Godrej Properties Limited
Q3 FY 2015 Conference Call
January 28, 2015

Moderator

Ladies and Gentlemen good day and welcome to the Godrej Properties Limited Earnings Conference Call. As a reminder all participants' lines will be in the listen only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference please signal an operator by pressing * then 0 on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anoop Poojari of CDR India. Thank you and over to you.

Anoop Poojari

Thank you. Good afternoon everyone, and thank you for joining us on Godrej Properties' Q3 FY2015 results conference call. We have with us Mr. Pirojsha Godrej, Managing Director & CEO; Mr. KT Jithendran, Executive Director; Mr. V. Srinivasan, Executive Director; and Mr. Rajendra Khetawat, Chief Financial Officer of the Company.

We will begin the call with opening remarks from the management following which we will have the forum open for an interactive question and answer session.

Before we begin this call I would like to point out that some statements made in today's call may be forward looking in nature and a disclaimer to this effect has been included in the conference call invite e-mailed to you earlier.

I would now like to invite Mr. Pirojsha Godrej to make his opening remarks.

Pirojsha Godrej

Good afternoon everyone. Thank you for joining us on Godrej Properties quarter 3 financial year 2015 conference call. I will begin by discussing the highlights of the third quarter and we then look forward to taking your questions and suggestions.

In terms of financial performance, our total income for the quarter grew by 112% to Rs. 539 crore and our net profit for the third quarter grew by 26% to Rs. 47 crore. For the first 9 months of the financial year, our total income has increased by 48% to Rs. 1,200 crore and our net profit has increased by 26% to Rs. 139 crore. In the third quarter, our sales registered an increase of 37% in volume terms to 700,000 square feet and 28% in value terms to Rs. 548 crore. For the first 3 quarters of the financial year, we have registered an increase of 97% in volume of sales and a 64% increase in value of sales. We did not have any new project launches during the third quarter, which led to lower quarterly sales as compared to the preceding three quarters, but we have an exciting launch pipeline for Q4 as well as for FY16. So we look forward to building on the substantial momentum we have created in 2014, which is by some distance GPL's best ever year for sales.

On the commercial sales front, we sold space worth just under Rs. 200 crore at Godrej BKC in the third quarter. For the first time, our cash collection from Godrej BKC during the quarter was higher than the expenditure we incurred. This project is now at a fairly advanced stage of construction, with the structure on track to be completed over the next couple of months and the whole building is about one year away from completion. We have nearly Rs. 2,000 crore of capital locked in this project and we are very focused on and confident about unlocking this investment over the next couple of years.

On the business development front, we added a new project under our development management agreement with Godrej and Boyce. This project will add 1.2 million square feet of saleable area to our Vikhroli portfolio. We now have about 5 million square feet of un-launched saleable area in Vikhroli that is under various stages of planning and approvals. We look forward to picking up the pace of new launches in Vikhroli in the coming quarters. We also expect a strong end to the financial year from a business development perspective as there are a large number of exciting projects across cities where we are in the process of finalizing legal agreements with landowners.

There were a few additional noteworthy events in Q3 and I will briefly touch upon these. We delivered 758,000 square feet of commercial space at Godrej One in Vikhroli, which will be the new headquarters of the Godrej Group. The successful completion of this project is an important milestone for our development in Vikhroli and will allow us to expedite the launches over subsequent phases of The Trees. At Godrej frontier, our first project in NCR, we had an on time delivery of 236 apartments in Phase-1 of the project. We look forward to welcoming our first customers in the NCR region to their new homes. We have also opened our first international sales office in Dubai.

Finally, during the quarter we provided exits to private equity investors in our project Godrej Summit in NCR and Godrej Platinum in Bangalore. The primary reasons for these exits were that we have surplus cash in the project SPV and the projects have both been launched and de-risked. So we preferred to avoid continuing to pay higher returns to our partners, who were also open to an early exit.

We are happy to note that the headwinds facing the Indian economy over the past couple of years are quickly abating. A combination of beneficial turns in commodity and interest rates cycles, a favorable policy environment by the new government and improved consumer and investor sentiments is likely to lead to a far improved demand environment for the real estate sector in the months ahead. We believe our national presence, strong brand and robust launch pipelines, leave us well placed to benefit from the improved environment.

On that note I conclude my remarks and would like to thank you all for joining us on this call. We would now be happy to discuss any questions, comments, or suggestions you may have.

