Godrej Properties Limited

Q1 FY 2014 Conference Call Transcript
July 29, 2013

Moderator: Ladies and Gentlemen, good day and welcome to the Godrej Properties Ltd Earnings Conference Call. As a reminder for the duration of this conference, all participants' lines will be in the listen only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference, please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Anoop Poojari from CDR-India. Thank you and over to you sir.

Anoop Poojari Thank you. Good afternoon everyone and thank you for joining us on Godrej Properties Q1FY14 results conference call. We have with us Mr. Pirojsha Godrej, Managing Director & CEO of Godrej Properties; Mr. K. T. Jithendran, Executive Director; Mr. V. Srinivasan, Executive Director and Mr. Rajendra Khetawat, Vice President - Finance and Accounts 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. Welcome to Godrej Properties' Quarter 1 Financial Year 2014 conference call. I'll begin by discussing the highlights for the first quarter, and we then look forward to taking your questions and suggestions.

The first quarter has begun on a reasonably positive note for GPL. In terms of financial performance, our total income for the first quarter was Rs. 244 crore, which represented growth of 5% over Q1 FY13. Our EBITDA grew by 77% to Rs. 83 crore and our net profit grew by 130% to approximately Rs. 40 crore. Our EBITDA margin for Q1 FY14 was 34%. Our bookings for the quarter grew by 15% to Rs. 606 crore.

In addition to good profit growth for the quarter, we continued to lay the foundation for our future growth and success through sustained momentum in business development. We added two new projects to our portfolio in the first quarter; one each in our target markets of NCR and Bangalore. In NCR, we have concluded an agreement for a new project in Delhi with 850,000 sq. ft. of saleable area. This project will be both our first project in New Delhi and the first project we have added under the residential co-investment platform that we created last year. Our new project in Whitefiled, Bangalore has 1 million sq. ft. of saleable area and will be developed under the development management fee model. We also added a second project in Mumbai to our residential platform in the first quarter. This is the Sahakar Nagar 2 redevelopment project in Chembur. The structure for this project within the platform is different than the typical structure for platform projects in that Godrej Properties has retained a 50% stake in this project as opposed to the typical 25% stake. Additionally, we have received a Rs. 40 crore upfront premium from the platform for this project. The structuring of this project has been different from typical platform projects because we first completed the deal in the 4th quarter of FY13 and thereafter secured the platform's participation in Q1FY14. From a strategic perspective, however, this is very much in keeping with both Godrej Properties' and the Platform's strategy in that this is a project where the peak investment is substantial and the project is located and positioned ideally from the Platform's perspective. Given the kind of deal flow visibility we currently have, we expect to have further positive news on the business development front in the year ahead.

From an operational perspective, we have made important progress on several important launches that happened at the very end of the previous financial year. In Godrej BKC, our flagship commercial project in Bandra Kurla Complex, Mumbai, we have sold approximately 137,000 sq. ft. of space in the first quarter. Including the sales from Q4 FY13, we have now sold nearly 20% of the available inventory in the project within 4 months from launch. This puts us well on track to achieve our goal of selling between 20-25% of the space in the project each year for the next 4-5 years, with the initial focus in the first couple of years being on ensuring we set the project on a positive cash flow trajectory and the focus thereafter being to expand margins in the project.

Another important launch that happened in the last week of the previous financial year was the launch of new phases in our project Godrej Garden City in Ahmedabad. Although the Ahmedabad market has been quite weak recently, in the first quarter, we had sales in the project of approximately 240,000 sq. ft. This was the highest quarterly sales number for Godrej Garden City in the last 9 quarters.

We also had new inventory released in Godrej Prakriti, Kolkata; Godrej Summit, Gurgaon; and Godrej Platinum, Kolkata in the first quarter and have seen reasonable momentum in each of these projects.

