Godrej Properties Limited

Q4 FY 2013 Conference Call Transcript
May 10, 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: Good afternoon everyone and thank you for joining us on Godrej Properties Q4 FY 2013 Results Conference Call. We have with us Mr. Pirojsha Godrej – Managing Director and CEO; 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, I would like to point out that some statements made in today's call maybe 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 Q4 FY 2013 Conference Call. I would begin by quickly discussing the highlights for financial year 2013 and for Q4 and we will then look forward to taking your questions and suggestions.

FY2013 has been a successful year for Godrej Properties. In a tough macroeconomic environment in which the real estate sector has struggled, we delivered strong growth in bookings, revenues and profits and on most operational and financial parameters have had our best ever year. Our bookings in FY13 grew by 58% in area terms and by 71% in value terms, while for the sector there was a decline in booking volumes in FY13. Our total income for the year grew by 28%, our EBITDA grew by 43% and our net profit grew by 41%.

We added 8 new projects to our portfolio in FY13 including 3 new projects in the 4th Quarter. In particular we have had very strong growth in the Mumbai market where we added 6 new projects in FY 13 including 5 new redevelopment projects. We have now added one new redevelopment project in each of the past five quarters. It is encouraging to see the momentum we have in this space and these projects coupled with our new joint-venture projects and our residential investments platform will help sustain growth going forward. For new projects that we add to our portfolio, the focus has been entirely on residential projects in target cities and on favorable deal structures that enhance our margin profile. This has allowed us to add projects that we think will create very significant amounts of future profits with limited upfront investments. 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. In addition to all the new projects we added in FY13, we also concluded an agreement to create a residential investment platform through which we will be able to source additional projects particularly those with high upfront financial commitment. Furthermore the income received from management fees is an added advantage of the Godrej residential platform. In the 4th Quarter the size of this platform was increased to over Rs.1000 crore. We hope to deploy most of the funds from this platform in the current financial year.

One of the key highlights for Godrej Properties in FY2013 was a large number of successful new project launches that we had across the country. In total we were able to launch 13 new projects of phases in 6 cities across the country. Almost all of these launches have been very successful and some of the highlights included Godrej Summit in Gurgaon where we sold 1 million square feet in one day. Godrej Platinum in Vikhroli where prices increased by 40% in one year and Godrej E-City in Bangalore where we sold out of the first phase far ahead of our initial schedule. These are 3 examples from the 3 largest real estate markets in the country, NCR, Mumbai and Bangalore and we look forward to continuing to build our presence in these markets through new project additions and new launches in the current financial year. These successful launches played a key role in enabling us to grow our bookings by 71% which in turn resulted in us ending the financial year with bookings in excess of US$ 500 million. The 4th Quarter saw good progress on new launches with 4 new projects being launched, including Godrej BKC our flagship commercial project in Bandra Kurla Complex in Mumbai. Despite the commercial market in the country going through a period of weakness, we have seen a substantial interest in the project, sold 50,000 sq.ft. within a few weeks and look forward to the project's ongoing success in the year ahead. Two other significant launches we had in the 4th quarter were the opposite ends of the pricing spectrum, with a luxury project launch in Alipore, Kolkata where the average unit price is in excess of Rs. 10 crore and in Ahmedabad where we sold 150 units of smaller sized apartments within 2 days of launch. The tremendous success of these 2 launches on opposite ends of the country and opposite ends of the price spectrum gives us tremendous confidence in our ability to attract customers for our residential development plans across the country.

While business development and sales have been areas where we have been doing well for a while, one area where we wanted to demonstrate an improved performance last year was in terms of operational excellence. With this in mind we launched an operational excellence initiative called 'Project Pyramid' in FY13. Through this initiative there has been a substantial enhancement of our capabilities across parameters like approval processes, cash flow management, value engineering and contracting and design strategy. There have already been visible results including the fact that we have ended the last three quarters and the full year with positive cash flows and reduced debt despite having added 18 new projects to our portfolio in FY12 and FY13. We are confident that the improvement we have made through this initiative will continue to yield positive results in the year ahead.

Another important area of focus for Godrej Properties has been in ensuring we are building a team capable of delivering our large growth aspirations. In FY13 our total employee strength increased by 25% and a lot of work went into ensuring the selection of the right talent and into team building and capability development. I am happy to report that in the "Great Places to Work Study" which is an annual study with over 500 companies participating, Godrej Properties has been adjudged as the 14th best company to work for in India. We have also been recognized as the 2nd best company to work for out of all companies with less than 1000 employees and as the best company to work for in the real estate sector. In an employee engagement study by Hewitt, our employee engagement scores came in at 80% which was a 14% improvement over the previous year and was well above the average for the best in-class companies in Asia. Continuing to develop talent and ensuring a growth oriented organization will remain a critical priority in the year ahead.

