



“Prozone Intu Properties Limited
Q4 FY2019 Earnings Conference Call”

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MR NACHIKET KALE – DICKENSON IR

Moderator: Ladies and gentlemen, good day and welcome to the Prozone Intu Properties Limited Q4 FY2019 earnings conference call hosted by Dolat Capital Market Private Limited. 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 Market Private Limited. Thank you and over to you Sir!

Pranav Joshi: Thank you. Good afternoon all. On behalf of Dolat Capital, I welcome you all for Q4 FY2019 conference call of Prozone Intu Properties Limited. From the management, we have Mr. Bipin Gurnani, President and Mr. Anurag Garg, CFO. I now hand over to Mr. Nachiket for opening remarks, which will be followed by question and answer. Over to you Nachiket!

Nachiket Kale: Good afternoon everybody. Welcome to Prozone Intu Q4 and FY2018-2019 call. In addition to awards from ET Global in Q3, we are proud to announce that in Q4, our Coimbatore Mall has won two awards from Pride of Coimbatore, one for “Shopping Center of the Year” and another for “Best Round the Year Marketing”. Our retail assets are consistently delivering accelerated performance in their micro markets. This vindicates our confidence in the rising consumption levels across emerging Tier 1 cities. Q4 has seen a substantial uptick in footfalls at our malls. Aurangabad Malls saw a footfalls grow by close to 76% while footfalls in our Coimbatore Mall more than doubled on a year-to-year basis.

Coming to key highlights of our performance during this quarter and for the full year, revenue during the quarter at Rs.27.9 Crores was lower by 18%; however, annual revenue at Rs.118.2 Crores was higher by 23%

year-on-year. In Q4, EBITDA was at Rs.19.1 Crores and for the full year EBITDA was up by 55% at Rs.76.1 Crores. Cash PAT, which is PAT plus depreciation, during the quarter was Rs.12.87 Crores which was up 80% Y-o-Y and for the full year it has doubled compared to FY2018 at Rs.40.5 Crores it is up 107% year-on-year.

Strong operating performance has been witnessed at our malls. Leasing at Coimbatore Mall stands at 90% and at Aurangabad Mall stands at 81%. New stores were opened during the quarter as well, three at Coimbatore Mall and nine at Aurangabad Mall. Another significant update is that contractors have been shortlisted for construction of our Coimbatore residential project, which is expected to commence post RERA registration is in place. Our malls are close to reaching optimum occupancy levels and are poised for providing incremental growth. Hence, with multiple exciting projects in pipeline we have an optimistic view for the next fiscal.

I hand over to Mr. Bipin for his opening remarks.

Bipin Gurnani: Thanks Nachiket, and welcome everybody and thank you for joining us. Just as he mentioned we have had an exciting year in terms of our retail portfolio, both the malls have shown substantial growth on all the parameters from footfalls to trading densities. At Aurangabad we have committed to churn the slow moving brands and have started bringing in new brands and freshness in the center and rejuvenate the center. While we are focusing on rejuvenation of the Aurangabad center and further enhancing its operational efficiencies, at Coimbatore, the target was to ensure that the footfalls went up. We are quite happy to share that we have reached good footfall levels at the center and the reviews from the customers and the tenants have been very positive.

With regards to our residential portfolio, we are at final stages of completion at Nagpur, and are now taking the external infrastructure,

clubhouse, final finishes etc., forward. We expect that we will be in a position to start giving possession to people for fit outs over the next four to six months. We have further applied for phase 2 and are in the process of getting permissions. Phase 2 which will have close to 350 apartments which we will start and sale post in a phased manner depending on the demand.

In phase 2, we have consciously done some changes to the sizing of our apartments. The current level of interest in smaller houses and the overall costing are the two driving factors. For Coimbatore residential, construction is expected to start in the next two to three months. Fortunately, today we received the RERA confirmation, therefore we should be able to take this forward very quickly.