Another important area of focus for Godrej Properties has been ensuring we are building a team capable of delivering our large growth aspirations. I'm happy to report that in the 2013 edition of the Great Places to Work Study, which is an annual study with over 500 companies participating; Godrej Properties for the second consecutive year was adjudged as one of the top 25 companies to work for in India. We were also once again recognized as the 2nd best company to work for out of all companies with less than 1,000 employees and as the best company to work for in the real estate sector. Continuing to develop talent and ensuring a growth-oriented organization will remain a critical priority in the year ahead.

I'd also like to briefly update you on two announcements we recently made. Firstly, as we'd discussed in our call last quarter, Godrej Properties is currently planning to raise equity through a rights issue, which we hope to complete by the end of the current quarter. The purpose of the rights issue is to ensure we have the capital we need to continue to add new projects at a rapid pace without in any way stretching our balance sheet. While we believe accruals will be adequate to fund our current commitments on existing projects, we have good visibility on substantially enhancing our portfolio in the current year and building on the momentum we've created in the business development space. Our Rs. 1,000 crore residential investment platform, of which our share is 25%, has initiated its first two projects in Q1 FY14 and we hope to deploy most of the remaining funds from the platform within the current financial year. We are also looking at many exciting joint venture deals that will require some advance payments and some advance funding till we get to the launch stage. Given our substantial growth plans, we believe raising additional equity to partially fund our growth instead of relying entirely on debt is the prudent approach. The reason we are planning a rights issue as opposed to any other form of equity raise is that, from a promoter perspective, we believe it isn't at all attractive to dilute at current valuations and that further investment into Godrej Properties at this stage is likely to yield a strong return on that investment. Given that the promoter holding in the Company is 75%, 3/4ths of the capital for the rights issue will be committed by the promoters, which is, we believe, a strong vote of confidence in Godrej Properties' growth prospects. From a timeline perspective, the process is on track and we hope to complete the exercise by the end of September 2013.

Additionally, we have chosen to provide exits to private equity investors in two of our projects; our commercial project in Chandigarh where the exit was paid for in Q1 and our residential project in Chennai where the exit has already been provided in the current quarter.

While the economic weakness in India and the resultant impact on consumer sentiment has persisted longer than we had hoped and expected, we do believe the prospects for the real estate sector remain very bright. As we've demonstrated, our capital efficient deal structures and strong brand equity allow us to deliver growth even in subdued economic conditions. Our national presence and large number of new projects with attractive deal structures leaves us in a good position to fully capitalize once there is an improvement in the economic environment.

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

Moderator Thank you very much Sir. We will now begin the question and answer session. First question is from the line of Aashiesh Agarwal from Edelweiss. Please go ahead.

Aashiesh Agarwaal I had three questions. So the first question is with respect to the Rs. 700 crore rights issue, so my question is how much of the same would be used for new projects because amount by itself is quite large. Is it entirely being used for new projects or we would be paying some debt out of this?

Pirojsha Godrej These two things are not mutually exclusive. Obviously we will be raising the capital. The reasons we are raising capital is that both in the recent past, we have added a lot of new projects and we see even greater visibility on continuing that momentum in the current year. Now that is not to say that we will raise the money this quarter and immediately all of it will be deployed in new projects. So we will use some of it to retire debt in the short term which in turn allows us the flexibility to fund new projects on an ongoing basis. But the point is that clearly the reason we are doing a rights issue is because we have an appetite for a lot of additional projects. I think if we did not have that appetite, we would not be currently doing rights issue.

Aashiesh Agarwaal My other two questions is first with respect to Godrej BKC, if you could just broadly tell us what is the broad payment terms that we have for this and what is the kind of customer profile that we have in our client mix?

Pirojsha Godrej I would not like to get into the payment terms. Each deal is a little bit different in a commercial project as it is not that there is one standard payment term, but in any case I would not like to comment on that. And the mix of clients that we have seen interest from is from largely both Indian corporates as well as large international financial institutions. Of the deals we have done so far there are more domestic corporates.

