

## Transcript

### Conference Call of Prozone CSC Limited

**Event Date / Time** : 14th August 2013, 11:30 AM IST

**Event Duration** : 27 min 38 sec

#### *Presentation Session*

---

**Moderator:** Good morning ladies and gentlemen. I am Moumita, moderator for this conference. Thank you for standing by and welcome to the first quarter FY 2014 result conference call of Prozone CSC Limited organized by Seagull IR. We have with us today Mr. Nikhil Chaturvedi, Managing Director, Mr. Bipin Gurnani, President, Mr. J. K. Jain, President Finance, and Mr. Ammeet Sabarwal from Dickenson Seagull IR. 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 \* and 1 on your telephone keypad. Please note this conference is recorded. I would now like to hand over the floor to Mr. Ammeet Sabarwal. Please go ahead sir.

**Ammeet Sabarwal:** Good morning everyone. Thank you for taking out the time for attending the conference call for Prozone CSC. Before just updating on the results I would like to take this opportunity to brief you everyone about the company. Prozone CSC is promoted by the Provogue Promoters and Participated by Capital Shopping Centers Plc now known as Intu Properties based out of UK. It is basically set up to create, develop, and manage world-class regional shopping centers and associated mixed-use developments pan India. Prozone CSC's strategy is basically to participate and dominate in the retail space in tier 2 and tier 3 cities where robust urbanization is expected to take place. Currently the promoters hold around 35%, CSC holds around 32.3% and the balance is held by the public. Intu Properties is UK's largest retail real estate company. Intu Properties Plc is a UK FTSE-100 listed company owning and managing assets more than 7 billion pounds. They own 14 properties out of which there are 10 properties, which are among the top 25 shopping centers in the UK representing 38% market share in UK. The company has a fully paid up land bank of 17.7 million sq. ft in prime locations spread across six cities, out of which 1.2 million sq. ft is developed and raised, 16.5 million sq. ft yet to be monetized. The company follows the strategy where in they acquire large land parcels and develop 25% into retails, which is the Build & Lease and the rest 75% as a residential commercial, which is the Build & Sell model; thus resulting into cash flows from short term assets facilitating the Build & Lease model, which are the long term assets. Basically the objective is to create a debt free long term asset, which will give us an annuity income, which will then be leveraged at a later date to create capital to buy new assets. Also in the residential segment, I would like highlight that the company invested and developed the entire clubhouse at the site infrastructure for the project upfront before the launch of the project. It not only provides the credibility to the business, but also accelerates the sale of the project resulting into better cash flow. Due to this the company emerges as the strongest and the most credible player in the region. We believe that we have proven our point through one of the projects where we have pre launched in Nagpur, where the company has received

an overwhelming response as compared to the big players in the region and we have sold more than 290 units during the pre launch phase itself.

Coming on to the results, for Q1FY14, basically our total income from operations has decreased 56.4% on a YOY basis from 264.9 million in Q1FY13 to 115.5 million in Q1FY14 and EBITDA also reduced to 6.8 million in Q1FY14. Basically this is primarily due to the lower revenue recognition in the Build & Sell segment as well as there was a low revenue recognition in the PTC Phase 1 Commercial and Saral Bazar. Also the revenue recognition for the Nagpur project has not yet started where we have a sale of more than 292 units and we have not yet crossed the threshold limit as per our revenue recognition policy that the company follows.

In terms of our retails event, the overall retail lease revenues have decreased 5.6% on a YOY basis; it is primarily reflecting some of the retailers who have exited the Indian business and thus closed down their stores. Some of them, the names include such as Alcott and OVS where they have actually closed down their entire Indian operation. EBITDA margin for the retail mall are at 61.2% mainly on account of increased advertising spends in the quarter in order to ensure the strong foot falls and conversions during the quarter, which has shown result as all the key factors such as retailer sales, foot falls, as well as trading density have all improved during the quarter. Now I would like to hand over the call to Mr. Bipin Gurnani to provide an update on the key projects.

**Bipin Gurnani:** Good morning everyone. I would just like to start with Aurangabad, which is our operational center. The mall continues to be the most dominant center in Aurangabad and on the back of the increased advertising and the push that we are doing on marketing front, we have actually had a reasonably strong performance with respect to retailers. The sales grew by 7.7% Y-on-Y, we have had an increase of footfalls of about 3.2 on a Y-on-Y basis, and the trading density has increased by 16% on a Y-on-Y basis. That's a very good point because this means that the retailers are continuously growing in the center on average basis. Of course, there has been some retailers who have been, struggling to give improved results, but by and large most retailers have been quite happy and satisfied with what's happening and we intend to continue that push in terms of marketing. We are currently getting about 600,000 footfalls in a month and we want to increase that by 15% over the next two quarters, so that's the push we will continue.

