



“Prozone Intu Properties Limited Q3 FY2018
Earnings Conference Call”

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Moderator: Ladies and gentlemen good day and welcome to the Prozone Intu Properties Limited Q3 FY2018 Conference Call, hosted by Dolat Capital. 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. 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 Q3 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 hand over the floor to the management 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 IR Consultant to Prozone Intu Properties Limited. I welcome you all to the conference call of Prozone Intu Properties Limited for Q3 FY2018. It is a great pleasure to greet you all on behalf of our Board of Directors and Senior management. We begin by thanking you all for joining us here today for the call. For any new participant, I would like to start with a short brief on the company.

Prozone Intu Properties Limited is developed by the promoters and participated by Intu Properties PLC. Intu Properties is a FTSE100 company and has over £10 billion of assets and 10 of their shopping centres are among the top 25 shopping centers representing 38% of UK retail market share. Intu Properties PLC has more than 22 million square feet of retail space and over 400 million customers’ visits every year.

Our business strategy is to create, develop and manage world class mix used development anchored by dominant shopping centers. The business strategy is to create 25% of the land parcel to develop and lease whereas 75% of the land is build and sell model, so that build and sell can help the company to become debt free and create a long-term annuity income.

Coimbatore mall became operational in Q2 and we are witnessing a strong growth in the footfalls and trading density in the initial few months of operations. This year is an inflection point for our company as the number of operational malls have doubled thus leading us to a strong annuity income going forward.

Commenting on quarterly results, the revenue were higher with higher rentals from Coimbatore mall, recognition from Aurangabad PTC and Nagpur residential moving near completion. Revenue from Aurangabad mall remains strong with over 40 brands crossing the threshold limits. Regarding Aurangabad PTC and Nagpur residential construction is in full swing. We have shared the latest picture regarding the update on PTC and Nagpur residential in the presentation where you can see the update.

We have initiated our asset monetisation phase, our Nagpur project has a healthy profitability, 336 units will be delivered under the phase I. Revenue recognition continues in a phased manner and it will be recognised over the next few quarters.

Coimbatore mall has received a phenomenal success with more than 87% of area already leased and three of the other brands are under finalization. Coimbatore mall is received well by strong national and international brands on significant mall space. Our Coimbatore residential project has been launched and we have booked 96 units till date. Construction is expected to start there in Q1 of FY2019.

Our focus is to asset monetize on the other SPV over the next few quarters. Just to give a highlight about the financial of this quarter. Revenue was up by about 99% during the quarter compared to the corresponding quarter previous year while EBITDA was up about 172%. It is good to note that this quarter EBITDA was higher than the previous quarter revenue.

Just to sum it up, we have entered into a new pace of consistent long-term growth and value creation with the large land bank and project pipeline. Our strategic focus on timely execution of our project that will generate strong positive free cash flow. With this I would like to hand over to Mr. Bipin Gurnani to share his thoughts on the operational front. Thank you.

Bipin Gurnani:

Thank you Ravindra. Good afternoon everybody. Thank you for attending the earnings call for this quarter. Just to take off from what Ravindra said in this quarter we have actually witnessed a strong improvement in our Aurangabad centre. The trading densities have substantially jumped and like-to-like store sales growth have also been in double-digit. So from a brand perspective, I think in retailer's perspective they have seen a phenomenal growth at the center. What we have also seen is a very improved traction on the leasing front. We have spoken to almost to about four or five international brands who are now wanting to enter the city with us in the mall.

We are at advanced stages of almost 65000 square feet of space to be leased and we expect that we should conclude these discussions in this quarter. That would take the occupancy substantially higher in Aurangabad. The advantage we have in Aurangabad is that with the current occupancy itself our common area maintenance, service charge is already netted off and therefore any additional occupancy that we have straightaway adds to the bottomline.

There is a bottomline improvement for us in Aurangabad. Continuing with Aurangabad our office tower that we were building the construction is in full swing and we are expecting that in Q1 FY2018 we should be in a position to start handing over the office spaces to the buyers. That would also unleash substantial cash flow expected from these buyers and put us in a good stead. Aurangabad continues to now be self sustained and we expect that in the coming years if we start delivering and adding to the company's bottomline significantly.

Coimbatore has also been in the second quarter of operations, which is I would say the first full quarter. We have seen a lot of new brands open up. Most of the anchors are now opened up and

we expect that with the traction that we have seen from both the consumer side and the spending pattern, we think that the coming financial year the mall will achieve stability in its first year of full operation.

I am quite happy with the performance, and over a period of time once we reach higher occupancy we think that the overall footfall, etc., will also jump up significantly. On the leasing side in Coimbatore, we have almost leased most of the space. There is one large space, which was earlier set aside for ZARA brand, which we had spoken about last quarter. ZARA will take some time to come into Tier 2 towns in India therefore we are speaking to two other anchor brands to occupy that space. With that space being leased we will reach an occupancy level of almost 96% in the first year itself.

