



## Prozone Intu Ltd. Q3 FY17 Earnings Conference Call

**16<sup>th</sup> February, 2017**

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**Moderator:** Good morning ladies and gentlemen. Welcome to the third quarter FY 17 Conference Call of Prozone Intu Properties Ltd. organized by Dickenson Seagull IR. We have with us today Mr. Bipin Gurnani President and Mr. Anurag Garg Chief Finance Officer. 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 for an operator by pressing '\*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference call over to the Management. Thank you and over to you sir.

**Amit Sabarwal:** Thank you. Hello everyone and welcome to the conference call of Prozone Intu Properties Ltd. for the third quarter financial year FY 17. It is a great pleasure to greet you all once again on behalf of our board of directors and senior management. We begin by thanking all of you by taking spare time and joining us today here for the call.

For any new participants, I would like to start with the short brief on our Company. Prozone Intu Properties Ltd. as the name suggests it is developed by the Promoters and participated by Intu Properties PLC. Intu Properties PLC is a FTSE 100 listed company and they manage over £10 billion of assets and 10 of their shopping centers are among the top 25 centers representing 38% of the UK retail market share.

Our business strategy is to create, develop and manage world-class mixed-use development along with long-term Shopping Centers. The business strategy is to use 25% of the land parcel to develop build and lease assets, whereas 75% of the assets are on 'Build and Sell Model' so that the cash flow from the 'Build and Sell Model' can be used to have debt-free long-term annuity lease assets.

Commenting with respect to our Q3 FY17 Results – our revenues decreased by 15.8 % to INR 141 million on quarter-on-quarter basis. This is primarily due to the slow down witnessed during the month of November and December due to demonetization. Difficult operational environment led to the slowdown in the construction phase for the Nagpur Residential project during the quarter and also new sales were impacted at the residential project in Nagpur and Coimbatore. Therefore, the sales of premises segment decreased by 38.9% quarter-on-quarter basis.

However, I would like to highlight that the current environment has normalized and construction is back to full swing. Revenues from our sales of services segment which is primarily mall rentals have increased by 13.4% quarter-on-quarter basis driven primarily by higher revenue share as few brands crossed over the threshold revenues, escalation in rent and CAM for few new stores as well as opening of new stores in quarter. Our EBITDA remains flat quarter-on-quarter basis, however our margins expanded by 420 basis points to 32.9% quarter-on-quarter basis primarily on account of higher mall revenues and better control on operating expenses as well as marketing expenses during the quarter.

PAT decreased primarily due to the lower revenue growth and impact of other income. We have initiated our asset monetization phase. Our Nagpur project has a healthy profitability where we have already sold more than 70% of the phase 1, almost INR 180 crores sale has happened and the revenue is expected to be recognized over the coming quarters. Coimbatore mall rentals would start coming in from Q1 FY18 as the mall starts the operation. Our Coimbatore residential project has been soft launched and we have already booked 83 units till date. Construction is expected to start in Q1 FY18 onwards. Our focus is also on asset monetization of the other SPV's over the coming few quarters.

We believe we have entered an early stage of an exciting new phase of consistent long term growth and value creation. With the large land bank and a deep project pipeline our strategic focus is on timely execution of our projects that will generate strong positive free cash flows. With this I would like to hand over to Mr. Bipin Gurnani to give some highlights on the operational front. Over to you sir.

**Bipin Gurnani:**

Thank you Amit. And welcome everybody, I think as Amit mentioned the quarter was slightly sluggish, the reason being that we were quite badly hit by the demonetization. I think the impact was more on the perception and the uncertainties that was looming. Let me start with Nagpur. Nagpur of course being residential business right now for us was largely impacted because a lot of buyers who were in the pipeline in terms of discussion with us sort of delayed their decision making and also during this phase because of concerns that buyers had, we did receive a few cancellations as well.

However, to add to that January has started off with things getting better. February seems to be normalizing with people now coming back. And also you know we managed to do some

new sales and also people are now sort of getting a lot more comfort. The project is also looking good. We have completed most of the RCC and civil work and the finishes of the building have started. Our intent now is to start giving phase wise hand over starting from Q3 FY18 and I think we are hopeful that we will get the traction back as currently the rate at which we are selling continues to be attractive in those markets and that our intent is now to push the sales.

We are also now very soon going to launch some schemes which allow people to pay only 10% amount and balance will be payable by them on handover. So we expect that this will be an attractive option for new buyers and we hope that we will get the required results out of that. On the retail side of Nagpur, we have already applied for approvals. We have in the meanwhile started finalizing anchor tenants for the Nagpur retail. We have finalized the multiplex. We are in the process of finalizing the department store and the hyper market. And the other anchors will start once the constructions starts. Vanilla stores of course we will start confirming those when we have 50% construction done. So on the retail front we are going ahead and we are hopeful in Q1 FY18 we should be able to start construction of Nagpur center.

