



“Prozone Intu Properties Limited Q1 FY2018
Results & Business Outlook Conference Call”

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ANALYST: MR. PRANAV JOSHI – DOLAT CAPITAL

**MANAGEMENT: MR. NIKHIL CHATURVEDI- MANAGING DIRECTOR [PIPL]
MR. BIPIN GURNANI - PRESIDENT [PIPL]
MR. ANURAG GARG – CFO [PIPL]
MR. RAVINDRA BHANDARI – DICKENSON SEAGULL**

Moderator: Ladies and gentlemen good day and welcome to the Prozone Intu Properties Limited Q1 FY2018 Results and Business Outlook Conference Call. 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. In case 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. Pranav Joshi. Thank you and over to you Sir!

Pranav Joshi: Thank you. Good afternoon all. On behalf of Dolat Capital, I welcome you all for Q1 FY2018 conference call of Prozone Intu Properties Limited. From the management we have Mr. Nikhil Chaturvedi, MD, Mr. Bipin Gurnani, President, and Mr. Anurag Garg, CFO. With this, I handover the floor to Mr. Nikhil Chaturvedi for opening remarks, which will be followed by question and answer. Over to you Sir!

Ravindra Bhandari: This is Ravindra Bhandari from Dickenson Seagull. We are investor relation agency to Prozone Intu. I would start with the opening remarks. Thank you all everyone for joining for the Prozone Intu Q1 conference call. 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 you all for joining us for the call today. For the new participants, I would like to start with a short brief overview of the company. Prozone Intu Properties Ltd., as the name suggests it is developed by the Promoters and participated by Intu Properties Plc. Intu Properties is a FTSE 100 listed company and they manage over £10 billion of assets and 10 of their shopping mall centers are among the top 25 centers representing 38% of the UK retail market share. Intu Properties Plc has more than 22 million square feet of retail space and over 400 million customers visit their malls every year.

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 our land parcel to develop and lease assets whereas 75% of the land are build and sell model, so that the cash flow from the build and sell model can be used to have a debt free long-term annuity lease assets. Over the last year, we have been talking about how our company is turning PAT positive and this year is an inflection point for our company as Coimbatore Mall operation had started and thus leading to a strong annuity income going forward. Commenting on quarterly results Q1 FY2018 revenue was flat as the increase in sale of services was offset by fall in sale of premises. Revenue from sale of services remains strong with over 40 brands crossed their threshold limit at Aurangabad. Regarding Aurangabad PTC and Nagpur Residential the current environment has normalized and construction is in full swing. We have initiated our asset monetisation phase. Our Nagpur project has a healthy profitability complied with RERA requirement. 336 units will be delivered under the project. Revenue recognition will be in a phase manner and it will be recognized over the next few quarters.

Coimbatore mall has received a phenomenal response with more than 85% of area already leased and few of other brands are under finalization. Coimbatore mall is received well by strong national and international brands. Eight anchor brands occupying significant mall space. Our Coimbatore Residential project has been launched and we have booked 96 units till date. Construction is expected to start in Q3

FY2018 onwards. Our focus is also on asset monetisation on the other SPVs over the coming few quarters. We believe we have entered an early stage of new phase of consistent long-term growth and value creation. With a large land bank and deep project pipeline, our strategic focus is on timely execution of our project that will generate strong positive free cash flow. With this, I would like to handover to Mr. Bipin Gurnani to share his thoughts on operational front. Thanks Over to you Sir!

Bipin Gurnani:

Thank you Ravindra and welcome everyone. Happy to be here. Just to add on to what Ravindra said, for us the most exciting part has been the launch of the Coimbatore Center and I think one of the interesting things is that we manage to get a large number of retailers together. As we move along, a lot of retailers continue to launch their stores. We expect that by Diwali most of the retailers who have signed with us would have their stores operational and some of them who are already in fit outs or have taken fit outs recently will launch by Christmas. Overall the response to the center has been good from both the customers' point of view and what the retailers are doing there. We feel that we will hit the expected parameters that we have projected. So we are quite happy about that and we continue to add more brands into the center. People who were earlier sitting on the fence after the opening have started to comeback to finalize and sign up, so that is a good sign and the reason I am starting with Coimbatore is because that is one of the key things that have happened in the company in last quarter.

