

Prozone Intu Properties Limited
Q2 and First-Half FY16 Earnings Conference Call
November 16, 2015

Moderator: Ladies and gentlemen, good day and welcome to the Second Quarter and First-Half FY16 Earnings Conference Call for Prozone Intu Properties Limited organized by Dickenson Seagull IR. We have with us today, Mr. Nikhil Chaturvedi– Managing Director, Mr. Bipin Gurnani – President; Mr. Anurag Garg – Chief Finance Officer and Mr. Ammeet Sabarwal from Dickenson Seagull IR. 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 touch tone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Amit Sabarwal. Thank you, and over to you.

Ammeet Sabarwal: Thank you, a very good morning to all of you. This is Ammeet Sabarwal from Dickenson Seagull. We manage Investor Relations for Prozone Intu Properties Limited. We welcome everyone present here today for the second quarter and half year 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 different from those contemplated by these forward-looking statements. Any forward-looking statements that we make today are completely on the assumptions based as on today and we undertake no obligations to update these statements as a result of new information or future events. Before going ahead, for people joining us for the first time, I would like to start with a brief introduction on the company and the strategic business model of the company.

Prozone Intu Properties Limited as the name suggests, we are promoted by the Provogue Promoters and participated by Intu Properties UK PLC. Intu Properties UK is a FTSE-100 company and is listed on the FTSE exchange and is amongst the top 20 REIT in the world. They manage over £9 billion of assets and 12 of their Shopping Centers are among the top 25 centers in the UK. The vision of this company is to create, develop and manage world-class mixed use development and Shopping Center. So our branding is also in line with the global branding of Intu Properties UK PLC and our name has been also inculcated with Prozone Intu Properties Limited.

Coming to the business model of the company, I would like to briefly highlight about the business strategy that we follow. Our strategy is basically to create, develop, and manage world-class mixed-use developments along with long-term annuity assets which are the shopping centers. The business strategy is to use 25% of the land parcel to develop build and

lease asset, whereas 75% of the land parcel is used to have Build and Sell asset so that the cashflow from the 'Build and Sell Model' can be used to make debt-free annuity assets.

Coming to the results, as we have been highlighting over the last few quarters that we are now entering into a phase of monetization of all our assets. Therefore, if you see coming to the results, our revenues for the quarter Q2 FY16 increased by 259% to 264 million as compared to 73 million in Q2 FY15. Our EBITDA has increased to 64.1 million as compared to 37.5 million in Q2 FY15. We have turned PAT positive and our PAT has increased by more than 300% to 33.7 million as compared to a loss of 16.1 million in Q2 FY15. We have also reduced our leverage, so our bank debt has reduced to 2,151 million as compared to 2,327 million. Our debt to equity is fairly comfortable at 0.39 debt to equity ratio. If you see our initial monetization phase our Nagpur project has started the revenue recognition phase and we have started recognizing revenues from the last two quarters onwards. Our EBITDA and PAT are set to see witness significant improvement over the next few quarters as the revenue recognition further improves.

Now coming to the build and lease asset of Aurangabad. Our rentals have grown by 15% on a quarter-on-quarter basis due to higher revenue sharing as few brands have improved sales and they have crossed the threshold revenues and there has been escalation in rental taking effect for some of the tenants during the quarter.

Our EBITDA has increased 22% on a Q-on-Q basis and 17% on a Y-o-Y basis primarily because of the improved rental as well as a better cost control during the quarter. Our retailer sales and all the key parameters of the Mall have been very positive. So our retailer sales have increased by 6.7% from 469.7 million to 501 million on a Y-o-Y basis. Our average monthly trading density has increased by 11.5% from Rs.279 to Rs.311 on a Y-o-Y basis. Our footfalls have increased by 11.8% from 17 lakhs to 19 lakhs on a Y-o-Y basis. We added three new stores during the quarter which are Killer, Cantabil and Silver Leaf. Very strong traction is seen at our Aurangabad Center with another 14 brands under discussions right now with over 43,000 square foot of area to be leased out of which 16,261 square foot has already been signed up with various brands such as Unlimited, Flying Machine, Wonder Years and Hanes.

