



**“Prozone Intu Properties Limited Q4 FY18 Results  
Conference Call”**

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**Moderator:** Ladies and gentlemen, good day and welcome to the Prozone Intu Properties Q4 FY18 Results and business outlook 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 from Dolat Capital. Thank you and over to you, sir.

**Pranav Joshi:** Thank you all. Good afternoon all. On behalf of Dolat Capital I welcome you all for the Q4 FY18 Conference Call for Prozone Intu Properties Limited.

For the further comments I will hand over the call to the management. Over to you, sir.

**Ravindra Bhandari:** Thanks, Pranav. It is Ravindra from Dickenson Seagull, IR consultant to Prozone Intu Properties Limited. Hello everyone and welcome to the Conference Call of Prozone Intu Properties Limited for Q4 FY18.

It is a great pleasure to greet you all on behalf of our board of directors and senior management. We begin by thanking all for joining us today here for the call. For any new participants I would like to start with a short brief on our company.

Prozone Intu Properties Limited, as the name suggests, it is jointly developed by the Promoters and Intu Properties Plc. Intu Properties is a FTSE-100 Company and they manage over £10 billion of assets and 10 of their assets shopping centers are among the top 25 centers in UK representing 38% of the retail market share. Intu Properties Plc has more than 22 million square feet of retail space and over 400 million customer's visits every year.

On our business strategy it is to create, develop and manage world-class mixed-use development anchored by dominant shopping centers. The business strategy is to use 25% of land parcel to develop and lease, whereas 75% of the land parcel is to build and sell so that the cash flow from the Build to Sell Model can be used to have debt free long-term annuity income.

Coimbatore Mall became operational in FY18 and we are witnessing strong footfalls and trading activities in the initial few quarters of operations. This year is an inflection point for our company as the number of operational malls are doubled and thus leading to a strong annuity income going forward.

Commenting on the quarterly results, revenues were higher with rentals from Coimbatore Mall, revenue recognition from Aurangabad PTC and Nagpur residential nearing completion. Revenue from Aurangabad Mall remains strong with 40 brands crossing the threshold limits where we are getting revenue share now.

At Aurangabad Mall we are undergoing churn to create space for strong brand currently H&M and Marks & Spencer is under fit out and Home Town LOI has been signed. Regarding Aurangabad PTC and Nagpur Residential, construction is in full swing. We have shared latest pictures in the presentation. At PTC the exterior work as you see in the presentation is completed so is Palazzo and Splendor Tower in Nagpur Residential.

Going for the financial number total income from operations has increased 52% during the year from Rs. 632 million to Rs. 961 million as a result of that the EBITDA has grown phenomenally from Rs. 15 crores from the last year to Rs. 49 crores this year.

At the end of the quarter we became PAT positive we reported PAT of Rs. 2.8 million for the Q4. We have initiated our asset monetization phase. Our Nagpur project has a healthy profitability, 336 units will be delivered under the project. Revenue recognition continues in a phased manner and it will be recognized over the next few quarters.

Coimbatore Mall has received a phenomenal response with more than 87% of area already leased and few of other brands are under finalization. Coimbatore Mall has received well by strong national and international brands with as many as 16 anchor brands has occupying the significant mall space. Our Coimbatore Residential project has been launched we have booked 86 units till date. Construction is expected to start in Q2 FY19 onwards.

Our focus is also on asset monetization from other SPVs over the coming few quarters. We have entered the new phase of consistent long-term growth and value creation with the large land parcel banks and project pipeline, our strategic focus is on timely execution of our projects that will generate strong positive free cash flow.

With this, I would like to hand over to Mr. Bipin Gurnani to share his thought on the operational front. Over to you, sir.

**Bipin Gurnani:**

Welcome everybody. Just to add on to what Ravindra was saying and I think Aurangabad has been quite a turnaround for us this year. We have had brands like H&M and M&S now signed up and under fit outs. And I think probably while we would be the only city in the Tier 3, Tier 2 space where they have now started to look at their entry. The mall has also seen significant growth in terms of income from revenue share and one of the things which I think he mentioned, but I think I will elaborate on it a little bit. Since we have completed 8 years of the center, we are now consciously working on rejuvenating the center in terms of the category mix the churn.