In Coimbatore the mall has been ready since June 2016. However, you know with regards to brands coming in and taking their premise, there has been substantial delay in them coming over and finishing their works because of which we had to push the opening date twice. Now the date is scheduled as 14<sup>th</sup> April for launch as we have most of the large anchors fitting out their stores. We have also started the line stores which is the Vanilla stores also have started to coming in and takeover for fit outs. So we hope by, Q2 FY18 we will start stabilizing the center in terms of occupancy and by Q3 FY18 we will have stable rental that will start flowing in which means ideally from the Diwali quarter.

On the residential side, like every other city Coimbatore was also affected. While we had a steady flow of bookings in terms of presales, we did have certain stop on that and we also got a few cancellations because people decided to you know not to go ahead with their purchase. But again, February in Coimbatore has been reasonably good start. We had some 6-7 closures in the last fort night and there is a steady pipeline of people coming in, enquires coming in has started.

I think once we start construction which is expected for Q1 FY 18, we expect that there are lot of people who are waiting for work to start and come and close their purchase. So from that point of view we are excited about Coimbatore. And as I said earlier most of the brands have signed with us and almost 90% of the space is leased and 5% more is under discussion so on the leasing front I think we have been able to secure very large percentage, the focus is now to ensure that these brands come in and complete their fit out and start trading.

And in terms of the market also I think the market is ready and we are looking forward to it, we have had some feedback about the local market and about excitement in people for our center to start.

Aurangabad I think the November month was slightly sluggish, but we were not hit too badly because it is a steady mall and we really didn't see too much of impact on retail front in Aurangabad. In fact in November & December we saw some substantial spurt in trading densities and quite a few brands actually met their revenue share numbers which is very visible from the sales of services income from the mall. So as far as Aurangabad goes in terms of retail we didn't see any major dip except for the first couple of weeks when the announcement was made so we feel that Aurangabad now sort of gives us the sense that it is more a stabilized asset and stabilized market where we are continuously adding new stores. We have added i-Sense (Apple store), two woman-wears stores W and Aurelia, we have got Max, Classic Polo and a concept of Arvind called Unlimited under fit out. So we see a lot of newer format of brands coming in and you know one thing to open their stores there. So one more thing I must add is that in Aurangabad we have consciously started to churn now because we have actually sort of made the effort to find out which are the brands that are not performing consistently for last three years, they happen to occupy prime location in the center whereas there are lot of brands that are coming in and you know asking us for space perhaps those are the spaces that they are looking at and we believe that those brands will add value to the center. So we have purposely started to do the churn and therefore sometimes in the percentage occupancy one might see that while we have added stores the occupancy percentage may not have gone up, because this is being done purposely as we want to open up prime space for brands that we wish to bring in to the center. So that the whole exercise is happening and I am sure in the short term and long term it will be beneficial for the center.

And on the PTC front, this whole demonetization again has sort of being a little bit of a setback where we had already had a good understanding with the buyers and they have started to come forward to meet their commitments but during this quarter again they failed to meet their commitments, however we have continued to do the work there. We expect that we will be able to deliver the offices to the buyers by Q3 FY18 as we have already informed them. But in terms of cash flow and collection of that cash flow it sort of has been slow. We expect this quarter and the coming quarter things will improve there. For Indore, we are looking at launching, unfortunately there is been sort of delay in getting certain approvals and we are pursuing that as much as we can. And we hope that as soon as we get it we are fully ready and geared up to launch Indore in terms of sorted development scheme. It is just that we are unable to officially launch until we get those approvals in hand. Rest I think that we have been able to manage the quarter averagely. I mean we have tried to ensure that we don't do anything which sort of creates negativity with buyers etc. We have been in touch with them, we have tried to make sure that we are giving them the comfort that you know if

there has been any delay on their side of their payment, we have sort of giving them the comfort, but I think we see things changing now. And if you ask me what we are looking forward to in the coming quarter, launch of Coimbatore which is something definitely something we are looking forward to. Also we are hoping that we will be able to start construction of Coimbatore residential and launch the Indore development scheme. So that's there it is so thank you very much everybody and over to Amit.

**Amit Sabarwal:**

We can open the floor for Q&A.

**Moderator:**

Ladies and gentlemen we will now begin the question and answer session. Anyone who wished to ask a question may please press '\*' and '1' on your touchtone telephone. If you wish to remove yourself from the question queue you may press '\*' and '2.' Participants are requested to use only handset while asking the question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. We will take first question from the line of Ankita Agarwal from Ashwini Investments. Please go ahead.

**Ankita Agarwal:**

Sir I wanted to ask you what has been the impact of demonetization in the retail sector of business.