On the Saral Bazar side, we have started the construction activity of Saral Bazar in full strength and we expect to deliver it for possession by Q4FY14. These are basically those small shops for retailers, to invite local retailers, and we have had a good response and we expect that once the Saral Bazar is occupied, that will also help bring substantially new footfalls into the center.

Moving to Nagpur and Indore, Nagpur we did a pre launch of our residential booking and we have had a very, very good response in terms of the buyers coming in and booking their units. One of the key reasons is that as a policy we first do the club house and the associated infrastructure and we get that ready including rolls etc, and that has actually helped us gain the confidence. The other is that the overall scheme has been appreciated by the buyers and as opposed to some of the other schemes that are out in the market; we have enjoyed a better absorption than the market itself. So that has been a very positive sign for us. In terms of the clubhouse etc, we are at advanced stages and we expect that by Diwali November, December, we should have the

clubhouse and the landscape and other infrastructure fully operational. Our intent is to do a main launch with full blown advertising once we have these facilities completely ready. Meanwhile we will continue to do our pre launch sale without any advertising etc.

Similarly in Indore, our clubhouse is ready and we expect to, which will be ready in next about six weeks time, completely operational. We expect to also start the sales of Indore very soon.

Moving on to Coimbatore, our retail work in terms of the construction activity for retail has already started in Coimbatore. We have already got financial closure in terms of construction there and at very competitive interest rates. Also the, simultaneously we will have start the work of the clubhouse and the infrastructure, so that once we are ready with that, we will also launch Coimbatore residential and which will simultaneously while the construction of the retail center is in progress, we will also start the sales of the residential theme there. Our belief is that we are at an inflection point in this year itself and FY14 is going to be one of the most important year for the company as we have our commercial as well as Saral Bazar, which will get delivered by Q4FY14. Also major residential projects, Nagpur, Indore and Coimbatore, Nagpur already pre launched, sales have started, Indore and Coimbatore, all these will get launched in terms of residential sales, and therefore we expect to get substantial activity happening in all these three projects. And all this will obviously lead to stronger cash flows. However, as you know that in terms of the revenue recognition policy, we follow the Percentage Completion Method, so may be the numbers will not show up as revenue, but definitely they will reflect as advances received towards sales. And the reason we do that is that we want to make sure that we start putting the cash flows that we get back into the scheme and without, having to start paying taxes etc all that. So I think all in all we are poised to deliver what we have been targeting and I think we are on track with all the activities that we have planned, and barring a few delays on the front of completion of the clubhouse etc, which is may be by two or three weeks, but overall I think things are moving in the direction that we have been planning and we hope that we will continue to deliver what we have been saying. So thank you very much.

**Ammeet Sabarwal:** I believe we can open the floor now for Q&A.

---

*Question and Answer Session*

---

**Moderator:** Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press \* and 1 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 \* and 1 again. First question is from Mr. Abhishek Bhandari from Macquarie Securities. Please go ahead.

**Abhishek Bhandari:** Sir, basically what I want to say is, if I look at Aurangabad thing on numbers, 9 crore of quarterly rental including camp charges on a total sales of around 38, 40 crores for the retailers, which almost worked out to around 20, 21%. Do you think such high rental costs can be borne by these retailers?

**Bipin Gurnani:** Partly mostly the average head occupancy cost and including the camp and most retailers do it in the range of about mostly fashion retailers would anyway be in the range of 14% to 16% and this is an average, so this actually

also includes some of the retailers who obviously are not performing as well. But overall if you see on an average, in terms of if you were to just see the rent to sales ratio, we are quite competitive and I think it is, at an average most retailers would be quite happy to get their targets. I think what skews the average is the few retailers who are obviously not performing as well, but by and large most retailers are within the range of what is acceptable to them as an occupation cost as a percentage of their turnover.

**Abhishek Bhandari:** So when is the next re negotiation going to happen on the rental side over here?

**Bipin Gurnani:** Started October 2010, so we complete three years this October, but I have not shared with you guys, in between obviously there has been clients that have been approaching us and we had been already speaking to them and in some cases, whilst we may have given them some relief for six months, start with a higher revenue share and also extended the lock in for some of the retailers. So primarily, if you ask me, it is not October's end which will have most people come back to us, there has been an ongoing discussion with retailers and also large portion of the retailers who are with us are quite happy, so we don't expect any renegotiations from them. And we should actually kick in our escalation clauses there.

