

Prozone Intu Properties Limited
Q1 FY 2016-17 Earning Conference Call
August 8, 2016

Moderator: Ladies and Gentlemen, Good Day and Welcome to the first quarter FY 17 Earning Conference Call for Prozone Intu organized by the Dickenson Seagull IR. We have with us today 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 touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ammeet Sabarwal. Thank you and over to you sir.

Ammeet Sabarwal: Thank you, Ali. Hello and a very Good Afternoon to all of you. We welcome everyone here present today for the Earnings Call. Before we get started I would like to remind you that our remarks today might include forward looking statements and actual results may differ from those contemplated by the forward looking statements. Any forward looking statements that we make today on this call are based on the assumptions as on today and we undertake no obligations to update these statements as a result of new information or future events. For any new participants on the call I would like to start with a short brief of our company. Intu Properties UK PLC is a financial investor, holds 32.38% equity of the Company. Company is harnessing the domain expertise and ingrained experience of Intu Properties PLC combined with promoters' in-depth knowledge of Indian market.. Intu Properties Plc. is a FTSE 100 listed company and they manage over £9 billion of assets with 12 of their shopping centers being among the top 25 centers representing 38% of the UK retail market share. Now coming to our business model, our business strategy is basically to create, develop and manage world-class mixed-use developments along with long term shopping centers. The strategy is to use 25% of our land parcel for build and lease assets whereas 75% of our assets are basically for the build and sell model so that the cash flows from the build and sell model can be used to make debt free annuity assets which are long term lease assets. Commenting on our Q1 FY 17 results, our revenues declined by 11.9% to Rs 155.7 million on a Q on Q basis This was primarily due to lower revenue recognition from the Nagpur residential project as around 6 units were qualified for revenue recognition during this quarter whereas last quarter it was around 16 units therefore the impact is there accordingly. If you compare our overall mall rental income and other operating income both have increased by around 11.5% and 12.6% respectively. There has been a remarkable improvement in our EBITDA margin. Our EBITDA margins have improved to ~46.5% on a Q on Q basis and overall EBITDA has increased by 5.2% on a Q on Q basis. This is primarily on account of lower advertising and marketing expenses as compared to last quarter in Coimbatore and Nagpur SPVs as well as better operating cost controls which resulted into lower other expenses. Our PBT has increased by 32.1% on a Q on Q basis driven by higher operational EBITDA margins and lower depreciation. We believe we have initiated our asset monetization phase where our Nagpur project has a healthy profitability where the revenue would continue to be recognized for the residential project over the next few quarters. In our Coimbatore mall we expect to have stabilized rentals from Q4 FY 17 onwards. Also the Coimbatore residential project construction is expected to start over the next few quarters. Our focus is on assets monetization for the Indore SPVs through the sale of plots.

If you see our Aurangabad retail center all the operating parameters have been fairly positive and encouraging. Our EBITDA increased by around 17.3% on a YOY basis. As well as our overall rentals increased by 15.1% on YOY basis. This was primary on account of higher revenue share income from few of the brands. Our operational parameters such as the footfalls have increased by almost 16.9%, whereas our Retailer sales increased by ~6%. We added around 3 new stores during the current quarter that is Anantra Spa, Maroosh and Ethnicity. At the same time we have seen fairly good traction with almost 13,000 Sq. foot currently under fit outs where we are getting another four brands on board. One of them is an Anchor brand 'Max'. So we expect our overall occupancy to increase from current 79% to 84% over the next few quarters. With this I would like to now hand over the call to Mr. Bipin Gurnani to give us overall strategic outlook on the business. Over to you sir.

Bipin Gurnani:

Thank you, Ammeet and welcome everybody. Just to take off from where Ammeet left, basically in the last quarter our focus was on ensuring the leasing and the fit outs coordination for our Coimbatore center. The mall is ready and now we are in the process of getting all the brands to do their fit outs. We have found brands to be slightly slow when coming forward and taking the fit outs because of their resource issues etc. in terms of resource allocation and manpower allocation, but we have managed to create a substantial push around the whole thing and we expect that a lot of brands will come forward and start taking fit outs. The process has already started and lot of brands have submitted their designs and have also come forward and taken hand over of the units. So that is one of the focus areas for the company in terms of launching the Coimbatore center. We are in the process of creating tremendous push for ensuring that we have at least a reasonable number of stores that are fitted out, so that we can organize the launch around Diwali, which is our plan. In the Aurangabad retail center, things have been improving steadily, the trading densities for various brands have been encouraging. The number of brands that are now falling in the bucket of paying more than MG wherever we have an understanding with them with respect to revenue share percentage or MG whichever is higher. So in the last year and also in the first quarter of FY17, a reasonably large number of brands have touched revenues wherein we are now getting additional revenue income through turnover rents. So that is something which is encouraging from a center point of view. As Ammeet mentioned we are also focusing on new store launches, we have identified various brands that we believe will suit the market and have approached them directly. Those were the brands which earlier were showing resistance to come to a smaller city like Aurangabad. Quite a few of them have now already moved ahead and signed LOI with us and some of them are doing their feasibility study. So we are expecting that in Aurangabad over the next few quarters we will be able to additionally get new brands and that also is creating a lot of opportunity for us to drive foot traffic so that's why the footfall has also gone up. So in Aurangabad on the retail side I think we are seeing more stability. With regards to our other projects in Aurangabad Saral Bazaar also has some encouraging news. We have now more than 65 stores that have become operational. There are also a multiple number of stores which are under fit out. We have put a target to ourselves to open 100 stores prior to Diwali and we are also strongly following up on that. That's one of the things that is also bringing in new footfalls. We are also seeing that the stores which have opened are now picking up in business and therefore it has created a positive ripple for other buyers to come forward and launch their shops. So that's an encouraging change. Also, because of this we had the opportunity to start getting collections from our debtors of Saral Bazaar, so that is something which we are now positively moving forward with. On the office space in

Aurangabad we have managed to get a few of the issues which were there with respect to the authorities regarding calculation of lease, sub-lease, rental etc. We have managed to get these decisions in our favor and that has really supported the buyers tremendously and they are really happy with the result of what we had pursued. The construction is going on there and we are targeting that in the next six months we will hand over. We will also have an encouraging response from the buyers with respect to debtors wherein for a while they had not been paying their dues and now the process is initiated so that's also going to make a huge impact in terms of taking things forward overall at Aurangabad. So broadly for Aurangabad I think we are on target to achieve whatever we have set for ourselves. In Coimbatore as I said focus has been on the launch of the center. The center is ready now, we are mainly focused on getting the brands to do their fit outs on time and for that process we have also hired a third party to support us with the fit out management. This team has recently done a very large fit out management for very large center in Delhi and we have got the same team for Coimbatore. So we are confident that we will be able to pull this off. On the residential side in Coimbatore we are getting steady sales and I would say that it's been slightly slow but from our perspective the sales that we are getting are quite steady. It is taking a little extra time for closure but there is enough leads for us to pursue. Our target is that we should get on with the construction of the residential project in the next two quarters and by that time we expect, we will have the reasonable number of bookings to support the process that we want to follow. So from a Coimbatore point of view, there is lot of energy and focus that we are giving to that project because both residential and retail are at the cusp of taking off. With regards to Nagpur, our project construction of the Phase-1 that we have launched is going very well. We are on target with respect to our commitment to the buyers in terms of delivery and soon I think once we have all the required requisite approvals in place we will be in position to launch Phase-2 there. With regards to retail in Nagpur, once we have launched Coimbatore we will then start the process of work on the retail. We have already given the retail designs for Planning Permission but we will initiate the construction once we have settled the Coimbatore mall over the next two quarters. In Indore like Ammeet said intent is to monetize through selling of plots and a portion of the land has been set aside for creating high rise. Subsequently when the entire land parcel is more developed I think that's when we will get the real value for the high rise building there. The delay has been on account of certain approval issues where in we have a DP Road which needs alignment and on account of that the authority there is obviously asking various affected parties to give us their no objection certificate on the newly aligned DP Road for which our approval is pending. So we are hoping that we will get resolution soon and as soon as we get that resolution we should be in a position to get our approval which is already applied for and start the process of selling the plots because we have already completed a large part of the infrastructure development at Indore. The club house is ready, most of the internal roads have been constructed and therefore the opportunity to start immediately as soon as we get our approval is something that we are looking forward to.

So just to sum up everything I think we are very clearly continuing to focus on monetization of our existing assets. We feel that there is an opportunity for us to now pace the conversion of whatever we have into development and the subsequent monetization. So our intent is to ensure that all the management focus, energies are towards ensuring the development of what we have started and monetization of the entire land parcel, which we believe will give us over the next three-years sufficient cash flows and profitability as expected.