So actively looking at moving brands around, tenants around and also looking at replacing certain tenants with newer tenants in terms of creating freshness in the center. We are also in this year working on and planning refurbishment for the center to give it a new look and I think with the entry of brands, International brands we will see a new dimension in terms of what the mall's potential is going forward. So from a both consumer interface and from a brand interface point of view, Aurangabad is gained substantially in the last one year.

Coming back to staying with Aurangabad, I think one of the projects which is the Prozone Trade Center is nearing completion and we expect to handover for fit outs over the next 30 to 60 days. I think that also will add a lot of value in terms of activity with respect to people coming in and offices opening there. We have shared the latest photographs and I am sure you all would have realized that it is actually going to be one of the best office complexes in the city and we expect that that will also generate more requirements for office and we have the potential to develop more office space there.

So Aurangabad seems to be well settled and we are also looking at our final stages of refinancing the LRD rate to a lower interest rate and hopefully in the next quarter we should be able to achieve that as well. Coming to Coimbatore, Coimbatore has actually steadily now stabilized from more of a consumer franchise point of view. I think the fact that we are perhaps one of the uniquely positioned centers there which is ground plus one kind of space for parking etcetera which exists.

Local community has been responding to us fairly well. That can be very visible from the growth in trading density that we are witnessing there. And I think we are also looking forward to INOX, starting their operations soon because we are closer to in terms of the finalization of the approval there. And I think once that starts we will see the genuine growth which the center can achieve. Rentals have remained strong, of course we have had to do some renegotiations in terms of offering some relief to some retailers and that is visible in the numbers in the Coimbatore financials but that is temporary and I think going forward with respect to the sales that the retailers are doing we expect that we will bounce back on that.

Overall, we expect this coming quarter also to show some growth in terms of with INOX starting and with the sale period also approaching. Nagpur again I think we are reaching goal post there in terms of handing over the first phase and I think that would also give a huge impetus to the second phase that we intend to launch soon in terms of pre-sales. And we are expecting that once the habitation starts in the phase 1 the whole traction to the other phases will be stronger.

We are also very consciously making sure that the delivery of these sale assets are being done on time so that we can get the benefit. Overall, I think, in this year itself we are also going to be starting construction of our Nagpur center, and we have had some redesigning that we have done at the Nagpur center to make it even more competitive and attractive in terms of the overall look and feel. We have upgraded the look and feel of our center being our third center and that is being received well by the retailers.

Overall it has been a reasonable year for us and a decent quarter. We look forward to improving our efficiencies in the coming quarters and also starting the construction of the Nagpur Retail and the Coimbatore Residential. So that is all from me and happy to take any calls, any questions that anyone would have. Thank you.

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session.

The first question is from the line of Dimple Kotak from SKS Capital. Please go ahead.

**Dimple Kotak:** Sir, just a couple of questions from my end. Sir, why the EBITDA margins in the Aurangabad have also been in the declining trend on a sequential basis, and even on Coimbatore mall the margins have declined. What could be the reason for the same? And PTC project we have still not received, it is getting delayed every quarter, Rs. 32 crores which are receivable.

So when is that visibility actually coming in the books? Second is that as per IndAS what are the changes which we have done, because last year FY17 we were profitable, after IndAS it is showing a loss. So where was it that, are you taking higher numbers, I just want to understand what was the difference?

**Bipin Gurnani:** I will answer your question on the PTC first. Basically for PTC, we had already ensured that the funding requirement for the completion of project is in place so that in going forward even if the buyers are not paying up their dues on time, we are able to complete and handover the project. We are still facing some issues in terms of buyers who now want a loan and have started applying for loans that is taking them sometime to put their loans together in terms of paying up their balance amount.

We feel now people have now started to come forward to complete their agreements and to also start releasing their dues, so that started from the last month. And what is also happening is that with RERA now very clearly while there is requirement at our end to meet our commitment there is also a pressure on the buyers to also pay up on time because likewise you can charge them interest.

So I think fewer time in the next 2 or 3 months we will be able to see significant collections coming in from PTC. Second is that we had already, in the last call as well we had said that we will be starting to handover the office spaces to the buyers for fitting out by end of the month. We are expecting that by the end of June we will have these people taking handover for fit out.

