

**PROZONE INTU PROPERTIES LIMITED**  
**Q1 FY16 Earnings Call**  
**August 13, 2015**

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**Moderator:** Ladies and gentlemen, good day and welcome to the First Quarter FY16 Earnings Conference Call for Prozone Intu Properties Limited organised by Dickenson Seagull IR. We have with us today Mr. Bipin Gurnani - President, Mr. Anurag Garg - Chief Financial Officer and Mr. Amit Sabarwal from Dickenson Seagull IR. 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 please signal an operator by pressing '\*' then '0' on your touchtone phone. Please note that this conference is being recorded and now hand over the conference over to Mr. Amit Sabarwal. Thank you, and over to you Sir.

**Amit Sabarwal:** Thank you Vikram. Hello and very good afternoon to all of you. This is Amit Sabarwal from Dickenson Seagull IR. We manage investor relations for Prozone Intu Properties Limited. We welcome everyone here present today for the first quarter FY16 Earnings Call for the company. Before we get started, I would like to remind you that our remarks today might include forward looking statements and actual results may differ materially from those contemplated by those forward-looking statements. Any forward-looking statements that we make today are completely on the assumptions based as on today and we undertake no obligation to update these statements as a result of new information or future events. Before going ahead, I would like to give a short introduction on the company and the business model of the company. Prozone Intu Properties Limited is promoted by Provogue Promoters and participated by Intu Properties UK Plc. Intu Properties UK is a FTSE 100 Company and it is listed on the FTSE exchange and is among the top 20 REITs in the world. They manage more than £9 billion of assets and 12 of their shopping centers are among the top 25 centers of the UK. The vision for the company is to create, develop and manage world-class mixed use development projects and shopping centers.

Coming to the business model of the company, I would like to highlight that the business strategy of the company is to create, develop and manage world-class mixed use development along with annuity assets such as shopping centers. The strategy is to use 25% of the overall land parcel to develop, build and lease assets and 75% of the land parcel is for build and sell models so that cash flows from the build and sell model can be utilized to make debt free annuity assets which are long-term assets for the company.

Now coming on to the results for the particular quarter that is Q1 FY16, I would like to start with the recent development that has taken place. Basically, our Aurangabad SPV which is EMPL has approved a rights issue to the tune of Rs. 160 crores for the company. It has been

approved by all the shareholders. The offer was made to all the existing shareholders and the issue has been fully subscribed. It has been subscribed by the existing investors which consist of LTG and Triangle Fund as well as the third-party investor which is Intu Properties Ltd. I would like to highlight that this reinforces the confidence and commitment of all the shareholders into the company's business model. This rights issue leads to passive dilution as the immediate holding company has not subscribed to the issue and it has taken the approval of all the shareholders through a postal ballot that was done on 6th of August.

The key positives that would arise post this rights issue are as follows: 1) For the Aurangabad SPV there would be a partial pre-debt repayment so that the debt levels are reduced to a majorly serviceable level so that the company is self-sustainable on a cash flow basis. 2) Also the parent company which is the Prozone Intu Properties Ltd. has given some unsecured loans to the SPV which gets repaid and therefore enhances the liquidity for the company and provides growth capital for the future projects. Therefore, all the key projects of the company will have self-sustained cash flows on a stand-alone basis.

Now, coming to the quarterly results, I would like to highlight that this is the first quarter where we have turned profitable and we expect our operating margins as well as profitability to be enhanced going forward. Coming on to the results for Q1 FY16, our revenues have lowered from 345.7 million to 244.1 million (lower by around 29%). We need to understand that last quarter was the first quarter for revenue recognition for the Nagpur residential project. So it had crossed a 25% threshold during the previous quarter and there was a higher base effect because of that. During the current quarter, it has recognized incremental revenues and therefore there is a decline in overall revenues. If you see our EBITDA margins have improved by more than 1360 basis points to 32% on QoQ basis as compared to the previous quarter, as the previous quarter included one-time initial marketing and administration expenses for the Nagpur residential project. Our PAT has increased by almost 149% on QoQ basis to Rs. 6.5 million as compared to a loss of Rs. 13.2 million in the previous quarter. This is a result of improvement in the operating performance, lower depreciation and lower finance costs. Since we would be repaying lot of debt at the SPV level as well as the parent level, our interest costs would significantly go down from here onwards. As we said during the last quarter, we are entering into the asset monetization phase. The Nagpur residential project has seen a robust development and our sales have picked up. Almost 332 units have been sold of the 392 units that were launched for the phase 1 of the project. We are fairly confident of healthy profits for the Nagpur project and it could be recognized over the next few quarters.