I think that broadly this is where we are. All the signs with respect to our business are better than previous quarters. We are looking forward to the launch of our Coimbatore center. We are looking forward to getting the Indore approval and then getting started with the sale of the plots. Rest I think is all within the target that we have set out for ourselves. So that's where we are, thank you very much.

Ammeet Sabarwal: Thank you; we can open the floor for Q & A.

Moderator: Thank you very much, sir. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. First question is from the line of Aditya Jain from Jain & Company. Please go ahead.

Aditya Jain: What sort of residential segment demand are you witnessing on the ground in Nagpur currently? And secondly what are our expectations in terms of demand for the Coimbatore residential project? How many units do we expect to sell in FY 17?

Bipin Gurnani: With respect to Nagpur I think primarily since we have sold a large part of our Phase-1, a choice in terms of the unit sizes etc. which is available is obviously quite low. So the sales will follow the same trend. We are averaging about 4 to 5 units a month right now and we believe that perhaps that is what will happen over the next few quarters with respect to our Phase-1 and that is why our push is to get Phase-2 started. That will allow us to create a new configuration in terms of the demand we have seen. Second is also to open up lot of different units with respect to pricing and opportunity from our consumer's point of view. However, to put it very squarely the demand on residential is slow. The only thing we can say is that while we are selling 4-5 units or expect to sell within that range. Some of our other peer developments in the city have actually had a very dry spell. So we have the advantage of the fact that our construction is moving very rapidly. We have our infrastructure already in place. So from that perspective we are getting genuine closures and we just hope that the market will sort of stabilize and we believe that with the Phase-2 launch we should be able to get far more units selling once we open up Phase-2. So that's the story on Nagpur side. On Coimbatore I think in the last four months we have reached about 70 units and we expect that the pace for the next two months would be on similar lines. Although in Coimbatore in the season months beginning from the month of Diwali going up to December where we are doing a new campaign and we expect that we will at least get double of what we are currently at in those three months so that's what our planning and our expectation is. We are yet to see the momentum that we expect but however we believe from all the signs that we are getting from the buyers who are coming to see the units if they are perhaps going to be ready around that quarter where we have Diwali, you know the season months. So we are also waiting on the fence to see how Diwali sort of goes and we should be able to convert a lot more closures once we get a sense on how Diwali is going this year. So Coimbatore perhaps I would say to some extent because we have enough inventories available in terms of suiting buyer's needs. We will see a bit of faster jump in sales as opposed to Nagpur. Yes, the market is yet to catch momentum and we hope that we will see that during the season months.

Moderator: The next question is from Pooja Seth, individual investor. Please go ahead.

Pooja Seth: What would be the update on the cash flows that are yet to be received from the PTC Phase-1 project and if you could probably provide any broad timeline by when you can expect to see the cash inflows?

Bipin Gurnani: With regards to PTC, obviously these are debtors which are standing in our books. We expect that over the next two quarters we should be able to collect at least 50% of the balance which is pending on the books and I think over a period of one year we should be able to ideally collect the entire pending balance from all the PTC buyers because by then we would have also started the process of handover of the premises to them and before hand over and possession they are required to conclude their entire payment schedule. One of things which was obviously getting stuck with the buyers was their ability to raise loan on their units with regards certain amount of sub-lease charges that was being calculated by MIDC. So they were unable in getting the NOC from MIDC which has now been cleared which was probably a bottleneck for them to get the sanction for the bank loan. So as of now we have almost 15 buyers who have applied for a bank loan. So once the bank loan happens then most of that money will get cleared. But our estimation is that over the next 12 months we should be able to collect the entire balance money which is pending on the PTC books.

Moderator: Thank you. As there are no further questions from the participants I now hand the conference over to Mr. Ammeet Sabarwal for closing comments.

Ammeet Sabarwal: Thank you everyone for taking time out for attending the conference call for our company. Just to sum up basically we have started our assets monetization phase. We have turned positive from last year onwards. So we expect to continue our P&L improvement as well as cash flow improvement over the next few quarters. This year basically we will see our Coimbatore mall starting to provide cash flows as it commences operations sometimes this year as well as the Coimbatore residential and Nagpur residential projects to support the same. In case of any further queries or anything do let us know our contact details are there in the investor's presentation. Thank you.

Moderator: Thank you very much. Ladies and Gentlemen, on behalf of Prozone Intu Properties Limited that concludes this conference call.