We did of course have our fair share of disappointments in the Financial Year 2013. Despite it being by far our best ever year for new launches and bookings growth, we were only able to achieve 70% of the total launches we had hoped to in FY13. Regulatory approvals continue to sometimes frustrate our best efforts to crash pre-launch timelines, but we have made a lot of progress this year in ensuring we do everything we can from an internal process and effort perspective. We also fell far short of our goal in terms of sales in our commercial projects in Kolkata and Chandigarh. Unlocking capital from these projects remains a critical priority for the year ahead. Another ongoing challenge has been generally low margins in some of our older projects but we have been very happy with the progress we have made this year in terms of improving our business development and operational strategies to ensure our newer projects yield superior performance in these areas.

With that summary of the year gone by, I will turn to a quick overview of our 4th Quarter performance. As I mentioned it has been a good quarter for us both in terms of new projects and new launches. We added 3 new projects to our portfolio, 2 in Mumbai and 1 in Pune. We also commenced sales in 4 new projects in the 4th Quarter each of which received a good response. Another highlight in the 4th Quarter was our official handover of the first phase of our Godrej Prakriti project in Kolkata which has been done as per committed timelines.

While our reported numbers show a 22% decline in bookings in Q4 this is largely due to the impact of a large sale to our group companies in Q4 FY 2012. Excluding sales in Godrej One from both the quarters, our bookings actually grew by actually 27% in area terms and by 90% in value terms in the 4th Quarter. Similarly our 4th Quarter reported revenue showed a 16% decline largely because of the substantial sale in Q4 FY 2012. Despite that sale and a private equity deal having been done in Q4 FY12, we have been able to grow our Q4 net profit by 34%. Our EBITDA margins for the quarters stood at 32%, a substantial improvement over 27.3% margin in Q4FY12.

I would also like to briefly comment on two announcements we recently made. Firstly as we have discussed in our call last quarter, the Board of Directors of Godrej Properties approved a scheme of amalgamation of Godrej Waterside Properties Private Limited, a 100% subsidiary of Godrej Properties with Godrej Properties subject to the approval of the High Court of Mumbai. The High Court has since approved this scheme as approved by the court we have adjusted the difference between the fair value of the net assets of the subsidiary against the reserves. Approval of the scheme now allows us greater operational efficiency and flexibility, a simplified structure and other fiscal benefits.

Yesterday, our Board also approved a plan to carry out a rights issue within the current year. 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 anyway 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 have created by adding 10 new projects since our IPP in financial year 2012. We have increased the size of our residential investment platform to over Rs.1000 crore of which our share will be 25% and we hope to deploy most of the funds from the platform this financial year. We are also looking at many exciting joint ventures deals that will require some advance payments. Additionally although there are no commitments due in financial year 2014, we may look at exiting ahead of schedule from some of our older guaranteed return PE deals that have a high cost. Given our substantial growth plans, we believe using additional equity to 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 prospective, we believe it is it not at all attractive to dilute ourselves at current valuation and that further investment into Godrej Properties at this stage is likely to yield a tremendous return on investment. Given that the promoter holding in the company is 75%, 3/4th of the capital for the rights issue will be committed by the promoters and is we believe a strong vote of confidence in the growth prospects of Godrej Properties. From a timeline perspective, we hope to complete the exercise around the end of the second quarter.

We believe that the Indian economy has bottomed out and the interest rates would continue to decline in the year ahead. The combination of better GDP growth, lower interest rates and improved consumer sentiment could lead to a hugely improved outlook for the real estate sector. Our national presence, strong brand equity and large number of new projects leave us in a good position to fully capitalize on this opportunity.

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. Ladies and Gentlemen we will now begin with the question and answer session. Our first question is from Puneet Jain of Goldman Sachs, please go ahead.

Puneet Jain: My first question is with respect to the merger which you have done of Godrej Waterside with the parent company, you had mentioned in the last call that one of the reasons you are doing it is to get certain tax benefits, so now while you are taking the merger through the balance sheet, will you get any tax benefit in the future and what are the benefits of doing it vis-a-vis balance sheet or vis-a-vis P&L?

Pirojsha Godrej: I do not think that was the reason we gave that, there are several reasons why this made sense but from a tax prospective it is the same impact to doing it through the balance sheet and doing it through the P&L.

Puneet Jain: So will the tax rate reduce in the next two years because of the value you have written down for this particular project?

Rajendra Khetawat: Yes, since it is a one project subsidiary company you do not get that set off. Now in case if you are selling it below the cost that set off would be available on merger with the parent company you can set it off against the other profits of the other projects.

Puneet Jain: So will the tax rate reduce?