Currently our key focus areas are four-pronged, one being our operational asset performance optimization, that is we are focusing on improving our occupancy level and brand mix for the Aurangabad Center. Our second core focus is the execution and monetization of the Nagpur Residential Projects where we had launched the Phase-I of 392 units, where more than 80% of the project is already sold; the construction is in full swing and we intent to monetize the project at a quick pace. Third is basically the successful completion of the construction of the Coimbatore Retail Center and the leasing for the same. Coimbatore Retail Center is in advanced stage of completion and is right on the time line and expected to be operational by Q1 FY16-FY17. The fourth focus is basically the monetization of Coimbatore Residential Project and the Indore Land Parcel. We plan to do the soft launch for the Coimbatore Project and the strategy for Indore is also launching the sale of the plots and focus on faster monetization. I would like to now handover to Mr. Bipin Gurnani to give you some operational highlights and how the leasing at the Coimbatore Mall has been. Over to you, sir.

Bipin Gurnani:

Yeah, good morning everybody and wish you all a very Happy Diwali. I think as Ammeet mentioned, I will start with Coimbatore and we have got a fantastic response from the retailers in terms of acceptance of the center. We have managed to almost agree with all the good brands in the country to come with us and most of them have even started to finalize their LOIs and agreements. Another good thing for us in Coimbatore has been that we manage to get some interesting brands as part of our category mix. 40% to 50% of the space allocation is for brands which do not exist in that city currently and I think that is something which we have managed to get and I think that's shows a lot of tractions from the retailers. Now, basically we are in the process of finalizing the agreements and the LOI so that we close all those deals. So our expectation is that we should be starting the center with a high level of occupancy and also with very good brands which currently do not exist in that city and so, that is basically on the Coimbatore side.

On the Aurangabad side fortunately for us while we have been visiting the brands and meeting them for Coimbatore, we have also got a good response for our Aurangabad center, a lot of brands that were not existing in our center have now come forward and signed with us including at the Aurangabad center as well. So as Ammeet mentioned, close to about 40,000 square feet of space in Aurangabad is currently under advance discussion and of that for 16,000 we have received LOIs, so we expect that over the next two quarters with all these brands and spaces opening at Aurangabad it will see a tremendous flip in terms of its occupancy and the overall performance of the center.

As you all know, we have done a rights issue for Aurangabad and that also has helped us in terms of getting our debts reduced and I think the overall center is now comfortable in terms of cash flows and is able to manage the cash flows from its own inflows. So that is something which also is going to help us in Aurangabad tremendously.

In terms of Indore as Ammeet already mentioned, our strategy to move to converting the land for plotting to developed plot scheme with an intention to monetize the asset at quick pace and that is the asset class which is also currently doing well in that city.

For Nagpur our focus remains execution of the launched phase and also planning of the next phase on which we have already started to work on. So that you know by the next six months or two quarters we are close to advance stage of construction for the Phase-I and Phase-II is also ready for launch. So that is the focus on the Nagpur side.

So overall it has been a good quarter for us and a good half year. We expect that with traction at Coimbatore also the rub-off of that at Aurangabad and continued focus on Nagpur and planning of the launch of the second phase in Nagpur. In Indore, we have converted our project to developed plot scheme to monetize early, we expect to have improved quarters as we move along and our monetization will continue to improve and the cash flows will also reflect that over the next few quarters. So that is basically from our side in terms of what is expected to happen in the next couple of quarters. So I will hand over to Ammeet.

Ammeet Sabarwal:

So I believe we can open the floor for the Q&A.

Moderator: Thank you. Ladies and gentleman, we will now begin the question-and-answer session. The first question is from the line of Aditya Chandak, an Individual Investor. Please go ahead.

Aditya Chandak: Just a quick one on Nagpur so we have booked sales worth 200 crores out of which what is the amount that we have taken in last two quarters - three quarters? What is the revenue which is booked?

Bipin Gurnani: Around 65 crores of the revenues is booked.

Bipin Gurnani: Around 200 units is what we have recognized the revenue for and the revenue recognize is about 69 crores.

Aditya Chandak: Okay, 69 crores, okay. And on the debt side even after the right issue, debt has not gone down substantially so, I mean is the debt being raised in Coimbatore SPV?

Bipin Gurnani: Correct. As we have mentioned earlier, we have a sanction for total debt of 180 crores at the Coimbatore, while we had reduced the debt at Aurangabad substantially. We have also done draw downs on the Coimbatore debt. So in a way while the Coimbatore debt has increased in terms of the disbursements the Aurangabad debt has come down. So we have always maintained that our debt will be in the range of between 200 crores and 225 crores. So further more I think we have got another 20 crores to draw in Coimbatore which is for the finishing of the asset and in the meanwhile our Aurangabad debt which is the lease rent discounting debt with IDBI will continue to reduce.