Going onto our Aurangabad mall business, the rental income for Q1 FY16 has been stable and the rentals for the mall have stabilized. EBITDA margins have declined by around 15% primarily due to higher electricity and statutory expenses during the quarter. However, positive improvements have been seen across all the key parameters for the mall such as retailer sales, average trading density as well as the traction on the leasing side. Our Q1 FY16

retailer sales have increased by 10.7% from Rs. 420 million to approximately Rs. 465 million on YoY basis. Our average monthly trading density has also improved 8.2% from Rs. 268 to Rs. 290 on YoY basis. Our footfalls have increased by almost 12.5% from 16 lakhs to 18 lakhs on YoY basis. Also five new stores were added during the quarter. Some of the reputed brands such as Pizza Hut, Cantabil & Killer opened during the quarter. We are witnessing strong traction, as we are in discussions for potentially adding another seven stores which amounts to an area of almost 12,680 sq.ft. The talks for the same are ongoing currently. So we believe that operations of Aurangabad mall have stabilized and all the key parameters are turning positive for the mall.

For the Coimbatore site, the mall construction is on schedule, construction is in full swing and the mall is expected to start as per schedule. On the leasing front, we are continuously in discussion with all the key anchor tenants on the leasing side where the agreement with the multiplex has already been signed and LOI has been signed for a few fashion as well as consumer durable retailers. We are in advanced talks with anchors for hyper market and department stores and also with some of the mini anchors in the fashion space.

So with this, I would like to hand over to Mr. Bipin to add his views on overall results and some of the key projects of the company. Over to you sir.

**Bipin Gurnani:**

Thank you Amit and welcome everyone. As Amit pointed out, one of the key highlights for us was the successful subscription of the rights issue at the Aurangabad SPV level. This obviously will amount to major changes in terms of our financials at the Aurangabad SPV level. Large chunk of the losses that we had at the Aurangabad Centre were related to interest expense and the repayment of the debt will go down substantially and the SPV will become self-sustainable. So we expect this to be a major change in the financials at the parent company level as well. In terms of Aurangabad project, the numbers have shown slow progress and we are quite happy with the fact that there has been relatively positive traction on enquiries related to leasing. So, I think we are moving in the right direction and there has been a lot of churn in terms of brands which have not been doing well have exited and the new brands which we believe will connect with the consumers at Aurangabad are now starting to open at the Centre. We are also reviving our entertainment facilities at Aurangabad and we are doing a complete revamp. We have got a new player who will come in and we expect it to create a lot of traction for the mall.

On the commercial space side, the Prozone Trade Centre construction is in full swing and we expect delivery of the same by Q1 FY17. On the Saral Bazar front, we have slowly been getting momentum but it still needs more push and we believe that with the season now approaching, we should have more people taking up space for possession and opening their stores. So with the Aurangabad center, with the rights issue is on right track, we're quite happy that going forward the SPV will become self-sustainable. Coimbatore construction

status, as Amit already pointed out, is in full swing and we are quite confident that we will be ready for the upcoming season in the next financial year. On the leasing front, we have opened up the leasing space and we are participating in one of the major conferences that see participation from all the retailers across India in Mumbai which is in mid-September. We would be showcasing the Coimbatore project at this conference and opening up the leasing for inline stores. We expect major traction on the leasing side in the coming quarter with reference to Coimbatore. As we mentioned earlier that the pipeline in terms of new retail infrastructure is quite low and we believe that with the success of Aurangabad Centre, and the format that we adopt in terms of ground plus one center, we are quite hopeful that our existing relationships in Aurangabad will collaborate with us in Coimbatore.

Nagpur project construction is now in full swing and we are on line in terms of pushing forward the construction of what has been sold. We are hoping to see traction in sales in the coming season. Currently the sales have been slow but we expect it to improve in the Diwali quarter.

We are very happy to announce profits for the first time at the consolidated level this quarter. With the Aurangabad project now getting adequately funded; we expect this profitable trend to continue over the next few quarters. So we expect coming quarters to be stronger and more robust. With the opening of the new center at Coimbatore, the focus remains on execution and driving the business forward. Monetizing the assets remains the focus for the company. Thank you.