Aashiesh Agarwaal Would they be using it for their own captive consumption or you suppose it will be like leasing it out and it is for investment purpose and on payment terms just like to understand broadly whether the cash flows would be spread across the tenure of the project or is it more front ended or back ended?

Pirojsha Godrej I think most of the current clients we think want the space for their own use when the building is complete. The payment terms again are not absolutely consistent on all deals, but they are largely along the lines of progress of the project.

Aashiesh Agarwaal Just the last question is on The Trees residential project, any timelines or thoughts as to when this may be expected?

Pirojsha Godrej We are hoping to do this by sort of the fourth quarter.

Moderator The next question is from the line of Puneet Jain from Goldman Sachs. Please go ahead.

Puneet Jain My question will be with respect to few of the cash flow movements in this quarter. The first will be on account of how much you paid for the stake purchase in Chandigarh? How much cash inflow you received from putting these two land parcels into the new entity? And also some thought process with respect to the fact that you bought the stake from couple of SPVs while you are again booking some other income from purchasing stakes or selling stakes into couple of SPVs?

Pirojsha Godrej The cash flow question first, we paid about Rs. 75 crore for the exit in the Chandigarh project. We received about Rs. 40 crore for the inflow on the Sahakar Nagar II private equity deal.

The logic for both providing the exit while giving new deals, is that the new deals are under quite different structures and we think very sensible structure for the Company. So old projects where we did have some of these deals with minimum committed returns which are at much more than our cost of capital, we feel makes more sense to get out of as soon as we can and that is why we provided these two exits.

As for these new projects, in the last 3 years the only two projects that we have done in private equity deals on, have been the two redevelopment projects we are doing in Chembur - Sahakar Nagar I and Sahakar Nagar II. Now these projects although redevelopment projects where we are not buying the land do have some substantial peak investments. So the peak investment if you combine both the projects would be in the order of about Rs. 300 crore. Now what we have done is taken 50% of that and retained that, taken Rs. 60 crore on an upfront basis, therefore passing on Rs. 150 crore of the capital commitment on the project, taking Rs. 60 crore from our Rs. 150 crore commitment, therefore reducing our commitment to Rs. 90 crore while retaining 60% plus of profits in the project. So we think if you look at that structure, it makes a whole lot of sense. There is no minimum committed return in these projects and it is very much within our philosophy of not putting too much capital into any one project.

Puneet Jain And did you make any payment to group companies for say Vikhroli land because the trade payables went down in this quarter?

Pirojsha Godrej No, we made the payments in the current quarter, but nothing in the previous quarter.

Rajendra Khetawat The trade payables are normal creditor payments which happened in this quarter.

Puneet Jain But you have some around Rs.135 crore due every year to the group companies?

Pirojsha Godrej One payment has already been made as I said this quarter and there will be one each in the subsequent quarters.

Puneet Jain Which is this payment?

Rajendra Khetawat The land payment for the group company what you mentioned.

Puneet Jain It was one annual payment?

Pirojsha Godrej No, it is a quarterly payment.

Puneet Jain What is the quantum of quarterly payment?

Rajendra Khetawat Around Rs. 30 crore per quarter.

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

Gunjan Prithyani So we got Rs. 40 crore upfront premium for the stake sale which we did in the Chembur project, but in terms of outflows if you could just give us the bigger outflows like how much did we pay for both the private equity exits in this quarter and again what was paid for the land and the premium payments in this quarter?

Pirojsha Godrej We would not like to get into project-by-project outflows, but broadly speaking the big outflows - Chandigarh Rs. 75 crore payment and Okhla which is the new project, we had about Rs. 32 crore of outflows from a business development perspective. Also keep in mind that a lot of our projects are in the prelaunch stage. So of course for design purposes, for various approval related payments and so on, there are outflows that will happen till these projects get launched and thereafter become cash flow positive. But I think if you look at it and if you take out the payments we made for this Chandigarh project and for this Okhla project, the cash flows are neutral.