Rajendra Khetawat: Yes the benefits would be available going forward.

Puneet Jain: The second question is in respect to the rights issue, do you think that post this capital raising will you be done with fundraising or will you require further fundraising at some point of time in the future, what is the thought process?

Pirojsha Godrej: I think with this fund raising and with our plans to monetize the commercial portfolio, we might be done with fundraising for a very long time. Of course it does in some way depend on the pace of growth, the number of opportunities. So we cannot say that we may not ever need further equity but clearly we think this will take care of equity requirements for, in all likelihood, a very long period of time.

Puneet Jain: What you have done with Godrej Waterside, are there any other projects which you have in your portfolio which may need to be written down?

Pirojsha Godrej: No immediate plan for any other projects, Godrej Waterside was clearly the one which was well below breakeven pricing, of completed projects. We have other commercial projects but we don't plan similar things at least for now and which are at about breakeven levels currently.

Moderator: Our next question is from Anand Agarwal of Jefferies, please go ahead.

Anand Agarwal: You briefly mentioned about exiting from some of the older PE transactions, what do you mean by that? And secondly, these are all equity transactions, so what is the need for you to exit?

Pirojsha Godrej: As we have indicated previously two or three of these older ones that we had one in 2007-2008, two have committed returns to the investors. They are equity transactions; the thought is, and again as I said nothing is due in this financial year but we may look at exiting ahead of the schedule from some of these investments or providing exit rather ahead of schedule.

Anand Agarwal: And if you could briefly expand on what is the strategy for exiting Waterside Genesis and Eternia - the commercial projects?

Pirojsha Godrej: The strategy remains through sales, obviously it's been a bit frustrating that we haven't been able to do this faster than we like, all developers are struggling a little bit with commercial projects, particularly in some of the secondary cities. Now all 3 projects are closer to completion, we do hope to see improved traction but clearly we have been disappointed in the past year by that traction and I hope we can deliver a better performance on it this year.

Anand Agarwal: The rights issue that you are doing, the fund that you will be raising, would that be for making the BKC land payment and the balance payment to the G&B or is this for further future opportunities?

Pirojsha Godrej: As I said in my remarks we think for current projects accruals will be enough to service the financing needs. This is very clearly capital that we need to sustain growth. We have added a large number of projects; we hope to continue adding a large number of projects including projects in the residential investment platform which we think are very attractive return projects but will require some amount of upfront investments. So clearly this is not meant as capital to provide funding for our existing portfolio.

Anand Agarwal: In the launch tracker that is shown in the presentation you're shown rightly the Ahmedabad Phase 5A launch that has already being done but does that mean that there will not be any more launches in Ahmedabad in this fiscal year after this?

Pirojsha Godrej: It doesn't mean that, there will be other launches. There have already been other launches but the point is that we don't think that specifying exactly what phase, based on our experience from last year, makes sense. So there are more launches planned in Ahmedabad and we will certainly update on those as they happen but we would not sort of like to get into each sub phase and guiding based on last years' experience.

Anand Agarwal: What is the amount of payment that is due on the BKC land payment and the G&B in FY 14 or what do you expect to pay in FY14?

Pirojsha Godrej: For the G&B, land payment it is about Rs.120 crore, for BKC there is a little bit lack of clarity, we don't expect any major land payments this financial year but that could change.

Moderator: Our next question is from Gunjan Prithyani of JP Morgan, please go ahead.

Gunjan Prithyani: Firstly on this PE deals which you mentioned that you are looking to provide exit, from what I understand these are primarily for the commercial projects, so if you could just give us the total amount that is there which is being put in and the amount which is accrued to these investors?

Pirojsha Godrej: We don't have that currently available, there are a couple of projects, one is a commercial project and there is also a residential project and rest you can follow up off-line with Rajendra.

Gunjan Prithyani: On your BKC project, now that you have launched it, could you just give us what is the total project cost including the MMRDA premium?

Pirojsha Godrej: Again the total project cost is a function of what the capital cost end up being. The big buckets of course as we have indicated are roughly Rs. 550 crore for the land payments, about Rs. 500 crore of construction cost. We already have about Rs. 800 crore of capital in the project and then depending on how the monetization happens there will be a finance cost.

Rajendra Khetawat: So in short it would be Rs. 1,700 -1,800 crore plus the finance cost depending on the cash flows.

Gunjan Prithyani: Rs. 1700 to 1800 crore is basically construction and land cost in the MMRDA premium?

Pirojsha Godrej: Yes.

Gunjan Prithyani: On this Vikhroli project, in your new launches you mentioned that there is Residences at Trees, so the launch that we are looking at Vikhroli next year is the land that we own and there won't be any launch alongside, an additional phase launch for the one which we have an agreement with the group company?