Aditya Chandak: Okay. And on the PTC how much revenue is still to be booked?

BipinGurnani: On the PTC front, I think probably another 10% of the revenue is yet to be booked. Although we expect much higher cash flows because we had an issue where the buyers had not been paying as per the demand raised so, we expect a lot more cash flow to come. The revenue recognition has been the balance and would be about 10%.

Moderator: Thank you. The next question is from the line of Chintan Sheth from SKS Capital. Please go ahead.

Chintan Sheth: Sir on the Indore you said you will be monetizing the land parcel or that will be the Residential development you will go through?

Bipin Gurnani: No, it is a Residential development. Actually what we are doing is we had already as you know that as part of our philosophy where we have already constructed and build all the infrastructure such Club house all the amenities spaces it was a decision at the board level to as a strategy to move and start selling a developed Residential Plotted Scheme reason is that as the demand is strong for that asset.

Chintan Sheth: Okay. So we shifted from Build and Sell to start showcasing selling the plots before the construction begins that is how we have planned?

Bipin Gurnani: Basically we have done a little bit of mixed use marketing. Initially we will just develop plots which people can build based on specific designs that have been approved by us and we have also kept certain parcels of land on which at a later stage we will develop apartments. So idea is to start monetizing with the asset model which is quicker and faster and then take it forward from there. And instead of only developing high rise apartments it is going to be mix in terms of developing plots which individuals can own and build on, plots and apartment plots.

Chintan Sheth: Okay. So how will be the break-up of that plot size?

Bipin Gurnani: 80% percent of the land parcel will be sold as plots

Chintan Sheth: 80%.

Bipin Gurnani: 20% will be retained for developing apartment plot.

Chintan Sheth: Okay. So 80% will be the 2.2 million square feet saleable right at Indore?

Bipin Gurnani: The 2.2 million saleable is based on the saleable FSI of the high rise apartment it will go through some change because now we will sell plots by square footage.

Chintan Sheth: So how is it going to change? What will be the total saleable area?

Bipin Gurnani: I think roughly the plots would be about 900,000 square feet of plotted area. And another 300,000 square feet to 400,000 square feet will be apartment blocking on a saleable basis.

Chintan Sheth: Apartments for 20% and the balance will be for the plots, okay. And so coming back to Nagpur we booked 69 crores you mentioned in the first-half out of that 200 crore of inventory we sold. So, what will be the balance number of units in place and how are we going to?

Bipin Gurnani: As the construction cost will get incurred because we do the percentage completion method and the construction cost will keep getting incurred we will start recognizing more and more revenue.

Chintan Sheth: Okay. So total units is how much at Nagpur?

Bipin Gurnani: 392 units in the first phase of project.

Chintan Sheth: Okay. So out of which we sold ~85%?

Bipin Gurnani: That is correct.

Chintan Sheth: And second phase will be launched...

Bipin Gurnani: 229 units what we have recognized revenue till now.

Chintan Sheth: Okay. So with the funds what will be you said your debt level will remain at current 200 to 225 odd crores in going forward so what will be the utilization of the cash flows from the monetization activity it will be again used in the construction activity for the remaining phases or it will believe in different, any thought process on that?

Bipin Gurnani: See all the cash flow is being utilized for the development of the Phase-I of the project currently and once the additional cash flows come yes, they will be used for the development of the next phase.

Chintan Sheth: Okay. So any policies related to dividend or we will stick to funding the growth path of the business.

Bipin Gurnani: Right now the company being in growth trajectory I think for the next couple of years at least we will need to ensure that we keep three projects adequately funded and yet however we expect that we will have stronger cash flows and at that stage the board could consider a solid dividend depending on how the cash flows go over the next quarters.

Chintan Sheth: And sir on the balance sheet side, we have some current investments on which was not as of March so, is it liquid funds or we have invested somewhere and...

Bipin Gurnani: That is liquid mutual funds, yes.

Moderator: Thank you. As there are no further questions, I would now like to hand the floor over to Mr. Amit Sabarwal for closing comments.

Bipin Gurnani: Thank you. Thank you everyone for taking time out and attending the conference call for the second quarter and first-half earnings of Prozone Intu Properties Limited. We believe we have entered into a strong asset monetization phase and our results would show that over the next few quarters. In case of any further queries, please feel free to contact us our details are there in the presentations as well. Thank you.

Bipin Gurnani: Thanks, everybody. Thank you.

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