So on that we are on track and I think the photos that we have circulated should reflect that. So that is on the PTC. I will let my colleague Anurag – our CFO answer your question on the IndAS and the other thing.

**Anurag Garg:** 2017-18 was the first year for the company to prepare the IndAS. As per the requirement of the IndAS, the previous year financial were to be restated. So the major impact in the previous year financials is due to the provision for, there is a provision for making a expected credit loss on the debtors as well as loans and advances. So we had made a provision on debtors and loans and advances as per the requirement of IndAS so which has reduced the profitability as per the IndAS for the previous financial year.

- Dimple Kotak:** How much that would be?
- Anurag Garg:** Rs. 15 crores, it was due to the expected credit loss, there are the certain other items also which has impacted the profitability positively, one is the deferred tax impact on the ECL provision and deferred tax impact on the notional capital gain on the land parcel which we have. All these are notional entries which are required to be done as per the IndAS.
- It is a recalculation of profit which was published last year and what is the comparative this year is given in the published results which we have submitted to stock exchange.
- Dimple Kotak:** And for the Aurangabad there is a declining trend in the EBITDA margins sequentially from 57% in Q2 to 55% now. Even in Coimbatore we are seeing some 63% margins have gone down to 68%. So where do see a stability of margins going ahead?
- Ravindra Bhandari:** Just on Aurangabad EBITDA margin, that is declining. The reason is in Q1 the major portion of revenue was from the rental business while if you move to Q4, there is significant contribution from sale of premises. Like the contribution is 50%:50% and the EBITDA margin in sale of premises is a lower percentage compared to sale of lease. So that is why the blend is changing towards the other side. It is there on page 12.
- Dimple Kotak:** And for Coimbatore?
- Management:** For Coimbatore see what we have done is that because it was the first year of operations, we actually made a very stringent exercise because we do not want anyone coming back with claims for last year's this. So we actually called up all the big retailers, if they had any issues, we gave them credits to that extent and we have made sure that any impact of last year's result does not come on the current year. And hence we have actually gone ahead and taken all the hits if there are any required. So those are one-time hits, but they will not continue in the future.
- Dimple Kotak:** So going ahead what could be the Coimbatore margins we can work on with?
- Management:** The EBITDA margin what you saw in the 3rd quarter as the EBITDA margin will probably be the range in which we will be. In the first quarter is when we took the hit.
- Management:** We expected to continuously improve because there are more and more retailers now opening up.
- Management:** You have to also understand that the camp charges for example all the expenses of the center are already locked in this whereas if we open more and INOX opens, we will receive common area maintenance reimbursements from them and that will also help improve the gap between expenses and the income.
- Dimple Kotak:** On the interest rate as you said that you will be getting a lower interest rate going ahead with LRD financing, so from this level what would be your interest rate going ahead?

**Management:** Currently at Coimbatore we have got an interest rate of 9%. At the moment what we are speaking of and we are at discussion stage for similar number.

**Dimple Kotak:** Any update on the AIF front?

**Management:** Soon. So we have right now actually put the registered AIF and we have obviously actively seeking opportunity and we have mentioned very clearly in the presentation that we will only seek investment in AIF when we have a deal closed. So we do not want to call for money till such time that we have a closed deal for which we can then do the payout. So there is no, while we have been speaking to various investors we have really not looked at calling any money or freezing the investment till we have a closed deal.

**Moderator:** The next question is from the line of Dipan Kapadia as an Individual Investor. Please go ahead.

**Dipan Kapadia:** Sir, I have one question regarding the real estate. If you see, we have a construction cost of roughly Rs. 30 odd crores. If you see we are not developing more than 6,000 square feet or 7,000 square feet per month. So rather than doing this why we do not outsource it and generate revenue for the mall?

**Management:** Outsource what?

**Dipan Kapadia:** The real estate that we have the residential part of it because we are not making more than 6,000 or 7,000 square feet per month?

**Management:** While we are talking to you, we are also actively speaking to other parties to actually start that. While we are very focused in the long run to do it in cities in which we have a large presence, but wherever we have very small presence we are doing tie-ups and we will be going on the lines of what you are talking about. But you need to understand that smaller cities the absorption is slow and if you actually make it very fast, then people cannot pay at that speed. So unfortunately, because of that we also have to sometimes limit our speed.