**Amit Sabarwal:**

I believe we can open the floor for Q and A.

**Moderator:**

Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Chintan Sheth from SKS Capital. Please go ahead.

**Chintan Sheth:**

On the rights issue, how will it change the landscape of the holding pattern from Prozone to overall holding pattern of Prozone on Aurangabad SPV? Is there any change in ownership? I am not aware about the Aurangabad rights issue so please can you give me an update?

**Bipin Gurnani:**

Basically there will be a passive dilution of equity at the Aurangabad SPV level. So automatically there will be change in the holding company shareholding. The rights issue has just been subscribed and we are in the process of allotment. The final shareholding pattern will be released through a press release to BSE and NSE and we are confident of doing it in the next 30 days.

**Chintan Sheth:**

Is Intu, our JV partner, also subscribing for the rights issue?

**Bipin Gurnani:**

Firstly, Intu is not a JV partner but a financial investor. So it is a third-party that has independently subscribed to the shares which were left unsubscribed by one of the

shareholders which is Prozone Liberty International Limited, Singapore (PLIL). Therefore, it will have a direct holding at the EMPL level to the extent of the unsubscribed shares of PLIL.

**Chintan Sheth:** On the interest front, what is the quarterly interest we are paying on the Aurangabad project? Will it start reflecting on PBT once the rights issue money is used to repay the debt? How much incremental benefit will reflect on PBT?

**Amit Sabarwal:** It will be around 13 crores saving per annum on the interest costs on the Aurangabad SPV.

Chintan Sheth: Will the incremental benefit flow into the consolidated PBT?

Bipin Gurnani: That's right.

**Bipin Gurnani:** Chintan, the first thing is that depreciation won't reflect on the book so PBT will significantly improve. Aurangabad SPV will be an associate company which will reflect on the overall bottom line.

**Chintan Sheth:** What will be the impact? What will be the incremental depreciation which will go off on consolidation?

**Bipin Gurnani:** Currently if you see for FY14-15, overall depreciation was to the tune of almost 16.5 crores. This depreciation was primarily for Aurangabad SPV.

**Chintan Sheth:** Will it be replaced once we start capitalizing the Nagpur residential project? Will depreciation of Nagpur project affect Prozone?

**Anurag Garg:** Nagpur won't have any depreciation. Nagpur is a build and sell model.

**Chintan Sheth:** Will it be directly cash flow related?

**Anurag Garg:** Revenue from the sale of units and cost of construction and some marketing or administration costs.

**Chintan Sheth:** So will the depreciation go off from Prozone consolidated financial statements and will we see 13 crores of interest savings?

**Bipin Gurnani:** Yes, for the SPV.

**Moderator:** The next question is from the line of Odile from Lombard. Please go ahead.

**Odile:** Could you update us on Nagpur unit sales? If I am correct, you have sold 328 units of 392 units available at the end of the last quarter and 332 units at the end of this quarter. Can you explain the reason for lower unit sales this quarter? When can we expect a revival?

**Bipin Gurnani:** This is Bipin. Basically, because the market was sluggish, we decided to discontinue sales and focused on construction, collection and the process of finalizing agreements etc. Our intent is to open up sales for the upcoming Diwali season. We are implementing a complete strategy at various levels ensures that we are able to capture the market at the right time. In this quarter, we intended to continue sales. However, we realized that if we keep sales open and don't get response, we are not closing any deal so we consciously took a decision of shifting our focus by stopping the sales in this quarter and focusing more on completing all the processes of the large number of units that we have sold till now and implementing a full plan to come into the market in terms of various different offers in terms of creating a subvention scheme or a referral scheme to ensure that at the right time we are able to garner larger number of sales rather than passively continue selling. So we expect in the upcoming quarter, which is the Diwali quarter we will have a far greater push from our end and we expect that we should be able to get reasonable number of units sold during this quarter.

**Moderator:** As there are no further questions I would now like to hand over the floor back to the Management for closing comments. Over to you sir.

**Amit Sabarwal:** Thank you everyone for taking your time and participating for the conference call for Prozone Intu Properties Limited Q1 FY16 results. In case of any further queries please feel free to contact us. Our contact details are there in the Investor Presentation that has been circulated to all the investors. Thank you everyone for participating.

**Bipin Gurnani:** Thanks everybody.

**Moderator:** Thank you. Ladies and gentlemen, with that we conclude this conference. Thank you for joining us and you may now disconnect your lines.