Our commercial office space in Aurangabad is complete and few tenants have taken possession for fit outs. Few enterprises have started running their offices in the building. We are waiting for the occupancy to go up slightly, so that we can relaunch the balance units to be sold at a premium price.

We are also planning to initiate Nagpur retail project this year. We plan to construct a composite building of steel & RCC so that we can build faster and become operational soon. We have opened our scheme for large anchor tenants & will start leasing to them this month onwards.

We continue to seek opportunities for joint retail development, especially in Mumbai. We have explored a few opportunities in the past; however, for different reasons we have not been able to close a deal. There is a pipeline of discussions on as of now, so we hope that we will be able to close something soon.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Ninad Sabnis from Sabnis Financial. Please go ahead.

Ninad Sabnis: Good afternoon everyone. Congratulations for a good set of numbers. Just a couple of questions on the Nagpur project; we had seen that there was a significant delay in phase 1, so how are we doing things differently this time for phase 2?

Bipin Gurnani: We had some delays in terms of completion of the phase 1 project. This was the first delivery of residential project. While we had substantial experience in building retail assets, this was the first phase of residential that we were delivering. There has been a lot of learning from that and we are confident that going forward we will be able to accurately project and forecast the completion timeline. One of the reasons for delay was the economic cycle where suddenly the residential markets across the country became extremely sluggish. There was GST implementation and then RERA. We are now geared up for a much faster execution with optimized and concentrated execution capabilities.

Ninad Sabnis: How is the demand currently in Nagpur?

Bipin Gurnani: The demand exists for completed projects, although it is not as strong as what we have seen in the past. This is one of the reasons why we have revised the size of apartments to suit overall outflow from a consumer perspective. The sweet spot lies between what people are willing to pay and what people are able to pay, so we have made certain key changes in our strategy in terms of size of the apartments, phasing strategy. We have realized that now one cannot develop residential project from advances from buyers, so one needs to have a line of credit to make sure construction continues. Once people see the construction at good pace, they gain confidence.

Ninad Sabnis: Just last question. We seem to have some issue with Airport Authority of India (AAI) in Nagpur, could you please elaborate?

Bipin Gurnani: We had a NOC granted to us by AAI and recently they came up with a plan to expand the airport at Nagpur. Without understanding the entire detail, they have arbitrarily revoked that NOC. We have contested it and fortunately for us, we have reported the fact that the buildings were complete even before the expansion plan of airport was commissioned. Whatever we have built is on the right side of the law, and was done on the basis of prior approvals. We have contested this order and we are hopeful of positive reinstatement of the NOC. This has been done arbitrarily because when they were expanding the airport, they felt that the height of buildings, in that area could have been reduced and we are not the only affected project. There are four other projects and we have collectively contested. We have also carried a VOR study which determines whether the buildings obstruct the flight path. We have got a clean chit that our buildings are not in any flight path and the VOR result is clear. Considering all these facts we are confident that our NOC will be reinstated at the earliest.

Ninad Sabnis: That is all from my side. Thanks.

Moderator: Thank you. The next question is from the line of Abhijit Patel an Individual Investor. Please go ahead.

Abhijit Patel: Thanks for the opportunity. Congratulations for a good set of numbers. I have couple of questions. My first question, is it too early to start working on Indore residential project? Will it be more prudent to execute the Coimbatore projects first rather than doing two projects simultaneously? My second question is about the efficiency of RERA board in Indore and latent demand in the Indore market. I believe that in last two, three years Indore has fared better in commercial projects and not so much in residential projects?

Bipin Gurnani: Let me first address your first question. In Indore, as I had mentioned earlier, our strategy now is to do plotted development which has substantial demand. Plotted development does not need very high level of execution skills and in our case we had already developed most of the infrastructure. Hence, it is no convenient for us to move on with the sales of development plots. We were awaiting approval for phase 1 of the plotted development in Indore, which has now been received. From our perspective, it does not take too much of management bandwidth for operational execution. To address your market analysis, you are absolutely right, apartments have not done well in Indore and therefore our strategy is to move from high rise to plotted developments. We can get the cash flow in faster and also we have kept a certain percentage of the total land for future high rise development. Hence, we can focus on high rise development in Coimbatore.

