any wave off or extension for the rentals to our customers?

Mr Bipin Gurnani: Thank you for your question. Let me quickly answer. As of now we have spoken to every tenant. We have not finalized or closed any specific understanding with them because it is very important for us to reach a situation where we can open. Both our centers unfortunately are in states which have continued the lockdown till 31st July, so our talks with the retailers is that once we know when are we opening we can also understand that what is the period of waiver or what is the time frame that we will get post waiver. We have very strong relationships with all our retailers for many years and they understand that as a landlord and as a shopping center we have always put our foot forward in terms of a true partnership. There is no doubt that we will have to give certain waivers for the lockdown period. But the fact that the relationships between a landlord, shopping center and a tenant and a retailer is very very long. We have bills and agreements which last for 20 years, so for a three-month or four-month period, both sides do not want to break any relationship. Even retailers have really looked at this situation in a very positive way in terms of a partnership and we hope that we will be able to come up with a solution and an arrangement which will benefit both. There is no doubt there are multiple ways in which we will have our negotiation. There could be negotiations where we might ask for a higher revenue share and a lower fix. There could be relationships where we will defer the part of the rentals for a certain period of time and then spread it over the next year. I don't think we will be able to come up with one solution that will fit everybody. We will have to individually speak to retailers understand that their business requirement and come up with a solution mutually which can work for both of us. There is no doubt that we will have a hit of labor and we will have to do that. To answer on F&B, we are largely food court dominative, we don't have so many restaurants, so food court being smaller with spaces

of stall their sustenance is far more easier than larger restaurants. I understand that F&B perhaps is going to go through a very tough time even post opening of the lockdown and opening of the restaurants. So, from our perspective we have got limited restaurants, so we feel that is not an issue for us because the number of restaurants is not high. With respect to food court, yes there will be some prolonged pain because as a requirement we cannot allow more than 50% of seating arrangement in our food courts. Number two, from a consumer point of view also there is a hesitation to may be go out and specially when you are consuming food whereas I know that the food retailers have taken tremendous precautions and have really done a fantastic job in terms of contact less serving, contact less billing which will become the new normal and the good players have adopted that normal. We feel that once the customer visits once or twice they will get the comfort, but for sure food will take a little longer to come back to a normal. From a perspective of how do we see things going forward, it's very important to understand that it's not very predictable. The whole space and the understanding and the fact that the shopping centers are built for a very long term. This period of three-four months will perhaps create disturbance for the next two quarters, but over a period of time we feel that the long term relationship with the retailers and everything we are doing to make the consumers feel very very comfortable and safe when they come to the center will bode out well.

Amit Khanna: Sure sir, so my last question is on our food courts, so do our food courts have a tie up with online delivery platforms like Zomato or Swiggy.

Mr Bipin Gurnani: Yes, yes both are, both the malls we have a full tie up with Swiggy and Zomato in both the centers and that is something which has been working well for us not just now, but even pre-Covid.

Amit Khanna: Okay sir. So, have we started deliveries through those platforms now, through the food court?

Mr Bipin Gurnani: So unfortunately, both in Maharashtra and Tamil Nadu the administration has not allowed, so both Coimbatore and Aurangabad Municipal Corporation and the authority have not allowed for delivery from malls. So, while they have allowed delivery for essentials and consumer durables, for food they have still not given permission even for delivery from food court and from food retailers inside mall.

Amit Khanna: So, sir, thanks, thanks for the response sir.

Mr Bipin Gurnani: You are welcome. Stay safe.

Amit Khanna: And if I have any questions, I will join the queue. Thanks, and take care.

Mr Bipin Gurnani: Thank you.

Pavitra: Thank you sir. Ladies and gentlemen, if you have a question please press star and one on your telephone keypad. Participants are kindly requested to restrict with two questions in the initial round. We have first question from Ajay Shah from Shah Investments. Please go ahead.

Ajay Shah: Hello, yeah yeah thanks for the opportunity. So just have a couple of questions, have we opted for moratorium? And if yes, what is the amount and is this limited for Coimbatore residential project or loans for malls?

Mr Bipin Gurnani: May I request my colleague Sagar to take the question.

Sagar : We have taken a moratorium for our all projects, Coimbatore projects, Nagpur project as well as the Aurangabad project. And this moratorium is for both, principal as well as the interest portion. We are expecting savings of approximately 38 crores from this moratorium of six months.

Pavitra: We have next question from Mr Nitin Khandkar, an individual investor. Please go-ahead sir.

Nitin Khandkar: Hi Bipin first let me congratulate your team for the detailed property wise disclosures in the investor PPT. I have a couple of questions, there are certain references to new store openings in Aurangabad and , Coimbatore mall during Q4. So, did it happen before the lockdown came into effect? Could you share the exact dates? And secondly what is the average duration of the rental agreements at Aurangabad and Coimbatore malls?

Mr Bipin Gurnani: I would not know the exact dates, but they have mostly opened in January and February and these are stores which opened and final, so there is no issue of any cancellation etc. They only got a very limited trading window, and we have spoken to them and once we open back we will help them initially because when they opened we were at our peak. When they will re-open we will extend little more support to them.. I didn't follow your second question.