**Abhishek Bhandari:** Which is 15%.

**Bipin Gurnani:** In some cases it is a little higher, but average should be around that much.

**Abhishek Bhandari:** So on an average how much can your rental go up, like, from 36 crore annual run rate to around 40 crore annual run rate to?

**Bipin Gurnani:** Yeah, exact range, correct.

**Abhishek Bhandari:** No, sir, basically what I want to know sir, like, around 40 crores is the current run rate, how much do you think it will go up to in the next one to two years?

**Bipin Gurnani:** About 10%.

**Abhishek Bhandari:** Okay sure, thank you sir.

**Moderator:** Thank you sir. The next question comes from Mr. Nishant Parikh from Mehta Investment. Please go ahead.

**Nishant Parikh:** Hello? Sir I would like to know on the Aurangabad Mall, it has been mentioned in the presentation that some of the retailers they have exited the business and have closed down the stores, so I mean, what has been the impact of that?

**Bipin Gurnani:** Basically the impact is that obviously we have lost out on the rental on those stores. That would add up to roughly about 10,000 sq ft to 11,000 sq ft of space, but meanwhile all these space of course have been in lock in so there is a claim of our rentals in terms of, it is due to us, but obviously that is something which we will have to fight it out and try and get that rentals from them, but meanwhile what we are

also doing is that we have had new enquiries and we are also trying to see that because these stores, the fit outs had already been done, so there are few brands that want to have a pre fitted store, so that is a huge possibility, but meanwhile the recovery for our rental, because they were still within the lock in period is what we are pursuing.

**Nishant Parikh:** Okay. Sir, how much is the lock in period?

**Bipin Gurnani:** Lock in is anything from three years to five years depending on tenant type & other terms of lease.

**Nishant Parikh:** Okay sir. Thank you.

**Moderator:** Thank you, sir. Ladies and gentlemen if you have any questions please press \* and 1 on your telephone keypad. The next question comes from Mr. Umesh Sharma from Macquarie Securities. Please go ahead.

**Umesh Sharma:** Thank you very much for giving me the opportunity to ask. I have a much more broader question here, given your presence in towns, which are not necessarily the Mumbai and Delhi metro cities, what has been the demand both in the retail as well as on the residential segment, because one of the concerns I think which is prevalent on the investors front is the ongoing slowdown on the economic front, now is that having an impact on the tier 1 and 2 towns as well or how do you see this playing out over the next 12 months? Thank you.

**Management:** What we have noticed is that consumption was slightly slowing down, so at a mall level what we did was we have been providing continuous advertising, giving a lot of support to the center and as a result our footfall has increased by over 15%. As a consequence, retailers have been performing well in our centers. As far as residential demand is concerned, our model is differentiated and hence at least we don't have a lack of demand. Basically what we do is we build the entire clubhouse infrastructure and when people can see the entire infrastructure in front of them which is over 4 to 6 acres of land they are obviously excited about staying in a place where the infrastructure is built upfront and as a consequence you can see that in Nagpur we have sold over 290 apartments, but if you ask me the overall scenario, overall scenario is not as good, but demand is there in pockets and demand is there for people with a superior product. Second thing which I can say is that, also demand has price pockets. We are selling in between Rs. 3000 and Rs. 4000 a sq ft where the maximum amount of demand is there. So, we have positioned ourselves well, we have got a superior product offering, so if there is demand in the market it comes first to us and then goes to anyone else.

**Umesh Sharma:** On the bank financing front, is there, on construction or otherwise in terms of debt, is the availability a concern or is that easily available?

**Management:** I don't know you will have to ask this to someone who has the need for funds, we don't have any need for funds and we have not approached any banks, so we have no idea of that market.

**Umesh Sharma:** No, fair enough.

**Management:** And all the projects which we have are fully funded.

**Umesh Sharma:** So, there is no requirement even for construction finance at the residential front, is it?

**Management:** No, the construction for Coimbatore is fully tied up for the retail. The residential is fully self-funded because we had enough capital to put up the clubhouse and now the demand is so strong that, that itself should be self funding. Actually it should be throwing out positive cash flows.

**Management:** Like basically in each project SPV level the company had around 30 to 35 crores of cash, so the overall cash component in the company at a broader level was around 80 to 85 crores. So all this construction is self funded through that cash.

**Umesh Sharma:** I understood. Great, thank you very much, sir, those were all my questions, sir.

**Moderator:** Thank you. Ladies and gentlemen if you have any question please press \* and 1 on your telephone keypad. The next question comes from Mr. Ramnath Subramaniam from Goldman Asset Management. Please go ahead.