Moderator Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. We have first question is from the line of Aashiesh Agarwaal from Edelweiss Securities. Please go ahead.

Aashiesh Agarwaal I had a couple of questions; first of all congratulations on a very good set of numbers. The questions I had was respect to, a) the PE buyout and second is with respect to BKC project during the quarter. So, if you could just throw some light first on the stake buyout as to how much we would have paid and how much cash is there in those SPVs?

Pirojsha Godrej The exact details are confidential as per our agreements with our partners. From the balance sheet and the change in goodwill, you can get an approximate idea of the payouts. These were investments we had taken in 3 years ago and 4 years ago respectively and the total investment was about Rs. 95 crore.

Aashiesh Agarwaal I appreciate that, could you just give us a sense of the cash that these SPVs were holding because that will help us understand how much cash is getting freed up for you?

Pirojsha Godrej Together they are holding about Rs. 150 crore.

Aashiesh Agarwaal Second sir on the BKC project, obviously we have seen very strong sales in the quarter and also a strong revenue booking. So how much cash you would have received from new sales in the quarter and the Rs. 232 crore of revenue that you have booked, whether it is from the new sale or is it from the older sales? If you could throw some light on that.

Pirojsha Godrej The revenue recognition for the quarter was not this new sale because the cash collection threshold, to recognize it in the P&L we are likely to hit this quarter. The sale that was recognized in the P&L was from a sale done last financial year at significantly lower prices than the most recent sale was done. And as I mentioned in my remarks also, this is the first quarter where our collections in BKC were higher than our expenditure and were fairly robust; we collected nearly Rs. 200 crore during the quarter.

Aashiesh Agarwaal Sure and the current sale that you have done by when do you expect you will receive the bulk of the payment on that?

Pirojsha Godrej This quarter.

Aashiesh Agarwaal This quarter itself and in terms of realization, at about Rs. 28,000 plus rates in BKC, how do you feel about the realization? You think, you are happy with that or you felt that you could have attained a little more, could you throw some light on that?

Pirojsha Godrej Yes, Aashiesh it depends on what exactly you mean by the question. Very clearly in the current market for an under construction property this is a good price. If the question is, do we think prices in BKC will appreciate as the project gets closer to completion, with the way the commercial market is likely to play up, the answer is yes. We certainly see reasonably substantial opportunity for price appreciation. That said, our focus is, as we mentioned, on this project is to unlock capital which we think can be much more productively redeployed in our residential project.

Aashiesh Agarwaal Sure and just one last question, this is on the project acquisition strategy, so obviously we noticed that in the last 3 quarters, your project additions have been much lower than what you have seen in FY13-14. So is this a conscious strategy to focus more on launches of what you had acquired in the previous quarters and or is it more than just cyclical?

Pirojsha Godrej Fortunately or unfortunately, there is no attempt not to add new projects and we hope and expect to see robust project additions even this quarter and next year.

Aashiesh, our stance has always been that we have to be able to do both. We do not have a choice of either executing our current portfolio or looking to grow our portfolio and those two things are in no way in contradiction to each other. Our goal will be to add new projects which are substantially value accretive and sizeable. But at the same time our track record over the last three years demonstrates the type of projects we would like to add and the type of capital we would like to commit to those projects. So, certainly our aspiration is to add substantially to our portfolio but do it in a prudent manner.

Aashiesh Agarwaal You have continued to focus on Mumbai markets, NCR and Bangalore in the upper mid segment?

Pirojsha Godrej Those three markets will be the primary focus but certainly we are open to residential opportunities in other cities like Pune, Chennai, Kolkata and so on. But yes, the top three markets are disproportionately our focus from a business development perspective. And I would say we are open to projects in all price points, probably not very affordable housing, but anything from mid-income all the way to luxury.

Aashiesh Agarwaal So, about Rs. 5,000-10,000 range would be a fair number to look at? In terms of average selling price.

Pirojsha Godrej It is very hard frankly to suggest an average price when there are projects in our portfolio which are about Rs. 3,500-4,000 a square foot and others that are Rs. 30,000 a square foot. Obviously the relative contribution from each of those kinds of projects will matter as well, for example, the percentage a project from Mumbai contributes, where ASPs are higher. But over the medium term the numbers you said sound a little bit low.

Moderator Thank you. We have next question from the line of Puneet Gulati from HSBC Securities, please go ahead.

Puneet Gulati First of all, if you could give some more color on what your expectations are for the BKC project, if you expect these kind of cash collections, which are likely to be higher than the expenditure or not in future?

