



“Prozone Intu Properties Limited
Q1 FY2020 Results Conference Call”

August 13, 2019



ANALYST: MR. RAJESH SHINDE – DOLAT CAPITAL MARKET PRIVATE LIMITED

MANAGEMENT: MR. BIPIN GURNANI - PRESIDENT - PROZONE INTU PROPERTIES LIMITED
MR. ANURAG GARG – CHIEF FINANCIAL OFFICER - PROZONE INTU PROPERTIES LIMITED
MR. NACHIKET KALE – DICKENSON IR

Moderator: Ladies and gentlemen, good day and welcome to the Prozone Intu Properties Limited Q1 FY2020 Results 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 the 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. Nachiket Kale of Dickenson. Thank you and over to you Sir!

N. Kale: Thanks. Good morning everyone. On behalf of the management of the company, I extend a very warm welcome to all of you to the conference call of Prozone Intu Properties to discuss the financial results for the first quarter of the financial year 2019-2020. FY2020 has started on a good note with an excellent performance by retail assets, which are consistently delivering good performance in their micro-markets and emerging Tier 1 cities. Coming to key highlights of our performance and developments in this quarter, consolidated revenue at Rs.22.3 Crores is up 31.4%. Sales of services grew by 30.9%, consolidated EBITDA at 17.9 Crores is up by 26.3%.

Cash PAT for the quarter, which is PAT plus depreciation at 8.3 Crores is up by 36.1% year-on-year. Operating performance has continued to be good with the leasing at Coimbatore Mall standing at 92% now. Footfalls have increased by 127% at Coimbatore Mall and 25% at Aurangabad Mall on a Y-o-Y basis. We opened 8 new stores in Aurangabad Mall and 2 stores and 3 Kiosk in Coimbatore Mall. We have multiple projects in pipeline coming up in this quarter and in this financial year as well. So, I would now like to handover to Mr. Bipin Gurnani, President of Prozone Intu Properties to give you a further update.

Bipin Gurnani: Thank you Nachiket. Welcome everybody and thank you for joining the call. Fortunately for us, both the malls in Aurangabad and Coimbatore have shown good traction from the retailer side and from the consumer side. Particularly for us, the month of May was slightly sluggish, but since a lot of brands also started part of their midseason sales in June, the overall quarter numbers were significantly higher than those seen last year. Consumption at the centers also

showed a good increase and we feel that both the centers are resonating well with the communities that we service and the offering that we have. We are also endeavoring and continuously focusing to continue to remain relevant from the consumer perspective.

the consumer is now looking at more experiences and therefore at both our centers we are working towards creating offerings which are more experiential. It is done via events and promotions, or getting new category. For example, in Coimbatore we have utilized the terrace of the mall to create activities, which are normally not related to shopping. We have added Go Karting track, football turfs, cricket turfs and we have recently opened CrossFit arenas. We are trying to build both the centers for not only shopping, but also more experiential categories and offerings. This way we can keep getting the consumer more frequently to the center for various activities and also spend more money, which in turn supports the revenue of the center. In most of our arrangements with the tenants we have a revenue share upside model as well. Therefore, the better numbers that they do, we also get the upside, so from the mall perspective, we are quite happy with the results that we had in the first quarter.

Coming to our build and sell segment, overall the residential asset class has been sluggish and underperformed. We are also facing the same issues at our developments in Nagpur in terms of the balance inventory. We are trying to accelerate that, but things have been slow.

We have also pushed the phase 2 launch at Nagpur further in the light of the fact that currently we do not see enough demand. We do not want to commit a phase 2 till we have exhausted our ready phase 1 inventory. Coimbatore on the contrary is slightly better in terms of the enquiries because of the success of the mall and the fact that this residential is planned as part of the larger integrated community. We have changed our strategy in terms of the phasing and therefore, we have started construction of part of the phase 1 and the intent is to now launch tower wise, so that we can sell and built fast.

We have moved from opening larger inventory and building higher square footage to building lesser square footage and dividing even phase 1 into parts. We hope that will work for us because timeframe of building as well as selling

should come down. We are confident that our new strategy at Coimbatore will support the balance sheet and the P&L.