Gunjan Prithyani And for the Chennai project, did we pay the cash in this quarter in Q1 or was it paid earlier?

Pirojsha Godrej It is paid in this quarter, in Q2, we paid Rs.116 crore.

Gunjan Prithyani And just on your launch, if you could broadly give the timelines for the larger Mumbai projects that you have that is in Chembur and Ghatkopar, when do we see those launches coming through?

Pirojsha Godrej Gunjan, we specifically try to give a full year guidance this year based on last year's inability to fully predict when these regulatory approvals will come. But broadly speaking we expect to do the Ghatkopar, Chembur and Byculla launches hopefully in the third quarter and the others in the fourth quarter.

Gunjan Prithyani And on this private equity thing which you mentioned that you are trying to get out of some of the deals that you done earlier which required some minimum return or the structures were different. Are there any more deals that you would probably be looking at giving exit to the private equity players?

Pirojsha Godrej There is one other deal that we have done that has a minimum committed return which is a deal for a project in Kolkata, Godrej Prakriti, our residential project there. That project is doing reasonably well and over the life time of the project, we think that return threshold will be met through the project itself. So there is no any immediate plan of any exit action there.

Gunjan Prithyani And lastly on your execution, there seems to be very little movement on the Chennai project and the Mumbai commercial project especially the Mumbai one which was contributing significantly to the revenues over the last couple of quarters. So any specific reasons for that?

Pirojsha Godrej Nothing very specific. We have taken note to that we are expecting to fully complete that project this financial year and that continues to be on track, but I agree the percentage completion in the current quarter has been on the lower side. The process of putting up the façade has gone a little bit slower than you would have liked in Q1, but I think you will see substantial pick up in progress from this quarter onwards hopefully.

Gunjan Prithyani And Chennai we are broadly done with all the approvals, there is nothing expected on the approval front?

Pirojsha Godrej The project is under construction there.

Moderator Thank you. The next question is from the line of Anand Agarwal Agarwal from Jefferies. Please go ahead.

Anand Agarwal Sir my first question is on the launches. If I look at the new launches which are being planned in this year, I think 5 of them are in Mumbai itself. Firstly is how is your reading of the Mumbai market in terms of the slowdown in sales and do you think having 5 launches in the same year, what impact that will have on your sales. Second also given the delay in approvals that we normally see in Mumbai which is more than most of the cities, how are you placed on the approvals over there?

Pirojsha Godrej Mumbai market and broadly speaking the market across the country is a little bit weak at the moment. All of these launches are in different areas in different positions and we do not see that they in anyway sort of compete with each other if that is the question. And I think actually the demand for some of these we can generally tell by customer interest leading up to a launch has actually been very positive. So we are quite optimistic that some of these launches will actually do very well.

I think clearly there is a general weakness in the overall environment. The approvals, frankly it is difficult to comment on until we finally get the approval because things can seems like they are going on track and then something comes up. But as of now we think these are all on track so far and we are optimistic that we can get all of these approvals well in time. Some of these are already delayed and some of them are even expected to be launched by now, but we are quite confident that most of these at least will happen this year.

Anand Agarwal And secondly on the Waterside and Genesis, now that you bought out HDFC in Waterside, any progress on the sale of that?

Pirojsha Godrej There are some discussions that are at a fairly advanced stage. So we are hopeful this quarter and the rest of the year delivering better results than obviously the very poor results that we have been demonstrating over the past few quarters. At the same time it is not that the commercial market in these cities have got very strong or anything, but there is I think some cause for optimism that there will be some sales in the project over this quarter and the next quarter.

Anand Agarwal And just lastly if you can briefly spell out the big projects that will be delivered in this year FY14 that you are looking to hand over?