**Dipan Kapadia:** Because what happens is we have focused more on creating the residential real estate, while malls are generating more money, more profitable, so probably if you could just outsource it and then get the money and get focused into the mall where we have an edge compared to the residential real estate it could be interesting?

**Management:** We are in totally agreement with you and we are following that route.

**Dipan Kapadia:** Second question on the AIF. Although we are saying that we will take the money when the AIF comes or when we have a property, could you tell me what kind of capital and what kind of malls are we looking at going ahead or what is the pointers in which we are looking at malls to get a mall because right now there are lot of competition like Brookfield is there or let us say a Blackstone is there. They are going and buying a mall at lower cap rate, so how will it make sense if we are competing with them to get a mall?

**Management:** Let me just put it like this that we are working alongside with them also. So it is not necessary that we are working only opposite to them. We work alongside them also. Just to put it into perspective is that the mall business is a very specialist business and it is like a live animal and even the best players in the world want partners who understand the market, who has these relationships established because unlike office, where you sign one contract for 9 years or 10 years and then you do not need to do anything with the space, this business needs constant attention and hence we will surely have a competitive edge in this business.

As far as capital is concerned we are obviously talking to partners who have similar capital and the reason why we are planning to do that only later is because there is no point having a blind pool and then you are post into transaction. We have seen this cycle before and we do not wish to be forced into transactions.

**Dipan Kapadia:** Largely, could you tell me what areas you are looking at or what is the benchmark that you look at?

**Management:** Our clear focus is that we will be looking at, if it is development we are looking at Mumbai city, and if it is outside we are ready for any state capitals or the top two cities of any state.

**Moderator:** Thank you. The next question is from the line of Ninad Sabnis as an Individual Investor. Please go ahead.

**Ninad Sabnis:** The question is a bit similar to last question is just that I have been through the numbers and I have noticed that most of the increased EBITDA is turn away by higher depreciation and interest. When will see incremental benefit of Coimbatore mall reflecting in the P&L? Basically, at a PAT level, because till EBITDA everything looks good but the story kind of changes below the EBITDA line so some more clarity on that would be great?

**Management:** Basically, what happens is that the business of annuity income and the fact that retail is a high CAPEX asset class that is the scenario which you will see in any balance sheet where the dependency on leased assets is there because there is not much that we can do about it unless the contribution from residential peice is much higher than the annuity piece.

So I think from our perspective we are quite clear that internationally and globally if you see retail is always valued at EBITDA because people understand the fact that these are high CAPEX capitalized businesses, and therefore anywhere in the world if you see anybody would value it a value you on your NOI and not on the PAT.

So from our perspective I think ensuring that we deliver a consistently high EBITDA is what we would want to see in this. In a scenario where the mix is different where you have more residential income coming in vis-à-vis your annuity income, then that change can happen but with respect to wherever focus retail real-estate players are there, or businesses are there, we will mostly look at the EBITDA growth and the growth in NOI.



- Ninad Sabnis:** Can you explain what is the other income part? Because if we can use some of our financial assets which generates other income that can reduce gross debt because I am sure interest earned over here will be much lower than the interest which gets charged upon us. So if that can be balanced?
- Management:** Yes, the interest that we charge on the financial asset, rate of interest is higher than what we pay through the bank. Other income is the treasury income which earned on loans and advances and the rate of interest which we charge is more than our cost of borrowing.
- Moderator:** Thank you. We have the next question from the line of Dimple Kotak from SKS Capital. Please go ahead.
- Dimple Kotak:** This was with regards to cash flow which we are expecting from the Nagpur residential this year. What would that be?
- Anurag Basu:** The total cash flow?
- Dimple Kotak:** The pending amount which would be recognized in our P&L this year from Nagpur residential?
- Ravindra Bhandari:** We have given this in the presentation as well. Total to be recognized is Rs. 1,625 million and cash collected is Rs. 1,281 million, so difference of that will be.
- Dimple Kotak:** So the balance we expect that to come in the P&L this year or maybe sometime later?
- Bipin Gurnani:** It will come in this year, the Rs. 400 million.
- Ravindra Bhandari:** And apart from that Rs. 400 million out of 336 which is launched only Rs. 273 which is booked so there would be revenue recognition for the balance inventory as well as cash flow.
- Moderator:** Thank you. The next question is from the line Siddhart Kohli as an individual investor. Please go ahead.
- Siddhart Kohli:** I have a couple of questions. First one is INOX has stopped showing Chennai as their plan for new screens. So what are we hearing from them and regulatory authority regarding that?
- Management:** So basically INOX is completely ready for operations. They were waiting for their final leg of approval which I think is now move forward. And we are expecting that either in this month or the coming month they should be able to make the multiplex operational. I do not know the reason why they would have not reflected in their results in this quarter but maybe that is because of the fact that last couple of 3 quarters they have been showing and their approvals have not come, so maybe I think this quarter they have taken a decision not to show it.