Pirojsha Godrej Yes Puneet certainly for the majority of the quarter going forward, collections should be higher than outflows. Not to say that will be the case for every single quarter. There are obviously lumpy both outflows and inflows in the project. Our focus has been on, even from a sales perspective on doing larger ticket size sales, so there will be some inherent lumpiness due to that. And of course some of the payments are also quite lumpy in terms of payments for FSI and so on. But we are already at the stage where the cash collections that are expected from the project are greater than the cash outflow, excluding of course interest payments and so on. So, certainly as we continue to sell and continue to get fresh inflows, that balance will only further improve. But broadly speaking the investment part of this project is hopefully either at or very close to the end and from now onwards we should be unlocking a fair amount of capital from the project.

Puneet Gulati How much more do you need to spend on this BKC project?

Pirojsha Godrej I do not have the exact number now and it is about Rs. 300 crore on FSI and maybe about Rs. 300 crore on construction, so around Rs. 600 crore.

Puneet Gulati And would you like to offer any comment on what is happening on the Chandigarh project, if you see any potential there as well?

Pirojsha Godrej Yes we are in the very final stages of getting the occupation certificate for the project. We hope to do it this quarter, which we of course think will improve the salability of the project. That said there is no question that we are facing demand headwinds in both Chandigarh and Kolkata on the commercial front. Actually 2014 was a pretty successful year in unlocking some of the space we had locked up in older commercial projects. I do not have the exact numbers on the top of the hand but we must have sold about 700,000 square feet of space in those projects. The total remaining that we have in those two projects would be about 8,00,000-900,000 square feet so hopefully if we can maintain the kind of pace we saw last year, which hopefully would be easier to do as these projects have been completed or are very near completion and it is a matter of a year or two before we have a full exit.

Puneet Gulati And in terms of Godrej One in Vikhroli, when do the sales start there and how will that be reflected in the P&L?

Pirojsha Godrej This is a project that we actually sold entirely to other group companies. Godrej Properties has now fully exited the project as of last financial year. What I meant in my remarks when I said that we have completed the building is that we have now received an occupation certificate. Godrej Properties itself would be moving into that building in the next couple of months. So there are no sales as such that have to be done there.

Puneet Gulati And no cash collection also from there?

Pirojsha Godrej Correct.

Moderator Thank you. We have next question from the line of Gunjan Prithyani from JP Morgan. Please go ahead.

Gunjan Prithyani I have three questions. Firstly on the margins, if you could give us some sense, when do you see the margin profile really improving because if we look at the BKC recent sales as well, at around Rs. 28,000 a square feet, we would not really be making much margins on the new sales also. So, this project, I mean does it make sense with you still hold on to these stock and sell it at higher realizations later because if it continues to contribute to the P&L given the large size of the project, it may stay a drag on the margins?

Pirojsha Godrej Yes, your point is well taken. There are two parts essentially to this question. If the question is, how do we maximize profit from BKC, then the strategy would be quite clear, which would be to rapidly complete construction over the next year, focus then on leasing it and then selling the space once leased. This will certainly provide us a better profit and price then selling it while under construction.

Obviously, the other question is what is the impact at the GPL level in doing that and it would mean the capital staying locked in the project for longer and not being able to re-deploy that capital on the residential side, which we think would overall generate higher returns. So, we will obviously continue to look at how the markets evolve but certainly we would like to sell some more space over next year.

In any case, we have got a fair amount of space left in the project, about 7 lakh square feet of space still to go. So, even if we do sell pretty well over the next year until the building is complete, there certainly will be an opportunity for the year after that to do some leasing and then sell the space once leased which we think will improve margins in the project. But there is no getting away from the fact that with the way commercial markets have moved over the last 2-3 years, it has become an absolutely low margin project for us. Hopefully that can improve a little bit as pricing improves. But the main focus is still on the amount of capital locked. The project has nearly half our balance sheet attached to it, so unlocking that capital and redeploying that productively is the more important focus than maximizing return on the project.

Gunjan Prithyani In terms of the mix changing, which are the projects you really think that would contribute next year, in the next few quarters which can change the margins which are relatively higher margin and can probably help margin improvement in FY16?