Pirojsha Godrej The major handovers will be in Ahmedabad where we will be handing over a very large number of units including our first phase next month. So that will be one of the big ones. Then towards the end of the year, we also plan to hand over part of Godrej Frontier in Delhi, our project in Nagpur, the first phase we are development manager. And of course Godrej One on the commercial side and Godrej Waterside is essentially complete now and also Godrej Eternia in Chandigarh.

Moderator Thank you. The next question is from the line of Abhishek Bhandari from Macquarie Securities. Please go ahead.

Abhishek Bhandari As you mentioned you have a strong visibility on potential addition of projects. Now are you talking more in terms of adding projects on the platform or on the standalone? The reason why I am asking is that are you still looking at strategy wherein you first get the project and then sell it to APG and get an upfront premium as you did in Sahakar Nagar?

Pirojsha Godrej No, I think that was more of a one-off. We knew we wanted to do a private equity deal in the project given the large peak funding requirement given that we already have an exposure in that market with Sahakar Nagar I and given the project type definition that we were looking for under the platform, we offered that to the platform. But the platform model continues to be a 75-25 structure with the development management fees. So there was no expectation of any further upfront capital projects with the platform.

Abhishek Bhandari You would have done some budgeting for CAPEX in the BKC project and also that your 5-6 projects lined up in Mumbai for next 12 months in terms of fungible FSI or approval related expenses. So any ballpark number around that?

Pirojsha Godrej No, I would not like to get into those details and it is also obviously the goal to make the inflows in each case correspond with any outflows. We made good progress on that in the first quarter for Godrej BKC where we had bookings of Rs.330 crore. On the residential side, there are not too many projects where there is a substantial upfront capital commitment. The only one that did have a reasonably substantial peak investment, we have done deals that have reduced that peak investment considerably.

And you had asked the question, in terms of whether from a business development perspective, we were looking more at platform deals or other types of structure. I think it continues to be a good mix of structures. We see a lot of opportunities to do new joint ventures that are currently under discussion. We have some good development management fee projects that we hope to be able to announce shortly, some in the redevelopment pipeline as well as some that we are looking at for the platform. So those continue to be sort of a broad based strategy to business development, all of which of course have the common strategy behind them of remaining relatively capital efficient in all of the projects we have.

Abhishek Bhandari My last question is around the debt part. There has been some minor increase here and there of about Rs. 100 crore in this quarter, but in terms of the company's strategy over medium term, are you looking at a specific ratio of leverage or an absolute amount of debt where beyond that you will not want to stretch your balance sheet?

Pirojsha Godrej We will keep an eye on both Abhishek and we have reiterated that we think our current positioning is quite comfortable. We have historically guided that from a gearing perspective we were comfortable with a ratio of anywhere from 1:1-1.5:1. Clearly now with the plan to raise additional equity, we do not see gearing levels adding to those levels. So now the revised levels we would like to keep it between 0.5:1-1:1 post raising of additional equity. The absolute number is also something that can change over time, but I think we are broadly comfortable in the zone that it currently is at and we would like to keep it around these levels.

Moderator Thank you. Next question is from the line of Adhidev Chattopadhyay from HDFC Securities. Please go ahead.

Adhidev C Firstly wanted to understand the broad strategy of the Ahmedabad projects, it will be I guess around 4 to 5 years since we did the first launch. Now this time we have launched around 22-25% of the area in that project. So what do you see overall the project the timeline for the entire sale and completion of this project, more on an overall basis?

Pirojsha Godrej As you rightly pointed out so far we have launched, now we sold about 4.5 million square feet of space totally in the project including about a 0.25 million square feet in the first quarter. I think the overall duration of the project will frankly depend quite a lot on the overall market performance. I think clearly our initial expectations going into the project were perhaps a little overly optimistic in terms of the timeline that a project like this could be totally completed in, even from a sales perspective. I do not think the current sluggish sales environment is likely to persist very much longer and certainly I do not expect to persist for the duration of a project like this. So we probably have at least another 10 years in the project and it could be more than that depending again on broadly how the market does, but we are happy to release some new inventory. We have done quite a lot of work on value engineering, on cost optimization. So we think the project is getting back on track from a sales momentum point of view and is also starting we think to look much better from a margin point of view going forward.