Over and above that I think Aurangabad has generally started to really look good in terms of both retailers being happy with their sales and also the other parameters or footfalls and trading density, etc. We have been operational for the last six years. We will complete our seventh year considering that we are in our seventh year we still have high single digit growth on TD and footfalls. A lot of new brands have started to come in and finalize with us, so recently we finalized the showroom for jeep. We have interest from Volvo. We have signed Max and there are other bigger retailers who have now started to speak with us to occupy space in Aurangabad. One of the exciting things for us in Aurangabad is that a large number of our brands have now started to hit revenue share, which is what really is a sign of stability of the center and I think that is exciting for us. On the other side work at the commercial towers is in full swing and we believe that in the next three to six months we would deliver that as well to the buyers. One more addition to Aurangabad is that we have added a solar plant there on the rooftop. We have planned about 1 MW plant with 650 kVA installed already, so that should result in substantial savings for us on the power side. It will help bring down our CAM expenses as well and also add to the bottomline. We have also done replacement of our LRD there and to an extent where instead of a ballooning we have a straight line EMI that helps the cash flows at the center.

Moving to Nagpur, Nagpur construction is going strong for the residential towers. We are now at finishing stage and we hope that in the next six months we will hopefully handover most of the towers barring one, which will then get added, may be in the following quarter. The customers are quite happy with what the project has come up and we are seeing a lot of interest now back again on leads for newer sales and there is a lot of closures expected over the next couple of quarters. With respect to starting the second phase we have done some changes to our configuration of our units based on the experience of phase one and going forward we are adding more two and three BHK units and reducing the number of four BHK units because we realized in the market the demand is more for two and three BHK, so we have done some reconfiguration and therefore the launch is pushed by a couple of months, but we

thought that it was important to do that because the demand that we were getting in the city was more for a two or three BHK unit, so that is something, which we hope and we were hoping to touch Diwali for launch, but I think this might happen by November-December since Diwali this year is early mid October.

Overall, from a company point of view lot of focus on optimization of operations, with now two centers operational we have a lot of focus on asset management and we are doing implementation of various SOPs to make sure that both the centers are aligned in terms of as a brand and of course individually they are in different states, so they cater to different consumer segments, but overall as a package to the customers we believe that we must come up with similar things, which reflect the brand and other few things that have happened for us in this quarter is implementation of RERA and moving to RERA, so we have successfully done registration for our projects and on time.

The other bit was moving in to the GST regime, which also meant a lot of additional activity for us in the last quarter to be GST ready and we have successfully implemented that as well without any hitch and also as per the requirement we were to move to Ind-AS from this year, so that also we have disclosed the results for this quarter based on Ind-AS as per the requirements that we had, so I think all in all the company has been busy this last quarter with a lot of new regulations, etc., and we are happy to say that alongside all the regular operational activity the company has been able to successfully implement all these changes to the new regime, so we are excited about the near future and we believe that we are well poised to continue to monetise our assets and add value and we look forward to the next few quarters ahead and we believe that Coimbatore as it settles down and we have our first Diwali there that should also add a lot of excitement on the company side. So that is all from me. What I wanted to do is to may be request our CFO, Mr. Anurag Garg to just quickly share with all of you in terms of what we have done with respect to moving to Ind-AS and what are the changes in the accounting policy that we have at our end changed and just to give you a brief on that and maybe when you have your questions we can answer a few of them in more detail. Over to you Anurag!

Anurag Garg:

Thanks Bipin. This is Anurag Garg, CFO of the company. As mentioned by Bipin due to regulatory changes from Q1 June 18, 2017 onwards, we are required to prepare our financial statement as per the Ind-AS. Ind-AS is Indian converged version of IFRS, which are based on principal of the substance over form and reflect fair value of certain items in the financial statement. Ind-AS has impacted profit and loss as well as the balance sheet of the company. In case of our company the certain key things, which has impacted the P&L are we have given commission free corporate guarantee to the banks for loans taken by the SPV. Now as per Ind-AS we have to accrue the notional income. Uptil now in the books of Prozone Intu Properties (standalone) investment in subsidiaries are reflected as acquisition cost. Now the Ind-AS allows the management to fair value these investments. The management of the company has decided to adopt the fair valuation model for reflection of the investment in subsidiary, joint venture, and associate in financial statement of Prozone (stand alone). So the impact of all these changes has been reflected in the statement of profit and loss, which we have published. This quarter, it was not mandatory for us to publish the balance sheet, so in the next quarter the balance sheet will be reflecting impact of fair value of the company's investment. It will substantially increase the net worth of the company and the value per share of the company. Now I handover the call to Ravindra!