**Bipin Gurnani:**

As I mentioned in terms of especially our center in Aurangabad I think the initial first two weeks were really impactful I mean we saw the impact of demonetization and foot falls dropped by about 30-40% I think being in the smaller city I guess the impact of demonetization was not as strong as perhaps in some of the urban areas. And we bounced back very quickly and that was visible in the sales that we have seen with the retailer. In fact, in the quarter the overall growth for some of the retailers has been over last year same quarter to the extent of almost northwards of 20% so from that perspective while we saw some impact on the retailer sales but it bounced back quite quickly. Also fortunately October was very good, because this year Diwali was in October, so we have already done the major training period of the quarter. So that also helped us as demonetization actually got announced post the early buying which also helped the overall quarter. But in the sense of foot falls yes, we saw the impact for first two weeks which was quite major. But afterwards sort of bounce back and normalize especially our case in Aurangabad. Overall I think what I understand from the brands is that I think it is very similar in cities. The first two weeks were really dark then sort of bounce back. Luxury segment was of course hit the hardest.

**Ankita Agarwal:**

Okay. Sir I have one more question, you mentioned that you were very optimistic about your Coimbatore residential project. Can you give us a detail timeline of you know when it is going to be complete? How are you going to, phase wise when do we expect the project to be completed?

**Bipin Gurnani:**

Just one correction. Of course, we are optimistic about the project, what I said optimistic was about the mall which is scheduled to launch in April. However, we are seeing good traction in

the residential side we did have a sort of a slow quarter but we are seeing the traction back starting 15<sup>th</sup> January and especially in February we have seen far better traction than we have had earlier. So also one of the reasons why we are optimistic on our residential project as well as because our project is perhaps one of the only project in terms of quality and the kind of amenities that we are offering. There is lot of excitement in people because there is a mall coming in there and also the location is perhaps the area in which most of the growth in terms of residential is happening. Primarily because that's where the IT sector is also expanding, so from that perspective we feel that our project has received a good response.

**Ankita Agarwal:**

Okay. Thank you sir.

**Moderator:**

Thank you. We will take the next question from the line of Amrit from Laxmi Print Art. Please go ahead.

**Amrit:**

Actually I wanted to know which of your projects come under affordable housing.

**Bipin Gurnani:**

As of now we don't fall under the affordable housing scheme however, as required there is a certain requirement of building you know EWS, which is required which is more in terms of size which is more in Coimbatore and Nagpur itself. We are exploring the opportunity of doing an affordable housing scheme in Nagpur which is under discussion, since we have large land parcel of 41 acres we have looked at carving out the area where we can do this affordable housing scheme. So as of now its work in progress, we have still not decided, but yes we are working out and checking out whatever is possible, and we feel that there is a potential to do that. Well, as of now it is just work in progress and we are under discussion on that.

**Amrit:**

And sir one last question I could see certain investments on balance sheet, sir can you actually give me details of these investments?

**Bipin Gurnani:**

We are a holding company and all our projects are at SPV level and we actually invest in these SPVs from holding company. So perhaps what you are referring to are the investments in our various SPV's. What I suggest is that if you want to understand those details further you can connect with us off line and we can explain those details to you.

**Amrit:**

Okay sure sir. Thank you so much.

**Moderator:**

Thank you. We take the next question from the line of Avinash Kumar an individual investor.

**Avinash Kumar:**

I want to ask there are so much of land parcels and valuation is more than INR 2000 crores but still company is not able to monetize on it. Is there some plan further?

**Bipin Gurnani:**

Definitely we have a plan but we can't beat the market and beat the environment. We are very careful in terms of insuring that we don't burn our cash. Whenever we plan launch of a

project we are confident that when we launch we should be able to achieve what we have intended to achieve. We firmly believe that the value land is much more than value of land with half-finished projects or incomplete projects or unsold projects. So from our perspective it is very clear that we are focused on doing phase wise development to ensure that we are able to maximize our profits with the investments that we put in terms of construction. So while we have land parcel we are also ensuring that when we launch the project, the sizes of phases that we launch it is such that we actually finish at time and also make sure that we create the demand for it rather than having too much inventory and then you know you are discounting your product. Does that answer your question?

**Avinash Kumar:**

Yes. Thank you.

**Bipin Gurnani:**

Thank you.

**Moderator:**

Thank you. As there are no further questions I would like to hand the conference over to management for their closing comments.

**Amit Sabarwal:**

Thank you everyone for taking time out and attending our conference call for Q3 FY17 in case of any further queries or any request for meeting anything please get in touch with us. Our details are there in the presentation as well as on the website.

**Bipin Gurnani:**

Thanks everybody.

**Moderator:**

Thank you. Ladies and gentlemen with that we conclude today's conference. Thank you for joining us and you may now disconnect your lines.