Pirojsha Godrej In a lot of the Mumbai projects, we hope to do that. Projects like Godrej Central and Godrej Prime in Chembur. Lot of the profit sharing projects we are doing like Godrej Oasis in NCR and Godrej City, Panvel. All the development management fee projects we are doing in Vikhroli and the development management fee project in Bangalore. So, if we do a simple cut of all projects added before and after Godrej BKC, the margin profile of those two sets of projects will look very different. Almost all the projects currently contributing to the P&L are Godrej BKC and projects prior to that, obviously that mix is going to substantially change over the next year or two. So, we are in for a period of little bit of margin pressure and margin volatility but also a period of very rapid revenue growth and a clear visibility we believe, on margin enhancement over the medium term.

Gunjan Prithyani Secondly, on your Vikhroli, I just wanted to get some sense, how do we plan the launches in that location because we still have the land which we own and we also have the development management agreement and one more building which from what I understand is yet to be launched in the earlier development management agreement. So, how do we go about with these launches and which ones we see first or we can launch both together?

Pirojsha Godrej Yes, it is largely approvals driven, as we get the approvals to launch, we will launch these projects. We probably would not want to launch both projects in the same month or something like that but certainly we could launch these projects in rapid successions or maybe 2-3 months; after one launch we could do another one. So, those details we can work out but we are fairly confident of being able to do multiple launches in Vikhroli successfully in a year. The focus will be fully on monetizing approvals and getting the residential launches on track again. Certainly one of the biggest disappointments for us is that we have gone almost to the full financial year without a launch in Vikhroli but that hopefully means that we will have a lot to launch over the next year.

Gunjan Prithyani But is that due to approval delays that the launch has not happened in Vikhroli this year?

Pirojsha Godrej Yes. I do not think there is any project anywhere in the country where we have full approvals but are intentionally not launching.

Gunjan Prithyani And how much do we still need to pay for that land in Vikhroli?

Pirojsha Godrej Rs. 400 crore over three and half years.

Gunjan Prithyani One just last question on this private equity buyout. We have been consistently buying these private equity partners in our residential projects. First, was this one of those assured return deals and secondly, at the same time, we have also been forming residential platform and other platforms with private equity partners to buyout new land, so what is the thought process behind your private equity partnership?

Pirojsha Godrej So, it's quite straight forward, Gunjan, where we feel there is still substantial risk involved in a project at the early stages before any approvals and if there are substantial investments to be made. Like some of the re-development projects where the peak investment was relatively high, we are then open to taking in some private equity cash out, recognizing some of the profit upfront which will substantially reduce the peak investment in the projects. For example, Godrej Central where we did a private equity deal, we took our peak investment down by something like 70% and retain something like 70% of the profit. So, yes the total NPV to us is a little bit lower, but certainly the IRR is much higher. And ability to then do more projects is much higher. And of course, these private equity buyers were not in any way guaranteed returns or anything like that. We did have cash available to us, which could not be redeployed into other projects, so we felt rather than paying a higher return over a longer period of time, it made more sense to buy these partners out. But there has also been a very clear change in strategy for private equity deals over the last few years. Earlier a lot of it was about recognizing income upfront. For any deals if we do now, the key priority is to reduce the peak investments for GPL. And only do private equity in projects where the peak investment is more then we want to do 100% ourselves.

Moderator Thank you. We have next question from the line of Puneet Jain from Goldman Sachs. Please go ahead.

Puneet Jain I got couple of questions; my first question is with respect to your Godrej Summit, so what will be the margins from this project?

Pirojsha Godrej We do not want to get into it, as we said previously also, project by project margins, that is, sort of competitively sensitive information. But margins here are very healthy and will only increase as the more recent phases of the project enter recognition which are sold at substantially higher prices than the original phase. But even the original phases are at quite healthy margins.

Puneet Jain But if the margins are very healthy for this project, will it mean that Godrej BKC has negative margins?

Pirojsha Godrej Yes, in this quarter Godrej BKC did have negative margins as the recognition of sales was largely done at about Rs. 24,000 a square foot.

Puneet Jain What is your strategy with respect to Godrej BKC, how much do you want to hold and how much you want to sell?

Pirojsha Godrej This is a dynamic question, and it will depend on multiple factors. Our current thinking is that we would like to completely exit the project over the next couple of years. How exactly that is timed will be a factor of demand and how other projects are doing. This will be something that we will look at dynamically. But our current thinking is not to retain any part for a very long run. Again this also could change depending on how things move.

Puneet Jain So has there been any change in thinking because may be couple of quarters back, you wanted to retain 70% and sell 30%.