But we are expecting that in the next 30 to 60 days it should be operational. Just to put your mind to rest, there is nothing in it they are fully ready and they are fully gearing up for launching it as soon as possible.

**Siddhart Kohli:** Probably from next quarter we can generate the revenue from them, right?

**Management:** For sure, yes.

**Siddhart Kohli:** How much was the depreciation and interest especially for Coimbatore mall and outlook for the same?

**Management:** Yeah, outlook for the same will not change because it is an LRD loan. So you will continue to see the interest being charged and also depreciation obviously we follow the WDV method, so we will see that coming down as we keep charging on depreciation. So from the balance sheet perspective on the interest side we do not see any change in the quarterly outflow with respect to finance part and depreciation as per WDV method will continue to keep dropping and keep reflecting. Roughly around that but we are following the normal accounting standard, so nothing we can do about it, I mean we spent a x amount of money so it will take whatever 8 or 9 year period

**Management:** Which is good for the business but was not a cash loss, it basically gives you a tax shelter.

**Moderator:** Thank you. We have the next question from the line of Ashish Soni as an individual investor. Please go ahead.

**Ashish Soni:** I have few questions on balance sheet. Like we were earlier discussing that Aurangabad, then Coimbatore mall move to lease rental, so in that case the principle should have gradually come down but we are seeing higher borrowing in FY18. What would be the reason for that?

**Management:** The reason for increase in borrowing is, in the Coimbatore SPV we had a Rs. 180 crores term loan. We refinanced this by Rs. 200 crores LRD loan, so Rs. 20 crores increased because of that. We need money for the working capital. And in Aurangabad SPV we had a Rs. 20 crore amount which was not disbursed as on March 17 which got disbursed during the year and as per the presentation in the balance sheet the current portion amount whichever is due in one year is reflected in the current liability. Last year this was Rs. 16 crores, this year it is Rs. 10 crores. Effectively debt has gone up by Rs. 35 crores.

**Ashish Soni:** Second question is on the working capital side. We have made significant improvement in receivables and inventory and also the payables have increased. So what would be reason for that?

**Management:** Better collection, better management of receivables and credit terms from the vendors.

**Management:** And also very simply retailers doing better business. So they are more prompt in their payment.

- Ashish Soni:** Was it due to something like change in accounting standards or Ind-AS?
- Management:** Perfectly right. It is actually their time. What is happened is that we have obviously with, you know when the cash flow of the retailer improves their ability to also service their rent on time improves. So we have seen that in Aurangabad particularly and Coimbatore we are consciously pushing very hard and improving in that. We had mentioned earlier we have been in close contact with all retailers to ensure that we do not have any bulk reversals coming in the future. So every quarter we are in touch with them to ensure that we are aligned with our retailers.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question. I now hand the conference back to Mr. Pranav Joshi for closing comments. Thank you and over to you.
- Ravindra Bhandari:** Thanks everyone for joining us on the Conference Call. In case you have any further questions, write to us at Dickenson's email ID and company's Investor Relations email ID mentioned in the last page of the presentation. Thank you everyone.
- Bipin Gurnani:** Thanks everybody.
- Moderator:** Thank you very much. Ladies and gentlemen, on behalf of Dolat Capital, that concludes this conference. Thank you for joining us and you may now disconnect your lines.