**Ramnath Subramaniam:** Good morning. I had a couple of questions, what is the sort of delay that we have had on the residential projects that we have had in terms of timelines because I think it has been a couple of quarters and we have been waiting for that ramp up in terms of launches to actually happen, so if you could talk about that, that will be very helpful, I mean, say for example, we have already building clubhouses in couple of places, so when do you think the actual launch will happen and cash flows from customer advances will start?

**Management:** I will just put it like this that our model is to build the entire clubhouse upfront. The clubhouse you start building when you have permissions in your hand. So, we have now started our clubhouse construction in three places, Indore, Nagpur, Coimbatore. Now in all these three places our intention was to start the sale of flats. Only once the entire clubhouse is built and people can actually have a dip in the swimming pool, but as our international partners had not had an experience of Indian residential markets, they requested us that, can we test market it in any one city. So, we took Nagpur as a test case. Now the demand has been so overwhelming and in Nagpur we had not completed the clubhouse, the clubhouse was halfway, actually not even halfway it was just starting. Judging from the demand just from seeing the marketing office and the show flat we believe that it will be more prudent for us to actually sell later. Just I will explain this to you in terms of funding. We are selling let's say in each place about 1000 apartments or 1500 or 2000 apartments in any location. If I put a beautiful show flat upfront, infrastructure upfront and let's say I have 1.5 million sq ft to sell and I have paid an additional premium of Rs. 500 a sq ft that translates into an additional Rs. 75 crores of extra cash flow. Since the funds are owned by us, land is owned by us there is no interest cost. It makes prudent sense to actually build it and take the premiums in. So, what we are doing is right now I think Nagpur we are continuing to sell. In Indore and Coimbatore we are waiting for completion. I think Indore will be completed around Diwali and Coimbatore will be completed by the year end or the first quarter of next year. Anyway Coimbatore reacts to the festival of Pongal, which comes in January, so we are targeting that as approximate launch date.

**Ramnath Subramaniam:** Okay, so sir, Coimbatore for example, I think we were targeting say second quarter of this year to launch and Indore also I think was almost first quarter, so there is basically a six month delay in both these projects to that extent?

**Bipin Gurnani:** No, we were always planning both of them in the third quarter, so there is no delay in Indore and in the other one, we are delayed by about two months.

**Ramnath Subramaniam:** Okay, fair point. Okay, thank you so much.

**Bipin Gurnani:** Thank you, Ramnath.

**Moderator:** Thank you, sir. Ladies and gentlemen if you have any questions please press \* and 1 on your telephone keypads.

Next question comes from Mr. Abhishek Bhandari from Macquarie Securities. Please go ahead.

**Abhishek Bhandari:** Sir, just one thing, on the debt side where do we see ourselves over the next 1 to 2 years in terms of absolute debt?

**Management:** I expect the debt level to be remaining similar to what it is right now, because you need to understand that at every location we will have cash flows out of residential also, so basically what we do is we have financial closures on all the projects. So, like in Coimbatore I have a sanctioned debt of 180 crores, there will be levels at which the debt level will go higher and levels at which the debt will come down, so let's say for example now in Coimbatore we are in the process of building the entire clubhouse, so we are investing huge amounts of money right now, but as soon as the initial money comes, then suddenly that debt will be retired and we will start using that money to continue building the mall, so there will be no further draw down of capital. So from time to time there will be differential levels of debt, but it will not exceed 180 crores and our target is that in the next three years we will be debt free on all assets.

**Abhishek Bhandari:** Okay sir, thanks.

**Moderator:** Thank you, sir. Ladies and gentlemen if you have any questions please press \* and 1 on your telephone keypad. There are no further questions. Now I hand over the floor to Mr. Ammeet Sabarwal for closing comments. You may go ahead, sir.

**Ammeet Sabarwal:** Thank you everyone for participating in the call. Just to briefly highlight, for Prozone CSC basically this is one of the most important years as all the three key residential projects get launched during the year. The commercial PTC Phase 1 as well as Saral Bazar gets delivered in FY14. So the entire focus of the company is right now on execution and focusing on generating free cash flows. For further queries on Prozone CSC or for any more data points you can please contact me, that is Ammeet Sabarwal from Dickenson Seagull IR, my email ID is [ammeet.sabarwal@dickensonir.com](mailto:ammeet.sabarwal@dickensonir.com). Thank you, thank you everyone for participating in the con call.

**Moderator:** Thank you, sir. Ladies and gentlemen, this concludes your conference for today. Thank you for your participation and for using Door Sabha's conference call service. You may disconnect your lines now. Thank you and have a good day.

---

**Note:**

1. This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.