Pirojsha Godrej I do not recall ever saying that. What we had said when we launched the project was that we would like to monetize it in equal parts over 4 or 5 years, which implied that a couple of 100,000 square feet of sales year-on-year. And obviously the last couple of tranches of that would be post project completion, which would then likely be through leasing and selling of those leased spaces. So there is no real change in thinking but obviously this is an important thing to monitor for us. As it looks now, is that we will have sold hopefully somewhere close to half the building by the time the building is complete. Then how exactly to monetize that second half is something that we will see.

Puneet Jain So out of 1.2 million square feet, 0.2 million square feet is a share of Jet Airways and 1 million square feet is your share and you plan to sell 50% by the time the building is complete, that is by end of 2015.

Pirojsha Godrej These are all very back of the envelope numbers, but very broadly speaking, that is our current plan. But as I said, it is something we will continue to monitor.

Puneet Jain And also the other operating income as well as other income was substantially higher in this quarter, what drove this change?

Pirojsha Godrej There are several things. Many of our projects now have some development management fee components. Both the pure development management fee projects and the projects we are doing through our platforms, so all of that adds up to quite a bit. A little bit of other income is from cash that we have deployed in mutual funds. There is also a small contribution this quarter from some unpaid customers' flats that we terminated; there was some amount of income from that also.

Puneet Jain Can you share top 3 projects in which you want this operating income?

Pirojsha Godrej I do not think we have it offhand but about this termination it is about Rs. 10 crore and the interest income was about Rs. 12 crore.

Rajendra Khetawat There were several DM projects, Vikhroli is contributing, E-City is contributing, and United is contributing. So there are several projects which has added up to that operating income.

Puneet Jain Again, the reason I am persisting is that there is a big delta, in the previous quarter it was say around Rs. 8.6 crore, in this quarter it is Rs. 48.3 crore, delta seems quite large.

Rajendra Khetawat Puneet the delta will be like this because some DM Fees are linked to the billing and some DM Fees are linked to the collection. So there always would be some variation on quarter-on-quarter basis.

Moderator Thank you. The next question is from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.

Sameer Baisiwala A quick question on the interest cost, I can see on Slide #22 and #24, and it looks like what you have expensed through the COGS line is about Rs. 57 crore, is that correct?

Rajendra Khetawat Yes, Rs. 53 crore.

Sameer Baisiwala And what is it that you have capitalized?

Rajendra Khetawat Around Rs. 94 crore.

Sameer Baisiwala And the other question is about Godrej Central, looks like there was no sales done during the quarter because you have consciously stopped it or is there any other factor driving it?

Pirojsha Godrej Yes. Sameer we sold out. We would like to retain 10% of all launched inventories for sales at the end of the project. So excluding that 10%, we have sold out of whatever remaining inventory we had what has been launched. There are some more towers in the project that could get launched this quarter and some maybe next year.

Sameer Baisiwala And Godrej Sky, Byculla, I got some flyers from the brokers and all, Was this not pre-launched in the December quarter?

Pirojsha Godrej No. For any launch where we have a plan to launch a project in the next 2-3 months, we do start inviting interest. We do not obviously accept any cheques and we do not have any firm commitments with our customers. But we do start building up our lead base, which allow us a successful launch. But no, the project has not been in anyway launched yet.

Sameer Baisiwala And this would be done in the current quarter.

Pirojsha Godrej That is the expectation.

Sameer Baisiwala And what has been the initial response that you have seen so far? I think it has been 2-3 weeks, if not more.

Pirojsha Godrej Yes, the database of leads is good but frankly we are not even at a stage where we are sharing exact pricing, what the exact plan is going to be. No way to fully tell now but like most of our residential launches, we expect a good response. Of course, it is also fairly luxurious product with quite limited inventory overall. But we think it will be a good launch when it happens.

Sameer Baisiwala And just one final one, I am looking at Godrej Crest, Bangalore in your slides, it is just a small volume, it is not a big one but the ASP sequentially has come down from Rs. 6,400 to about Rs. 5,800 per square feet.

Pirojsha Godrej This is a small and old legacy kind of villa project. It is kind of a unique feature where there are 2 rows of villas, one has a far preferable location in terms of what it is overlooking. So there is a pretty steep differential pricing for villas on one side as opposed to another. And we sold in what you are mentioning the less desirable villas which is why the price would have reduced.

Moderator Thank you. We move onto the next question that is from the line of Anitha Rangan from HSBC Asset Management. Please go ahead.