Adhidev C Why is the tax rate high for the quarter?

Rajendra Khetawat The tax rate is high because some of our commercial projects are selling below breakeven. Because of the negative contribution, those are being developed into separate SPVs, so you cannot set off the tax and that is why the tax rate is high.

Adhidev C This is the one-off or is it something which it will be on the higher side now for the rest of the year till these projects get over?

Rajendra Khetawat This is on account of commercial projects, Kolkata commercial projects and Chandigarh commercial project. Hopefully going forward once these projects start getting monetized at the breakeven, the tax rate would come to the normal rate.

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

Sameer Baisiwala Pirojsha your average cost of borrowing is about 11.4%. Where do you see it go over next 6-12 months?

Pirojsha Godrej The average cost of borrowings of the Company has been coming down slightly. Of course we will have to see now, there has been as you all know some recent development in terms of the policy front. So we will have to see what happens of the interest rate. But we certainly think that over 12 to 24 months horizon, there is likely to be substantial reduction. I think over the next 12 months it will really depend again on the policy environment, but I think we see a better probability of them coming further down than in anyway increasing. And we have been able to in some of our recent deals get very attractive financing cost.

Rajendra Khetawat Like you must be aware we have done our CP program, CP rated for Rs. 400 crore. So we have been able to place CPs at a very fine rate. So this 11.40% is a blended average borrowing cost which includes Jet Commercial Project also which is at slightly higher rate of 12.4% because it is a 5-year long-term project. If you exclude that, our average borrowing costs is below 11%.

Sameer Baisiwala And for the co-investment platform, if I am not wrong I think roughly about now you have already committed about Rs. 350 crore out of this platform.

Pirojsha Godrej Broadly correct.

Sameer Baisiwala And you planned to deploy balance Rs. 650 during the course of this fiscal year?

Pirojsha Godrej Right.

Sameer Baisiwala Fairly substantial amount. Do you already have those projects in site some cities, what kind of projects are we talking about?

Pirojsha Godrej We have some projects under discussion and clearly I am not by any means saying that certainly all will happen in this financial year, but in a model where intentionally going after projects that do require upfront capital, I do not think Rs. 600 odd crore capital is a very large amount. It could get deployed in those 2-3 projects.

Sameer Baisiwala This platform is meant for all pure equity investments.

Pirojsha Godrej Correct.

Sameer Baisiwala And once this gets exhausted, are there any plans to for you or for APG to really top it up?

Pirojsha Godrej Those discussions have not yet happened and the focus on all sides is to obviously successfully deploy these projects, start getting these projects launched and so on. Clearly on both sides, there would probably be an appetite for extending this, but as it is the first time we are doing this, we would like to first make sure that both sides are very happy with the outcome. Based on how quickly we invest it and how we and other investors are looking at the initial investments, we will take a call at that stage. But certainly I think assuming that we all are happy with it, there is an appetite for further increasing this as needed.

Moderator The next question is from the line of Rahul Bhatt from Crisil. Please go ahead.

Rahul Bhatt My question was with perspective of Godrej Garden City Ahmedabad. You mentioned around 0.24 million square feet was sold in Q1 FY14; however, despite a weak market in the Ahmedabad real estate, so was it because of the price competitive discounting or it was mainly led by the investor growth?

Pirojsha Godrej No, it was not because of any discounting. If you look at it, prices have continued to move up in that project, although at the same time obviously we price it in the way that we think we will get a good market for. We have not taken too sharp a price increase, but I think we have seen in better markets even higher volumes in Ahmedabad. We launched some phases where we sold many hundreds of thousands of square feet in a week. I think the weakness in the market is also reflected as we could not do even more than this, but my point was that given the current environment which is obviously nationally quite poor but in Ahmedabad has been even poorer, we think this is a pretty good traction for the project.