- Ravindra Bhandari:** We can start our Q&A session.
- Moderator:** Sure thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Aditya Singh as an Individual Investor. Please go ahead.
- Aditya Singh:** Good afternoon Sir and congratulations on the Coimbatore Mall opening. I would like to know how much would be the rental from the Coimbatore Mall?
- Bipin Gurnani:** The average rental that we are expecting is about Rs.55 to Rs.60 and I think at 100% occupancy the stabilized rental including expected Revenue Share would be about Rs.40 Crores.
- Aditya Singh:** And how are we planning to use this incremental cash flow, are we planning to de-lever?
- Bipin Gurnani:** Currently, I think the cash flow would be sufficient to meet the requirements of interest payment and repayment of principal and the mall expenses, so we feel that flows from the existing cash flows we should be able to comfortably cater to the repayment of the debt requirement.
- Aditya Singh:** Thank you Sir!
- Moderator:** Thank you. The next question is from the line of Ankita Singh as an Individual Investor. Please go ahead.
- Ankita Singh:** Good afternoon. Thank you for the opportunity. I would like to understand about Coimbatore residential like what would be the cost of construction there?
- Bipin Gurnani:** The cost of construction that our QS have worked out is roughly in the range of about Rs.1900 a square feet. The Coimbatore project has one basement, stilt, ground plus 18 floors. Therefore, the cost of construction is slightly higher, so as of now I think the construction cost would be about Rs.1900 per square feet.
- Ankita Singh:** What is the expected time when it will be complete like can we assume the entire revenue will be recognized by FY2020?
- Bipin Gurnani:** Yes we have received what we call BA/BL, which is the building license and we have almost finalized the tenders and we expect that we should be able to mobilize for construction to start in the coming quarter and three years from that we should be in a position to deliver the apartments.
- Ankita Singh:** Thank you Sir!
- Moderator:** Thank you. The next question is from the line of Sagar Parekh from Deep Finance. Please go ahead.
- Sagar Parekh:** Congratulations for the Coimbatore Mall Sir! In your mall side what would be the total gross block with both malls put together and you said 100% utilization for Coimbatore will be Rs.42 Crores, so with

revenue sharing kicking in, in the Aurangabad Mall what can be the overall mall rentals for the full year FY2018 and FY2019 going forward assuming that these two malls have been fully leased by that time?

Bipin Gurnani: Thank you very much for your good wishes. See one of the things in Coimbatore is that while we expect the minimum guarantee rent at 100% to get Rs.32 Crores. We also expect that in case of anchors where normally the minimum guaranteed rent is fairly conservative number that the revenue shares will be something that we should start earning from the anchors. Ideally, we take the third year average of rental to be the stabilized year for any shopping center, so between Aurangabad and Coimbatore, if we were to look at a possible rent in the average of the next three years, income would be in the range of about Rs.90 cores.

Sagar Parekh: And that includes rental as well as the revenue share?

Bipin Gurnani: That is right yes.

Sagar Parekh: And what would be gross block for these two and what would be the debt amount for these two?

Bipin Gurnani: The current debt amount between the two is Rs. 260 Crores and the gross block I will have to ask Anurag.

Anurag Garg: It is about 230 Crores for Aurangabad including land and about 280 Crores for Coimbatore.

Sagar Parekh: Sorry how much is for Coimbatore?

Anurag Garg: 280.

Sagar Parekh: And the debt you mentioned is Rs.250 Crores?

Anurag Garg: Rs.260 Crores for both SPVs.

Sagar Parekh: Got it and you also mentioned in your opening remarks about the Ind-AS substantially increasing the net worth because of fair valuation of subsidiary, so which subsidiaries are these and what can be the actual amount of increase?

Anurag Garg: The Company has investment in Nagpur, Jaipur, Indore, Coimbatore and Aurangabad.

Sagar Parekh: This is the land revaluation that we are talking about?

Anurag Garg: SPV fair valuation . Basically the fair valuation of company's share as per the fair value of the subsidiary. Currently the investment is reflected at a cost and we do the independent fair valuation of SPVs , on the independent valuation report the fair value gain is accounted in the other equity, which will substantially increase the net worth of the company on a standalone basis.

Sagar Parekh: So it will not come in the P&L directly flow through to the balance sheet?