Anitha Rangan My first question is that despite having a robust top line growth why is that at a PAT level and at an EBITDA level is always showing the decline consistently over the last three quarters?

Pirojsha Godrej So, I didn't catch that question fully, what I understood was sort of why is profit growth not in line with revenue growth, is that correct?

Anitha Rangan Yes.

Pirojsha Godrej So, that is obviously correct. And I think we have been quite happy even though profit growth has not been keeping up with revenue growth, it is still been quite robust. We have grown most of the quarter and the nine months – our net profit growth is at 26%. But of course it is a very fair question and has a very clear answer, which is that a lot of the revenues we recognize last quarter and over the 9 month period have come from our commercial portfolios, specifically our project Godrej BKC, which as we have indicated is a very low margin's project at the current sales price that we have registered till date. So the project mix is really what is driving that. If you subtract that project from the overall numbers, the remaining margin is quite healthy.

Anitha Rangan And my second question is, that we have been seeing leverage increasing from 1.3 to 1.35, what is the kind of comfort leverage which you have in mind?

Pirojsha Godrej What we have said throughout the last 4-5 years is that target range we have is between 1:1 and 1.5:1. So we are within that although little towards the higher side of that. Obviously our debt number is something which we watch very carefully. And it is important to note, however, though that one of our clear priorities for the Company is to unlock completely our commercial assets over the next couple of years. And our current capital employed in those 3 commercial projects that are still in our portfolio is about Rs. 2,300-2,400 crore. If you compare that with our net debt, what you would see is that even if we are able to just get breakeven valuation for these commercial projects, we could essentially wipe out our debt by unlocking the capital we have invested. It is up to us to now demonstrate the success in doing that over the next year or two and that would be our effort.

Moderator Thank you. We have next question from the line of Ritwik Sheth from Span Capital. Please go ahead.

Ritwik Sheth Sir I had a couple of questions; firstly, in your opening remarks you mentioned that Q4 and FY16 will be exciting in terms of launches. So can you throw some light on that, what is the area under consideration and so on?

Pirojsha Godrej We do not give any sort of specific area breakdowns but the projects we hope to launch this quarter, again all subject to approvals. No projects out of these we have received the final approvals for, but we expect to receive approvals and expect to launch 2 redevelopment projects here in Mumbai – Godrej Prime which is in Chembur right adjacent to Godrej Central, as well as Godrej Sky in Byculla. We also hope to launch our project in Pune in Keshavnagar. We have a project in Chennai we may be able to launch or which could slip into next year and also some new phases of existing projects. And that is all in the next couple of months, obviously again subject to all approvals being received. We will be better placed to talk about next year's launches at next quarter's call but certainly we feel pretty good about the lineup we are likely to have. Recent projects which we have added that have not been launched yet, include a township in Bangalore, several projects here in Mumbai, including one in Bhandup and one recent addition in Badlapur. New phases of some of our projects like Panvel, which has not even really officially been launched although we have sold out of the first phase but we have not had a big marketing launch yet which we will plan next year. This year was already by some distance our best ever year for sales and we feel pretty good about next year substantially surpassing this year.

Ritwik Sheth Sir, second question is on the commercial portfolio, what is the total capital employed till date on the Kolkata, Chandigarh, and the BKC project?

Pirojsha Godrej Rs. 2,200 crore.

Ritwik Sheth And around Rs. 1,800-1,900 crore for BKC right?

Pirojsha Godrej Right.

Ritwik Sheth And just to clarify, we have around 800,000 – 900,000 square feet in Kolkata and Chandigarh and around 750,000 in BKC, is that right?

Pirojsha Godrej 6.5 lakh square feet in BKC.

Moderator Thank you. We have our next question from the line of Bharat Sheth from Quest Investment. Please go ahead.

Bharat Sheth Can you give some sense, I mean whatever problem earlier we were facing in getting approval, particularly in Mumbai, is there any change in that environment?

Pirojsha Godrej That is a million dollar question. There is certainly more talk about change happening in a more proactive approach. The new Government is certainly hoping to move things in that direction, but frankly there are so many different agencies and so many things that can still crop up, that I wouldn't say there has been any massive change that everything is now going much smoother. But several of our important projects are at fairly advanced stage, so we do hope to see those come through. But the approval situation in Mumbai is still complicated compared to any of the other places we are working.

Bharat Sheth And second thing, in Panvel project that we were hoping to get extra FSI, so is there any change in that?