Overall performance is as expected and we hope that it will continue to grow and some presales and we are expecting our final approvals to start construction and we expect that we would be digging ground by first quarter of the FY2019. On the other hand, with Nagpur, again we have had a good quarter for construction progress and therefore we would have seen that reflected in the revenue recognition that has come through in this quarter and we expect to keep this same momentum and delivery as per the schedule that we have shared earlier.

Also on the Nagpur retail front, we are now fully going ahead with our approvals and we hope that once the approvals are through and our financial closure is done in terms of construction finance, we should be in a position to start construction of that. Expected FY2020 is when we believe we should be able to start operations for Nagpur.

On the other hand, I am happy to inform that SEBI has approved our application for AIF and we are now registered the AIF with SEBI and as per the plan that we have discussed in the last quarter, we are now looking at the new opportunities that we could get so that we now have a structure for attracting investments in India for the company.

Overall it has been a decent quarter and we expect in the coming quarters with Coimbatore stabilizing we will further see an improvement in our EBITDA and topline numbers.

Moderator: We will take the first question from the line of Dimple Kotak from SKS Capital and Research. Please go ahead.

Dimple Kotak: Hello Sir. Congrats on a good set of numbers. Sir, just a few questions; one was with regards to the rental income in Aurangabad, like if I am referring to the last year same period PPT, it see 68 million, Aurangabad rental income and this year's presentation says 47 million so I am not getting where is the link breaking?

Anurag Garg: One is I think the impact of moving from GAAP to Ind-AS, so whatever adjustment for Ind-AS that would have been done in terms of any movement of income from one aspect to the other.

- Dimple Kotak:** Such a huge difference from 68 Crores to 47 Crores.
- Anurag Garg:** Last quarter the services charges, I.e CAM, which we recover from the tenant was included in the rental income. This quarter CAM recoveries and services charges are shown separately.
- Dimple Kotak:** Last year also we showed this CAM recovery separately. It is there in the presentation. We showed CAM income of 21 million and this year we are showing CAM recovery of 39 million. So only the rental income which is a little confusing that in spite of increase in leasing why is the income drastically below from 68 Crores to 47 million?
- Bipin Gurnani:** Dimple we are not able to trace the number that you are referring to?
- Dimple Kotak:** Sir, it is in the previous year's February 2017 presentation, which was uploaded and sent to all the investors. I am just referring just to the two presentations.
- Anurag Garg:** last quarter rental income is inclusive of CAM .
- Bipin Gurnani:** What we will do is we will separately come back to you and just leave us a note, but there is no drop in the income.
- Dimple Kotak:** Sir, at least if you can give me the YOY comparable numbers because here in current quarters' presentation the YOY is not mentioned?
- Bipin Gurnani:** We will just see the comparable number and we will separately come back to you.
- Dimple Kotak:** Sir the second question is again if I refer to the previous year's presentation the footfalls for Aurangabad malls are around 2 million and whereas for this year, this quarter's presentation it is shown 17 lakhs footfalls for the last year and which has grown to 21 lakhs.
- Bipin Gurnani:** 17 lakhs footfall is there in Q2 FY2018 which has increased to 21 lakhs in current quarter.
- Dimple Kotak:** Sir thirdly just wanted to understand that when can we get the dues of the PTC Trading Centre like it has been over and over quarters and quarters and the same thing is mentioned we will expect in the next quarter. So where is the problem lying over there?
- Bipin Gurnani:** We are expecting to collect that one basically the building completion is expected by June. We will start expecting the collections only after completion of occupancy which we expect in June so the entire collection would be expected only by December end.
- Dimple Kotak:** Okay Sir, by December end. Sir, with regards to the AIF as you have got SEBIs approval and you said that you may be looking for other acquisition so where are we on that front?
- Bipin Gurnani:** That is very speculative to say. Typically what happens is that we are not able to comment on till we do not close deal. As soon as we close it we will know about it.