- Anurag Garg:** Yes, it will not come through the P&L.
- Sagar Parekh:** What can be that impact in the balance sheet in terms of net worth?
- Anurag Garg:** It will be very significant. We are working on the impact .It shall be around Rs.700 Crores, Rs.800 Crores (less deferred tax impact) .
- Sagar Parekh:** Rs.800 Crores increase over current net worth?
- Anurag Garg:** In the standalone balance sheet.
- Sagar Parekh:** Yes, so Rs.800 Crores increase roughly?
- Bipin Gurnani:** Roughly because this was not required to be done in this quarter, we will do in the next quarter when balance sheet is to be published , so it will be very significant.
- Sagar Parekh:** Congratulations and best for the luck for the coming years.
- Moderator:** Thank you. The next question from the line of Vaibhav Gupta from SKS Capital. Please go ahead.
- Vaibhav Gupta:** I had a couple of questions. One was what is your consolidated debt currently?
- Bipin Gurnani:** Consolidated debt is 260, we have no debt in the holdco, the only debt is in Aurangabad and Coimbatore, Aurangabad is lease rent discounting and Coimbatore currently is a construction finance, which we are now in the process of converting to LRD, the total debt put together in both SPVs is Rs.260 Crores.
- Vaibhav Gupta:** How many other SPVs with Debt?
- Bipin Gurnani:** There is no debt anywhere else.
- Vaibhav Gupta:** Based on the previous questions your net worth post the current restructuring as on September is likely to go up to about Rs.700 odd Crores right?
- Bipin Gurnani:** Higher than that, yes.
- Vaibhav Gupta:** This will be on the consolidated basis or standalone?
- Bipin Gurnani:** Standalone basis, As per the Ind-AS you are not allowed to fair valuation of mall assets at SPV level, you have to treat these as investment properties (IP) and not plant and machinery and equipment (PPE) , so if you take an IP, which is investment property then you are not allowed to fair value it at the SPV level, but at the investment level, which is at the holdco level you are allowed to fair value the investments .

- Vaibhav Gupta:** Secondly your current model is both combination of creating the rental yield assets with malls and offices and build and sell model, which is residential right like you mentioned?
- Bipin Gurnani:** Correct.
- Vaibhav Gupta:** Also thanks for such a detailed presentation, which captures details of all your assets. Just wanted to further understand most of your developments and assets are under different SPVs rather all of them being done through SPV?
- Bipin Gurnani:** All of them are in different SPVs.
- Vaibhav Gupta:** Where the listed entity does not have 100% ownership right, they have been diluted at SPV?
- Bipin Gurnani:** They have majority ownership in most of them.
- Vaibhav Gupta:** What would be the attributable, majority like it is typically could be anything more than 50%, but in terms of trying to value the listed entity how much typically, what would be the deduction for your lack of rather less than 100% ownership in these SPVs, what should be the fair value reduction for the net assets?
- Bipin Gurnani:** Sorry I really could not follow your question. I will leave it to the extent of our investment only, so we do not take the minority interest in that, when we do a fair value at our company level we only value our investment.
- Vaibhav Gupta:** Your share of the SPV.
- Bipin Gurnani:** Value the minority interest component then.
- Vaibhav Gupta:** What is our medium to long-term game plan in terms of consolidation of the minority interest, how did you provide escape to the investors in the SPVs first thing?
- Bipin Gurnani:** They are mostly very strategic long-term partners Intu for example is long-term, this is their business owning shopping centers, owning managing and operating shopping centers, so they are here in for a long haul. The other partner we have...
- Vaibhav Gupta:** They are equity partners in your role too?
- Bipin Gurnani:** This is old mutual group. They also early were looking at it as a fund, now they have shown interest to move it at a prop fund and therefore want to be with us on the long-term basis and as I mentioned last time around we are looking at structuring the different structures going forward to see that how we can create growth capital and ensure that the current investments and the value of the current investments are used to, how we can use them best to leverage and create growth capital and there are various opportunities now coming to us in terms of inorganic growth as well.