Abhijit Patel: Thanks and that is all from my side.

Moderator: Thank you. The next question is from the line of Siddhant Kohli an Individual Investor. Please go ahead.

Siddhant Kohli: Good afternoon Sir. I have one question, you have provided Rs.40 Crores advance for various projects, so just wanted to understand which project falls under this transaction.

Bipin Gurnani: These are projects in Mumbai for which we had signed an agreement with a developer. These six projects are all in Mumbai, two of them had a retail component in them and the rest were residential joint development. There had been delays from the partner side in terms of getting all their approvals. Since they had not met their obligations we have decided to go through the legal route and ask them to do specific performance of the agreement. Out of these six projects, three are very high value and prime projects and we are hoping the partner will come through on their duties.

Siddhant Kohli: One more question regarding the Aurangabad Mall as you mentioned in your opening remarks that you have churned the slow moving brand, so could you please provide us the name of those brand?

Bipin Gurnani: I would not be able to do it on an open forum, may be if you can get in touch with us separately, we will mention those brands to you.

Siddhant Kohli: Of course, have you added the new brands?

Bipin Gurnani: Nine new brands have been added, you can see the investor presentation which is uploaded on our website.

Siddhant Kohli: I believe your Aurangabad Malls current occupancy stands at 81%?

Bipin Gurnani: Because of the churn in outlets we see the occupancy has not moved up. You need to make the brands exit and clear the space before you can add better brands. In this year, there will be lesser churn & more new brands opening, so the occupancy is expected to move up by 4% to 5% and reach 85%, 86% in this year itself.

Siddhant Kohli: By when do you expect go above 90%?

Bipin Gurnani: In Aurangabad we have built the largest center. Now that we have churned out most of the underperforming brand, may be in the next 18 months, we should hit optimum occupancy in Aurangabad.

Siddhant Kohli: Great and in Nagpur retail space I believe you mentioned that you are approaching to some anchor tenants?

Bipin Gurnani: We have approached them, we have already had first round of meeting with them, now we are meeting them to sign the MoUs and close those brands.

Siddhant Kohli: Great, so couple of bookkeeping questions like in FY2019, your other income has increased by around 34%, so what lead to this significant jump?

Anurag Garg: Last year, on a conservative basis, we had not accrued interest on some advances, which has been done this year. It mainly consists of dividend on mutual fund, interest on the income tax refunds, some notional adjustment for Ind-AS on the corporate guarantee. Some income was not recognized last year and we were confident it will realize, so we have done the recognition in this year.

Siddhant Kohli: Your EBITDA has increased significantly in Q4 as well as full year almost by 1000-basis point, so is it safe to assume that this will be your sustainable margin?

Bipin Gurnani: We are a mixed use development company where EBITDA for the retail asset is close to 90%, and in case of residential project EBITDA is in the range of 30% to 35%. So when you have higher income recognition from the residential project then overall EBITDA will be low, but when there is a higher contribution from the mall income, the EBITDA will be high. This quarter, the contribution from the build and sale model is slightly low, so EBITDA has gone up. It depends upon the mix of the revenue which is getting recognized.

Siddhant Kohli: That is it from my side. Thank you.

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

Bipin Gurnani: Thank you very much for attending the earnings call for Prozone. Looking forward to an exciting year ahead and hopefully quarter-on-quarter we should be able to come back with you in terms of all the planning and achievements that we have put up on ourselves and looking forward to good year. Thank you very much.



*Prozone Intu Properties Limited
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Moderator: Thank you. Ladies and gentlemen on behalf of Dolat Capital Market Private Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.