- Dimple Kotak:** Finally just a last question obviously the onetime loss is because of the expenses, which we are incurring due to the Coimbatore mall. Sir, when do we expect it to be profitable on the net level?
- Bipin Gurnani:** Typically what happens is the company has a very large amount of depreciation. So if we talk about cash profits, yes we should be able to come into cash profits soon, but in the beginning quarters, all your expenses which are onetime expenses for finance and everything, we will come and do it in one quarter itself and hence we are seeing larger losses.
- Dimple Kotak:** I agree to that point, but when do we, seeing the occupancy levels, seeing the new clients coming in, just on a ballpark-ish if you can just throw the light when can we be profitable level?
- Bipin Gurnani:** We expect Coimbatore to stabilise from Diwali of the coming year, FY2019 third quarter.
- Dimple Kotak:** That is all from my side. If there is anything I will come back in queue.
- Moderator:** Thank you. We will take the next question from the line of Dipan Kapadia from KDK Capital. Please go ahead.
- Dipan Kapadia:** Sir, could you tell me the occupancy in Coimbatore mall in the last quarter and what do you see going ahead?
- Bipin Gurnani:** Just to share with you what is the lease in 87% of the overall space and 5% is under discussion.
- Dipan Kapadia:** What percentage of that has already been recognised as revenue?
- Bipin Gurnani:** 68% is what is now occupancy. Theatre is about 15% of the space, which is expected to be operational in the next four to six weeks. So that would take the operational occupancy up to 86%.
- Dipan Kapadia:** Even in this quarter we will not see the whole 86% coming in?
- Bipin Gurnani:** What you will see is that from the beginning of the Q1 FY2019 is when we will start seeing the full impact of the overall occupancy.
- Dipan Kapadia:** Sir, why has the interest cost gone up so much? And what is the net debt position on consolidated level as well as project wise, if you can tell me?
- Ravindra Bhandari:** The debt level at the Coimbatore mall is about 160 Crores while Aurangabad mall is about 90 Crores, so what has happened the Coimbatore mall now operational so the interest cost is flowing into the P&L. Earlier, Coimbatore mall being in the construction stage the debt was at the construction finance rate, which as Mr. Gurnani mentioned it is now moved to LRD so further reduction of 450 basis points we will get on the debt side as well, so it will be a reasonable level
- Dipan Kapadia:** Could you give me the net debt number if possible?

- Bipin Gurnani:** At the current moment it is 165 Crores which is reflecting in the Coimbatore mall. There is 95 Crores at Aurangabad and that is the total debt.
- Dipan Kapadia:** 260-odd Crores?
- Nikhil Chaturvedi:** To give a perspective on this of this 260 Crores earlier 160 debt was something around 13% to 14%, which will reduce to 9% right now.
- Bipin Gurnani:** But at 9% it will increase. The total debt will be 200 Crores and on 200 Crores we will have 9%.
- Dipan Kapadia:** 9% debt on 200 Crores.
- Anurag Garg:** Yes.
- Dipan Kapadia:** Sir could you give us an update on the Indore project in the case of land parcel?
- Bipin Gurnani:** We are at the final stages of negotiation with people. We are planning to do a plotted development. We are in the final stages of talking with some people to being able to start the sales. All our permissions are through so we do not expect to be able to effect sales till almost October because with RERA coming in the sales cannot be reflected before that. There are some parties who are interested and our sales should begin as soon as RERA comes in. I am saying in Indore we have a lot of interest from parties for buying out there, we are in the process of doing all our RERA registrations and permissions. Once our permissions and all are expected by October end quarter that is when we will be able to record the sales and close this transaction.
- Dipan Kapadia:** Sir, on the AIF could you give me some more light because my call dropped off, so if you could give some more light on the AIF?
- Bipin Gurnani:** On the AIF basically we had applied to the SEBI for registering the AIF. We have got the approval from SEBI and we now have a registered AIF. Basically the purpose AIF structure was to create investment structure which was acceptable and suitable and preferred by foreign investors so as you know that we are now looking at opportunities to inorganically expand our portfolio and therefore it was important to put a structure in place, which is universally acceptable and people foreign investors find it easier to invest in. So that process itself will take about four to five months so we thought that we have the AIF structure in place but as soon as there is some opportunity and we can get that opportunity.
- Dipan Kapadia:** Sir, what would be the size of the AIF or anything of that sort?
- Bipin Gurnani:** The size of the AIF is something, which will depend on the opportunity that we get. Right now we have and obviously are open to on what is the opportunity with us. The available size that we have done with AIF is about 1200 Crores and that can be expanded if necessary but that is the starting point at which we are registered with AIF.