Overall, as a company we are treading cautiously on the build and sell model. Since the residential asset class is sluggish and we are not very sure in terms of when the turnaround will happen, we are looking at alternate monetization of the asset. There are opportunities that we are now considering like a co-office sharing model, we have also had enquiries from budget hospitality brands to look at 180 to 100 room property in both our centers, because then it becomes part of integrated community consumption.

So, we are looking at newer opportunities to exploit and monetize the opportunity that we have with respect to additional land parcels, etc. In the coming quarter, we will continue to focus on ensuring that we manage our cash flows well and ensure that we remain focused on further improvement in our retail business. Clearing the inventory of Nagpur phase 1 will be a priority and Coimbatore residential will be built and sold as part of the phase 1. So, this is where we stand and we remain confident about the company achieving its restated objectives and goals.

Moderator: Thank you. We will now begin the question and answer session. The first question is from the line of Ruhir Shah from Cloud 9. Please go ahead.

Ruhir Shah: Congratulations on good set of numbers and thanks for taking my question. I have just one question regarding the current litigation with airport authority in Nagpur?

Bipin Gurnani: On the Nagpur AAI matter, we have written to the appellate authorities again to give us a review on the minutes of the meeting that were held. The minutes of the meeting were not shared, but we happened to see them on the website. They had not factored in various facts that were highlighted by us. When we had applied to appellate authority for a review to address our grievance, we were not privy to various facts of the case, which were not highlighted at that stage. Subsequently, through various RTI, we gathered a lot more information with respect to our specific case, which we had shared with them 3 to 4 months after our request for grievance redressal. Unfortunately, all those facts were never

included in the file, so we have written back to appellate authority for further review after including these facts. We are awaiting their response and we believe that in the light of all the facts that we have produced, the appellate authority and the committee should consider reviewing their stand on the matter. As of now, they have not agreed to our request in terms of reinstatement of the NOC and we have now re-written to them and we are hoping to hear from them in terms of a second review along with these facts. This is part of the process and we are following all the process that is prescribed according to the act, so as part of the prescribed process, we are following the process. We have also engaged very senior consultants who have been in similar positions to assist us in addressing this issue. So from our perspective, we had put together a very solid case with absolute facts. We have clearly reflected and showcased to the AAI of Nagpur that our buildings are not obstacles. This is something which even their study has shown, to which we are privy after taking out those studies through RTI. We should have a positive outcome of the review meeting.

Ruhir Shah: Alright, thank you so much Sir and good luck for your upcoming quarters.

Moderator: Thank you. The next question is from the line of Nenath Sabnis from Sabnis Financial. Please go ahead.

Nenath Sabnis: Good afternoon. A couple of questions, going through our investor presentation, there is a highlight of the quarter that says that Nagpur residential project is almost near completion, but the sales for the Coimbatore residential project has also not yet started. Wanted to understand the revenue trajectory for the coming quarters, do we expect only revenue from mall business going forward?

Bipin Gurnani: So, basically just to answer that question we follow project completion method and therefore, for Nagpur while we are at a stage where we would be ready to apply for occupation certificate for the 4 towers, on getting the OC we should be able to recognize the revenue as that would be a trigger for completion. But for our OC to come through and for us to be able to apply, we need to get the current AAI matter resolved. If we are able to resolve the AAI matter and apply for our OC, we expect that there is potential for us to recognize the revenue for Nagpur in Q4 FY2020. We have now reduced the project size per se in terms of splitting the phases, so may be in FY2021, we could be in a position to look at

revenue coming in from Coimbatore. In the meantime, income from both the malls will continue to be reflected in revenue. The other revenue that will still come in, which is not fully recognized is the revenue from our Prozone Trade Center at Aurangabad, which is the office tower that we built there. As of now we have recognized only roughly about 80% of the thing, so 20% of the PTC will come in this year.

Nenath Sabnis: My last question is, as you mentioned in your opening remarks the residential markets look little sluggish, especially in the Nagpur and the others, so by when do you expect the real estate market to pick up?