- Vaibhav Gupta:** Also in terms of long-term value on locking are you looking at any kind of restructuring, which involves REIT structure for your small assets or assets?
- Bipin Gurnani:** We are preparing for those going forward, so the first step to that is that we are creating an AIF structure, which is alternate investment front and I think that is still some bit away, but yes we are looking at some restructuring to happen yes.
- Vaibhav Gupta:** Any timelines on that?
- Bipin Gurnani:** Six months to 12 months.
- Vaibhav Gupta:** All right that is all for now. I will get back in the queue.
- Moderator:** Thank you. We have the next question from the line of Rajiv Garg from A.K. Capital Services Limited. Please go ahead.
- Rajiv Garg:** Congratulations on your new mall. What is average construction cost of borrowing?
- Bipin Gurnani:** Right now we are at 13% in Coimbatore.
- Rajiv Garg:** This is from PSU Bank?
- Bipin Gurnani:** Yes the Coimbatore loan is from a consortium of PSU Bank.
- Rajiv Garg:** In terms of LRD what is our current cost of borrowing?
- Bipin Gurnani:** We are at about 11%, but we are looking at getting it even down, so current LRD is at 10.5%, 11% and for Coimbatore for example we have interest from various banks and we are looking at anything between 9.5%, 10%.
- Rajiv Garg:** So currently we have a Coimbatore loan of Rs.130 odd Crores?
- Bipin Gurnani:** The Coimbatore loan balance is about Rs.164 Crores.
- Rajiv Garg:** 164, so on an average Rs.21 Crores is your interest cost, whereas we hope that Rs.164 Crores if we do not do any top up when we just take an LRD for a tenure of up to 10 years and then an average cost will come down to 9.5%, 10%, so that will reduce our outflow from Rs.21 Crores to Rs.15 Crores annually, but because it will be reducing balance, the impact will be much higher?
- Bipin Gurnani:** Absolutely right and also currently we are looking at a 12-year money at 9.5% so for per year bring it down even more.
- Rajiv Garg:** Understood and do we have any further malls that we have planned in the near future or looking at acquisition?

- Bipin Gurnani:** Nagpur construction will start soon, we have already got almost advanced stages of planning permission and we are pre-launching up to leasing from we are participating in a conference called IRF, which is India Retail Forum and we will be pre-launching the scheme through only anchors right now and we have already applied for planning permission and we are at advanced stages of this.
- Rajiv Garg:** Great. So just quick question to your presentation, you said that you have already done some leaseback refinancing in this quarter whereas you have reported a number of approximately Rs.30 odd lakhs in saving?
- Bipin Gurnani:** Basically, we did a bit of top up in Aurangabad to complete our commercial project that we are building there and since it was a longer-term LRD and at a lower interest rate the overall cash flow reduction in terms of what was the outflow of the earlier debt, there is a saving, I would call it saving, but I would say that from cash flow point of view Rs.30 lakhs lower per annum is what is going out of the center towards repayment update.
- Rajiv Garg:** So in terms of Coimbatore also we intend to take any top up or we are just going to replace the debt?
- Bipin Gurnani:** No, we intend to take some top up because we want to attract certain more tenants and for whom we want to have some additional capex funding capital ready.
- Rajiv Garg:** When you say capex this will be for mall marketing?
- Bipin Gurnani:** No, this is for tenant acquisition capex.
- Rajiv Garg:** So as not you customize for them?
- Bipin Gurnani:** With all these international brands coming in they basically want the developer to put in some amount of upfront money towards the capex requirement for these brands.
- Rajiv Garg:** And this is for Coimbatore itself?
- Bipin Gurnani:** It is for Coimbatore itself yes.
- Rajiv Garg:** We do not intend to take a top up and use the money for our other ongoing projects because we have not taken any loan for any of the other construction projects right?
- Bipin Gurnani:** Right now the Nagpur is self funded, it is quite comfortable because of the sales volumes that we have achieved there. In Coimbatore we have already presold 96, we believe that once now we have the building license and the construction activity will start, there is a lot of interest in the project especially after the mall has got inaugurated, number of enquiries have substantially gone up, so we feel that as much as possible we will be able to sustain Coimbatore residential construction also out of sold units. If we feel that we need some funds then will separately do a small short-term funding for residential we believe that we will need that, as of now we do not need it.

- Rajiv Garg:** In terms of the residential projects what is the GST percentage that you intend or at least plan to pass on to the costumers who will be buying because these are under construction projects?
- Bipin Gurnani:** Coimbatore has not started yet so I do not think there is any pass through to them, whatever is charged will be charged. With respect to Nagpur, we have currently calculated what would be our savings on account of GST that much is what we are passing on to the customer.
- Rajiv Garg:** Any benchmark percentage approximately?
- Bipin Gurnani:** That is about 3-4% roughly.
- Rajiv Garg:** Understood. Okay. Thanks.
- Moderator:** Thank you. Ladies and gentlemen that was the last question. I would now also hand the conference over to Mr. Pranav Joshi for closing comments. Thank you and over to you Sir!
- Pranav Joshi:** Thank you management for taking up time for call and thank you all the participants for attending the call. Thank you.
- Bipin Gurnani:** Thank you Pranav and thank you everybody for being there for the call and looking forward to a greater quarter ahead.
- Moderator:** Thank you very much. Ladies and gentlemen on behalf of Dolat Capital Markets Private Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.