Pirojsha Godrej No, as of now, there is no change there. So we should all assume the lower FSI for now. We had initially thought and expected that the FSI would change to 1.5. Now there is a reasonable likelihood of the FSI going to 1, under a different kind of scheme but again there is no full clarity on that. So what we currently have approved and what is safe to assume for now is the 0.5 FSI.

Bharat Sheth Can you throw some light on further launch in Panvel as well as Ahmedabad?

Pirojsha Godrej Yes, in Ahmedabad we will consistently release inventory. We may have a bigger inventory release at some point next year. In Panvel, for Phase 2 of the project is where we will have an official marketing launch. We have had so much interest in Panvel just from our e-mailers and things that we have sold out all the inventories without a single ad or anything like that. We will have an official marketing launch of the project sometime next financial year and with that launch a substantial site of the second phase of the project.

Bharat Sheth And last question, can you give some sense on the new project addition that is in the pipeline?

Pirojsha Godrej The pipeline is looking very good. Again it is the matter of closing we have 10-15 projects where we have term sheets in place. I am sure a large number of those will fall through at the diligence stage and other stages but our experience is that something like 50% of should come through over the next few months so those are the kind of numbers we have in mind.

Moderator Thank you. We have next question from the line of Samar Sarda from Kotak Securities. Please go ahead.

Samar Sarda I presume this quarter has been a quarter of highest collections, if I am not wrong?

Pirojsha Godrej That is right Samar.

Samar Sarda Congratulations on that. I had three questions – the first one was on the project additions, so like since FY13, we have been adding really good projects where our investments are low but then again lately, the projects are in the DM model or there are JD’s as wherein the platform is invested. With respect to the balance sheet although the project specific investments are good, it does not contribute majorly to balance sheet changing much because your older projects have a big contribution. So the 10-15 projects you were talking about, how many of those projects are likely to be JDA projects where Godrej Properties owns a majority stake?

Pirojsha Godrej Our models are very clearly of four types. One is development management fees, second is the platform, and the third and most important one is the profit sharing, and the last is redevelopment in Mumbai and there is some overlap also between each of these models. So I don't think there is any change in strategy. There will be a fair mix of all of these types of projects in the overall term sheet level projects we have.

Samar Sarda And would we be utilizing the cash on books over the next 2 or 3 quarters for deposits in these projects or this cash pile is likely to run like this for the next year as well?

Pirojsha Godrej We might deploy some of it. We will take a quarter-by-quarter call. We used some of the cash we had for example sitting in some of our projects SPVs for these PE buyouts. We certainly could use some of it for new project investments. We could pay down some debt with it. But the focus will also be on making sure that at the individual project we are not committing too much capital to any one project.

Samar Sarda Fair enough. My next question was on debt; now you mentioned that you have a debt-equity of between 1 to 1.5, hypothetically you mean the BKC project is sold over the next 3 years and the receivables are used to repay that debt. Our base of the balance sheet is also quite low which will go up. So does this mean our absolute debt will increase from here or you have a number in mind from an absolute debt perspective?

Pirojsha Godrej The answer is no to both those questions. We don't have a very specific number in mind on absolute debt. It matters a lot in the overall Company's performance, on how the overall balance sheet looks. But certainly that also does not mean that 1 to 1.5 is our guidance for gearing forever. It means that at this stage of the Company, which has been last 3-4 years where we are in a rapid growth mode where we are adding projects quite quickly and in all fairness also do have some of these legacy issues that we have been sorting out; that is the number that we feel comfortable with. Certainly, two years from now, we will 100% exit our commercial projects and also recover a large amount of the advances that we have given on the residential side. So there is substantial room for lowering that gearing levels while also continuing to add projects at a rapid clip, so certainly I don't think that we want to be at a 1 to 1.5 gearing level indefinitely.

Samar Sarda And one last question; this was on your legacy residential projects, like Ahmedabad, Chennai, Nagpur, and Hyderabad which are still to launch. Again, sales at Chennai, Ahmedabad, and Nagpur are pretty slow with regards to the size of the projects. So any strategy, on how could we increase sales or what could the management do to monetize these projects faster?