Bipin Gurnani: You may have missed the part where I said that when the wind will change is difficult to say right now. As of now, the visibility of the change in the environment with respect to home sales looks a little dim because there is a lot of ready inventory plus the number of launches for new projects have increased. Overall what is happening is that in the first launch phase may be people are able to sell 15% to 20% of the inventory and after that is when the sales become tough. So from our perspective, if you ask me what we would hope for, we would hope for that may be after 2 or 3 quarters things should start changing, but it is difficult to pinpoint.

Nenath Sabnis: Sure, that is helpful. Thank you.

Moderator: Thank you. The next question is from the line of Ruhir Shah from Cloud 9. Please go ahead.

Ruhir Shah: Can you give us some guidance on margin going forward and lineup for marquee stores?

Bipin Gurnani: Basically, our margin is a mix of lease model and the build to sell, since we expect that in this year the larger contribution will come from the retail asset, our margins will improve in terms of percentage. We have recently added anchor stores like Croma, Zudio, Marks and Spencer in our Coimbatore center, which are now under fit out, we are also at advance stages of discussion with Toys “R” Us and Zudio for our Aurangabad center. Overall, we already have most of the key brands both in the Anchor and the Vanilla area and these are

the new marquee tenants that we are now looking at bringing to our center. We have recently done a concept at Coimbatore called Prozone Bazaar, like a flea market. We have done a full play out of this Prozone Bazaar where every month the category will change and we will bring in people from the local areas who develop good products to start showcasing their products. This also becomes like a community engagement exercise.

Ruhir Shah: Thank you, Sir. Can I ask one more question?

Bipin Gurnani: Please.

Ruhir Shah: Sir, regarding that Coimbatore Mall you spoke about the turf and Go Karting track, so the company will operate that or you are going to lease that?

Bipin Gurnani: We are in the business of building infrastructure and managing infrastructure. As a company we do not get into running these businesses, so from our perspective these are all tenants, who we have brought onboarded. In some cases we have supported these categories because we would like to create a differentiation. We have supported these categories by offering them some staggered rental or few months of rent free just so that they can come up and create these experiential models. But in terms of getting into business and running the business, we are purely providing only the infrastructure and the space.

Ruhir Shah: Alright, thank you so much and all the best.

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

Ankita Jain: Sir, good afternoon. Sir, my question is, can you give us an update on the interim order passed by the Mumbai High Court?

Bipin Gurnani: This is about investment in the Sreepathi?

Ankita Jain: Yes.

Bipin Gurnani: We had made an investment to do a JV with a Mumbai developer, wherein we were looking at developing at a shopping center with them in Mumbai. Unfortunately, the JV partner, did not keep their end of the agreement and sold some of the security collaterals that we had against the investment. So we had filed a legal commercial suit against them. On that we had some positive outcome in the last hearing from the court. The defendant was asked to deposit their passport and also to give a certain bank guarantee during the period in hearing period. The defendant was also directed to meet us and give a proposal for repaying the amount that we had invested with them. So I am unable to add to this because the matter is sub judice and therefore, it would not be correct for me to say anything beyond that. But as of now, the order which has been passed is favorable to what we expect out of the commercial suit.

Ankita Jain: That was helpful, that is it from my side. Thank you.

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

Hema Mehta: Good afternoon, Sir. I just have one question, could you just guide us on the expected footfall and rental growth in the Coimbatore mall?

Bipin Gurnani: We are targeting about 15% to 20% growth on footfalls yoy because we are adding newer categories and formats and stores. Growth will also be attributable to that other than the natural growth. In terms of rental income, in terms of its minimum guarantee rentals are stabilized. What we expect is growth, which is going to come out of revenue share income. So overall including new stores plus existing stores delivering better revenue share numbers, we could look at a 20% to 25% growth over last year.

Hema Mehta: Thank you Sir that was helpful.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for their closing comments.

Bipin Gurnani: Thank you very much everybody for joining the call. We are looking forward to a stable quarter because this is not an upbeat season in terms of retail. We hope that we will be able to deliver a steady performance and we are looking

forward to the festive quarter of October, November and December. The actual outcome of efforts that we are taking will be seen in the Q3. In this Q2 we hope to do a steady and stable quarter. Thank you very much for jointing the call.

Moderator: Thank you. Ladies and gentlemen, on behalf of Dolat Capital that concludes today's conference. Thank you for joining us. You may now disconnect your lines.