Nitin Khandkar: The second question was how much is the average duration of the rental agreements at Aurangabad and Coimbatore malls?

Mr Bipin Gurnani: For the retail stores five years is the initial period and four years is option agreement. For renewal and with respect to mini anchors, it is between 12 and 15 years and for large anchors it ranges around 21 years. So, any department stores & smaller anchors between the size to 8 to 12 thousand square feet specifically it would be 12 to 15 years and for vanilla stores it is normally 9 year, five plus four and some of them could also be five years.

Nitin Khandkar: Yes, but as of March 31st what would be our average duration across all the tenants?

Mr Bipin Gurnani: So, what I have said that we do not have so many renewals at this year. Coimbatore opened two years back so lot of them are still part of the agreements. In Aurangabad I would say roughly about 20 thousand square feet was due for renewal in this year. Last year we made a renewal in Aurangabad once we completed nine years. In case of Coimbatore we are still in the three-year period, it is very ironical that we opened in July year three years back and may be this year our anniversary will unfortunately be in lockdown.

Nitin Khandkar: Actually even on the real estate side things are not really looking up, I mean we saw a decline in the booking revenue for Coimbatore project where we have sold only about 15% of its inventory, and cash collection is only about 15% of that sale value. Do you expect the scenario where the buyers might defer the EMIs ?

Mr Bipin Gurnani: What is the first question about, Coimbatore project which has only sold about 15% of its inventory and the cash collection is 15% of that sale value.

Nitin Khandkar: Right. Can you answer this question.

Mr Bipin Gurnani: We had reached plinth level construction, so all that is revenue is from soft sale. The buyers are quite conscious of the fact of getting into under construction projects. We wanted to make sure that our construction at least reaches plinth level or more so that once we do a full-fledged launch people can do a site visit and they could see construction in full swing. So that is one of the reasons why initially the sales were lower because this was basically done more through soft selling rather than any proper launch. Immediately after that we hit lockdown. The other thing was that our RERA registration was pending and as per the new RERA rules you cannot take beyond 10% with respect to these sales value prior to registration as well as prior to agreements being registered.

Nitin Khandkar: Yeah, okay thank you.

Pavitra: Thank you sir. We have next question from Mr Harish Shiyad an individual investor. Please go ahead.

Harish Shiyad: Yeah, this is regarding the Nagpur project. Is residence and commercial at the same location?

Mr Bipin Gurnani: Yes, it will be in the same. It's a 41-acre plot.

Harish Shiyad: Okay, okay. And our four towers are almost ready, residential and it is a 14-storey so it must be around 150 feet height.

Mr Bipin Gurnani: I don't know what the height is, but it is four towers. We have applied for part OC because there is issue related to height NOC

Harish Shiyad: So what is the height allowed as per the authority, airport authority?

Mr Bipin Gurnani: So as, originally everything that we have built is as per the NOC that we had received.

Harish Shiyad: Okay.

Mr Bipin Gurnani: The AAI has changed the way in which they look at and study height at the time of renewal of NOC. They did not renew the original height and they wanted us to reduce the height, but our buildings were already constructed, so as of now up to 11 floors is what is not impacted with respect to the new height which is what the suggested by AAI and three floors are in contention.

Harish Shiyad: When is the next hearing date has been set for this?

Mr Bipin Gurnani: The exact date has not been declared yet, but at the last hearing the court had said that they will hear it in the next four weeks' period. So, we will come to know the exact date post 20th of July.

Harish Shiyad: I see. And these four towers are in the phase I so total how many towers are there in this project?

Mr Bipin Gurnani: See the original plan was to have about 13 towers, but as of now we have to actually phase things as per the market demand. Our first focus is to ensure that we deliver these towers to the buyers who have put their faith in us. We want to make sure that we deliver their homes and then we will plan for the next phase which is roughly another three towers in phase 2. A total of 13 towers can be built on the entire site.

Harish Shiyad: Okay, so presuming that the demand persists, all 13 towers can be built, and three storey will be affected, what is the salable area that will be affected?

Mr Bipin Gurnani: It is not gone or affected because the land parcel is very large so we will do some replanning. In our case we have enough land to ensure that we can consume all the FSI.

Harish Shiyad: Okay and what is the status of mall part ?

Mr Bipin Gurnani: We have received all approvals. We do not start any construction activity till we have full financial closure and we have applied for construction finance. Unfortunately the things have got delayed because of the market condition and then Covid and lockdown, so once we have financial closure that's when we will start construction of the mall. As of today, all approvals are in place.

Harish Shiyad: Okay, okay. Thank you and one more thing on the note number 4, about the 40-lakh given to some other investor, so you have invested into some other third party's project financing them?

Mr Bipin Gurnani: No, we are not financing them. This is a project where we will participate with the JV Partner.

Harish Shiyad: Thank you very much and all the best.

Mr Bipin Gurnani: Yes, yes thank you so much.

Pavitra: Thank you sir. There are no further questions sir.

Mr Bipin Gurnani: Thank you very much to everybody for attending the call and please stay safe and look forward to things normalize, things improving soon. Hoping to speak to you all in the next call and by that time fingers crossed, our centre would be operational and we would be heading to normalcy. Thank you very much everybody.