Rahul Bhatt And you mentioned there was a launch of Phase-5, so is 1 to 4 phase completely sold out or there is some inventory left from there?

Pirojsha Godrej It is about 10% or so of the overall inventory left in those. The inventory we have launched in this phase is different from the inventory we currently had which has also given some impetus to sales.

Moderator The next question is from the line of Anand Agarwal from Jefferies. Please go ahead.

Anand Agarwal Just wanted an update on the Panvel project in terms of both the FSI and where we are on being able to launch the project?

Pirojsha Godrej The project is sort of still in the approval stages. I think realistically this project will probably get launched next financial year. We still have sort of internal target to try and do it in Q4, but I think given the approval timeframe for the project of this scale, that it is likely to happen next financial year. In terms of the FSI, we still do not have absolute final clarity on that, but our expectations again is that the FSI is going to be in the range of about 1.3 which would give us saleable area on the current land of over 10 million square feet.

Moderator Thank you. The next question is from the line of Jayesh Gandhi from Morgan Stanley Investment Management. Please go ahead.

Jayesh Gandhi My question is regarding the ROE for the Company. This year the expectation was that we will hit the double digit ROE number, but because of the rights issue now again probably ROE for the Company as a whole would be lower. So my question is assuming we do collect the Rs. 700 crore in rights and our net worth would be around Rs. 1,500 crore already plus Rs. 700 crore that is Rs.2,300 -2,400 crore. By what timeframe do you expect to hit a 15-20% ROE number, in the next 2-3 years?

Pirojsha Godrej Certainly that is the goal. I think first of all we do expect to hit a double digit ROE this financial year. But we have to balance both short-term delivery on ROE versus ensuring that we are creating a sustainable model for much higher ROEs on a forward looking basis. There is no doubt that some aspects of our performance of the last 5 years has created a drag on ROE, some of the performance in some old commercial projects in particular where we got a lot of capital tied up not generating the kind of returns we would like.

We would like to think we learned the correct lessons from that and all our new projects will have a much stronger performance on these metrics. But keep in mind that in this business it is impossible in some way to change these metrics overnight. By the time we add a project, it takes a minimum usually of about 12 months to get all the approvals and launch the project and thereafter another 12 months in minimum to get the project to the revenue recognition threshold given the accounting rules. So we certainly think that it is evident that we are demonstrating currently, we will continue to demonstrate over the next few months that our ROEs are heading in the right direction. At the same time it will be quite easy for us to hold back on investment and thereby increase ROEs in the short term by not investing, but we continue to think that the kind of terms that we are investing at in new projects is hugely ROE accretive for the Company over the medium term and we would like to continue to do that. In short, we would like to get to 14-15% number you spoke about by next year and we would like to be double digits minimum this year.

Jayesh Gandhi 14-15% on the expanded equity basis what I was looking at?

Pirojsha Godrej That is right.

Jayesh Gandhi Wonderful, we should sustain or improve on that number going forward in the future years as well is what I was asking?

Pirojsha Godrej Certainly that is the aspiration, but again it is not that we will just deliver short-term ROE by holding back on investments. We think we can do both, continue investing and deliver improvements in ROE. If you look at all the projects we have added in the last couple of years, they are pretty much all very high ROE models. So we look at all the development management fee projects for example are infinite ROE projects, all the profit sharing projects where we have given very moderate kind of advances are also very high ROE projects. I think if you fundamentally analyze the portfolio, at least the newer projects in the portfolio, I think there is no reason why ROEs should not be improving.

Jayesh Gandhi I understand that. The point is that another fresh dose of Rs. 700 crore which is equivalent to 50% of the existing liquidity base is being added to the equity and so I was just wanting to know how long will it take for this additional Rs.700 crore equity to generate adequate ROE and you are suggesting that it will probably happen in one or two years itself?