- Dipan Kapadia:** Sir, this 15.5 Crores how much is there in the listed entity the PBT and how much should be there in the unlisted entity?
- Anurag Garg:** What do you mean, 15.5?
- Dipan Kapadia:** The 15.5 Crores EBITDA that we have?
- Bipin Gurnani:** What is the share of the listed entity in that?
- Dipan Kapadia:** Yes.
- Bipin Gurnani:** About 10 Crores.
- Dipan Kapadia:** Thank you Sir. That is it from my side.
- Moderator:** Thank you. We will take the next question from the line of Shobha Arora, and individual investor. Please go ahead.
- Shobha Arora:** Thank you for giving me this opportunity. I wanted to understand that why this interest cost is high and is it expected to come down in later quarters?
- Nikhil C:** Our interest cost is a byproduct also of all the 13.5% interest rate and hence the interest cost is not expected to come down on the overall level. It will remain at the same level, but on a higher debt. The reason that you see that it appears to be higher is because earlier the debt was construction debt and the interest was being accounted for in the CWIP whereas now once the mall has become operational the interest cost is now reflecting in the P&L.
- Shobha Arora:** Sir, one more thing I wanted to understand continuation to AIF, how these retail investors see AIF and would there be any changes in their reporting at a later stage
- Bipin Gurnani:** Absolutely nothing. AIF is just a different form of holding structure whilst currently the assets are held through a Private Limited Company or under an SPV. The old structure will still remain. So the listed entity is the one which has registered the act and we will now hold the assets whatever assets we tend to transfer or bring in that SPV to that AIF will be hedged through the hedge structure, so from a retail investor's perspective none of the reporting changes, but one can view it as a opportunity because AIF is a structure which is universally preferred by foreign investors when they are willing to invest in India.
- Shobha Arora:** Thank you Sir. That is it from my side.
- Moderator:** Thank you. We will take the next question from the line of Vatsal Mehta an individual investor. Please go ahead.

- Vatsal Mehta:** Good afternoon Sir. Just wanted to know the outlook on rentals of the Coimbatore mall, if you could just give some light on that?
- Bipin Gurnani:** Currently the contracted agreed rental average is about Rs.54.5 or Rs.55. The first couple of years we do not expect to kick in any revenues share income, because obviously the growth will happen and I will say the mall will stabilise and so as of now for the next one or two years it will be mostly on the minimum guarantees interest that we have agreed upon. Any mall for that matter, I think in the second to third year is when you see the brands with the growth, income growth and sales growth is when we start seeing the benefits of revenue share. To share with you we have arrangement of minimum guarantee brings in a lot of revenue share income whichever is higher with all our brands which means that as and when the brands start to see growth we are locked into with their upside as well.
- Vatsal Mehta:** Thank you Sir.
- Moderator:** Thank you. We will take the next question from the line of Dimple Kotak from SKS Capital and Research. Please go ahead.
- Dimple Kotak:** Sir, I would like to understand, I understand the question on interest. We see a tapering down of interest going ahead?
- Bipin Gurnani:** I will tell you there are two things one is that if you see it from this quarter onwards, one of the reasons why you see a higher interest coming in the P&L is because we have moved from a CWIP to a P&L. So which means that earlier interest which was the construction finance interest was booked as CWIP now this LRD interest is booked as P&L. It may come because it is an LRD interest so it will continue to remain the same and basically the principal repayments will keep happening but there is no tapering down now on the interest rates because we already have seen a drop from 13.5% interest rates to a 9% roughly. Some of the loan, the quantum of the loan will remain the same. The only difference we will see is that the interest cost as a percentage of the total revenue will keep contracting because the revenue will keep moving up.
- Dimple Kotak:** Okay, but otherwise in absolute terms if I am estimating for future quarters, it would be okay to take this run rate?
- Bipin Gurnani:** Yes it would be okay to take this run rate.
- Dimple Kotak:** Sir, in the debt per se we see any reduction in the debt end of this year or may be next year?
- Bipin Gurnani:** May be the next year once the additional cash flows that come in from PTC at that stage we will decide whether to prepay part of the debt or whether those funds are used to further develop the FSI available on that project. So that decision, we will take closer when the revenues are recovered.

- Dimple Kotak:** Sir the Nagpur properties how much we have sold and what is the per square feet rate?
- Bipin Gurnani:** If you see the presentation it, but I can still give you the numbers. The average price at which we have sold right now stands at about Rs.3580 closer to that because that includes the launch price. What we are selling at is around Rs.4000 or Rs.4100.
- Dimple Kotak:** We will see the revenue booking when for these numbers?
- Bipin Gurnani:** Revenue booking has already started for Nagpur. Are you asking for Indore or are you asking for Nagpur?
- Dimple Kotak:** Sir for Nagpur.
- Bipin Gurnani:** Nagpur revenue recognition has already started since the last year.
- Dimple Kotak:** Sir for Indore?
- Bipin Gurnani:** I think Nikhil had already mentioned, it will be we could consider something in the third or fourth quarter of FY2019.
- Dimple Kotak:** Thank you so much.
- Moderator:** Thank you. Ladies and gentlemen as there are no further questions from the participants I would now like to hand the conference over to the management for closing comments.
- Bipin Gurnani:** Thank you everybody and looking forward to a good quarter in the coming year and thank you very much for attending the call.
- Moderator:** Thank you very much Sir. Ladies and gentlemen on behalf of Dolat Capital that concludes this conference. Thank you for joining us and you may now disconnect your lines.