Pirojsha Godrej Each of those is quite different of course. Hyderabad, we have not launched anything so there is no question of pace of sales. Our focus has been more on concentrating on the bigger cities and growing very substantially in those cities. So if you look at, what we have tried to do over the last 3 years, we have gone from essentially having no projects in Mumbai to having now almost 20 projects in the city, no projects in NCR to 5 projects and growing there; similar situation in Bangalore & Pune. So that remains the strategy from a business development perspective. From the sales perspective; in Nagpur again we are waiting for approvals for new sales launches. We think the new phases will do quite well as and when they are launched. So essentially there are zero inventories that we are currently carrying in that project, so again any sales momentum has been constrained by approvals there.

In Ahmedabad, the market as a whole has been quite weak. We have consistently been the largest real estate developer in Ahmedabad in terms of sales. Through this project we have sold something like 5 million square feet in the project over the last 4 years. But surprisingly given how Gujarat as a whole has done quite well, the real estate market in Ahmedabad as many of you would know has not done well either from a volumes or pricing perspective. Certainly, that project now is starting to get a substantial number of residences; the infrastructure there has started coming together. So there is room as and when the market there improves, for sales to again grow considerably. And we would like to retain our status as the city's leading developer. But I do not think there is any magic wand we have to dramatically increase sales unless markets are little more supportive there as well. Compared to any of our peers, our percentage of sales to percentage of inventory in our existing projects is one of the highest.

Moderator Thank you. We have next question from the line of Manoj Dua from Geometric Securities. Please go ahead.

Manoj Dua The first part of my question is more or less answered but if you throw some more light it would be great. The 4th tower as well as that Trees residential project has not been launched, can you throw some light what is the time frame we can see the both projects to be launched. Secondly, as you see the prices of the apartments not rising and can the investors who have invested for the perspective of one or two year may have a caught in back foot, so are you finding a problem in collecting installments from some investors which are due?

Pirojsha Godrej On your first question; in Vikhroli we hope to launch the last tower in Godrej Platinum within the quarter but it is subject to the final approvals. This last tower has a couple of approval complications we have been working through. So we expect to launch in the next couple of months. But if it all slips off certainly we would expect to do it in Q1 of next financial year. And The Trees is couple of months after that, so realistically towards the end of Q1 or early Q2 is what it is currently looking like for The Trees launch.

And on your question on whether customers are keeping up with installments, I do not think we have seen any drastic difference. There is always some set of customers who are delayed. Obviously all our agreements protect us from such delays, have interest liabilities to the customers and beyond a point if there are delays then we do have the right and to go ahead with terminating the booking and pocketing some of the money.

Manoj Dua This new Trees joint venture you have signed, you are saying in 6 months you will launch approximately?

Pirojsha Godrej No. I am saying 'The Trees' residential.

Moderator Thank you. We have next question from the line of Dixit Doshi from Whitestone Financial Services. Please go ahead.

Dixit Doshi Sir in terms of booking or launching the project, the Company is doing exceedingly well, I just wanted to understand that on an average how much square feet per year we can deliver?

Pirojsha Godrej It depends very substantially year-from-year and also will increase very dramatically going forward. This year we expect to deliver the highest amount in the Company's history. Most of our projects are on time from a delivery perspective, so it is fairly predictable. Over the last 2 financial years, we have sold more than in the cumulative prior 20 odd year history of the Company. So obviously that is why the deliveries over the next couple of years will pick up substantially. This financial year we expect to sell significantly more than either of the last two financial years. So, that cycle of growth in deliveries will continue to increase and this year it will be something like 3-4 million square feet.

Dixit Doshi And where do you feel that this 3-4 million would reach in, let us say next 3-4 years' time? Where do you aspire to be?

Pirojsha Godrej So again it is a very direct function of what our sales are. So broadly speaking whatever you sell one year, three to four years after that you should be delivering a similar amount but obviously there will be some variation year-to-year and so on. As our sales continue to grow, delivery must keep pace. So, that is obviously nonnegotiable. One of the key things which is important to maintain our status as a preferred developer for customers is to ensure that all our deliveries happen on time and that is a hugely important area of focus for the Company. Most of our project construction timelines are 3-4 years. So, as I said 3-4 years after our sales launch is when we should expect to see the delivery.

Moderator Thank you as there are no further questions from the participants, I would now like to hand over the floor back to the management for their closing remarks, over to you sir.

Pirojsha Godrej I hope I have been able to answer all your questions. If you have any other questions like any other information, we would be happy to give assistance. Thanks again for taking the time to join us today.

Moderator Thank you very much sir. Ladies and gentlemen on behalf of Godrej Properties Ltd., that concludes this conference call. Thank you for joining us, you may now disconnect your lines.

- ENDS -