Pirojsha Godrej That is right.

Moderator Thank you. The next question is from the line of Mahesh Bendre from Quantum Securities. Please go ahead.

Mahesh Bendre About the Panvel project, you mentioned that we will be able to launch next year. The success of this particular project depends upon the Navi Mumbai Airport. Now that airport development has been getting delayed for a long time now. The land acquisition is still not completed. So we will be waiting for that development or we will go ahead with the launch?

Pirojsha Godrej No, I think the goal will be to launch the project once the regulatory approvals are all in place. Clearly as you rightly pointed out I think a lot of the upside and the excitement in the project is reliant on the positive news on the airport and the Nhava Sheva Sewri Link. That said there are projects in Panvel that are already doing very well. That area is coming up. I think it is only a matter of time before firm action is taken on the airport and the bridge. But I do not think the project is dependent on that. We think we can launch the project and do well in the project even if that announcement will further postpone, but certainly I think that would be quite an exciting upside for the project as and when some firm action does take place.

Mahesh Bendre Second question is out of our residential projects, Gurgaon seems to be one of the biggest project we have around 10 million square feet area. So FY15, do you think it is possible that it will be launched?

Pirojsha Godrej I think to be perfectly honest, we do not have a great degree of confidence on the launch timeline of that project. The partner in the project whose responsibility was to get certain regulatory approvals has not really been able to do that for quite some time. I think frankly if you look at the economic interest we have in the project also compared to some of our newer projects, it is not the most exciting project from a return perspective, although the scale of the project is quite large. We continue to evaluate the best way forward in that project, but I would not like to say that we have any imminent plans for launching it.

Moderator Thank you. The next question is from the line of Adhidev Chattopadhyay from HDFC Securities. Please go ahead.

Adhidev C Could you please share the customer advances number at the end of the quarter please?

Rajendra Khetawat It is around Rs. 540 odd crore.

Adhidev C And my second question is pertaining to construction cost. Could you give us a broad range of what would be the range of construction cost across our affordable and premium housing projects and any budgeted construction spend for the year as an entity if any?

Pirojsha Godrej Obviously quite a broad range of construction, we have projects in our portfolio that are selling at Rs. 20 lakh a unit like some of our current inventory in Ahmedabad, we also have a cost commercial office space in Bandra-Kurla Complex. So if you are asking for that range is probably about Rs. 1,500 to about Rs. 4,500.

Adhidev C And any budgeted construction spend overall for the company as a whole for the year?

Pirojsha Godrej No, I do not think we would like to talk about that number. It is dependent very much on approvals, progress and several other points.

Adhidev C If you could give us some color on over the last year how have the construction costs moved up. What has been the year-on-year increase in the cost and what is the biggest element of cost pressures you are saying?

Pirojsha Godrej I think over the last year actually cost pressures have been relatively muted compared to some of the previous years where there were very rapid escalations in cost. I think there is a lot of commentary now that the commodity super cycle has gone through and is actually likely to see a reversal which would of course benefit us. So broadly speaking steel and cement costs are lower now than they were 12 months ago. There are some costs like cost of labor that has continued to rise, some one-off items like sand that has seen quite dramatic price increases in some areas, some projects where we have a substantial amount of import for these items. Obviously the rupee weakness had some impact. But overall I think the cost pressure environment has been much better over the last few months than it had been in 2010-11.

Moderator Thank you. As there are no further questions I would now like to hand the floor back to the management. Over to you sir.

Pirojsha Godrej I hope we have been able to answer all your questions. If you have any further questions or would like any additional information, we would be happy to be of assistance. We hope to have your valuable support on a continued basis as we move ahead. On behalf of the management I once again thank you for taking the time to join us today.

Moderator: Ladies and Gentlemen on behalf of Godrej Properties Ltd. that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

- ENDS -