Pirojsha Godrej: If you look at the slide there are two things in Vikhroli, one is the residential of Trees which you rightly pointed out which is a new project in that at least a residential part is a new project but if you look at the new phase launches you will also find Godrej Platinum in Mumbai, so we have a fourth tower of that project that we will also be launching this financial year.

Gunjan Prithyani: And on the Trees project the only commercial is what is going on in the rest is entirely being converted into residential now?

Pirojsha Godrej: No that is not necessarily true Gunjan, we haven't taken a final decision on it. The whole project is 3.5 million square feet so it is a sizeable project. 750,000 square feet of which is Godrej One is obviously going to be commercial. The next phase we would like to do is a residential, we still think we would like to at some point down the road do a five-star hotel and potentially depending on the outlook for the office market do some more office space but clearly for at least the next two or three years the focus would be on the residential real estate there.

Moderator: Our next question is from Sameer Baisiwala of Morgan Stanley. Please go ahead.

Sameer Baisiwala: Just a couple of clarifications, you said rights issue end of second-quarter, are you referring to the calendar quarter?

Pirojsha Godrej: The Financial year.

Sameer Baisiwala: And given that the promoter holding is 75%, post the rights issue you would not be allowed to go above 75%, so you would be constrained to the extent the minorities participate?

Pirojsha Godrej: That is right but we are confident that we will be able to do the rights issue the size we would like and maintain that promoters' threshold but it is correct that the promoters' shareholding can't go above 75%.

Sameer Baisiwala: Other question is on the operation side, if I look at the last two years, FY12. you sold about 2.6 million that saw value of Rs.16 billion and then FY13 you sold almost Rs. 28 billion, what is the outlook for fiscal 14?

Pirojsha Godrej: We are not sure we are going to guide on that in any case but now with the rights issue officially not allowed to, so certainly we have been growing as you have seen one of the other success of this year we have added a lot of new projects, we have a pretty aggressive launch calendar so we hope to sustain momentum but I won't put a specific number to it.

Sameer Baisiwala: But directionally speaking it is a growth that you are looking at over FY13?

Pirojsha Godrej: Again you are asking for the guidance and a number, clearly we are a company in a growth phase and that has always been our intent.

Sameer Baisiwala: One question I wanted to check, its quiet a situation in the 4th Quarter that you did summit 1 million square feet all residential all sold in day one and then we had almost about 1 million square feet at BKC Godrej and you sold 50,000 which is about 5%, both are kind of a study in contrast and would you say Godrej BKC having achieved just 5% of the total inventory that you have is a success or how do you see this sales momentum as you go forward?

Pirojsha Godrej: Frankly comparing mid -income residential in Gurgaon to super high-end commercial in BKC are not very valid comparison at all. Certainly the summit success was an outstanding success, one of the more successful launches for the sector in this financial year. We're quite happy with our BKC launch and we have been able to sell significant amount of space, we have not launched all of this space in the project, we certainly we don't want to, even if we could sell a million square feet at current valuations. We have indicated that our goal will be to sell the projects in about equal area terms over a four or five-year period, so we are on track to deliver on that goal. But I think commercial phase are inherently going to be a little bit more lumpy and more steady than residential sales and again we have no intent or desire even if we could to sell out of a project like this on day one.

Sameer Baisiwala: Just to understand, from your launch price which I think about Rs.25,000-Rs.26,000 base selling price at a Godrej BKC, have you taken a rise or at what point of time do you would think you would be taking a next rise?

Pirojsha Godrej: I think that is the sort of information that we think is competitively sensitive, we do have other projects that we are competing with, so we wouldn't like to talk about our pricing strategy, it can also be quite individualized in commercial real estate based on payment terms and other things, and I don't want to comment on that.

Moderator: Our next question is from Ashok Damani of Ramesh Damani Finance. Please go ahead.

Tarbir: Lots of people are saying that the commercial outlook is very weak in BKC, how do you guys view it as of now?

Pirojsha Godrej: We have obviously been asked this quite a bit. Our position is the same as it was, which is that there is no question that the current commercial market is not very strong in most locations, at the same time there is a great deal of confidence in us that with this location, with this project, there is no question of us not being able to find demand. The strategy we have intentionally to make sure that we do have some sales upfront to manage the cash flows and not be putting in more capital but also if we have some space to benefit as the commercial market improves over the next two or three years, we would think it almost certainly will and the reason for that outlook is pretty straight forward, I think almost any developer in the country now is not committing any new commercial space, so just by the logic of supply and demand if the Indian economy is likely to improve over the next year to three years which we think it is very likely to improve, if interest rates continue to come down, if business confidence comes back in demand for commercial space increases, there simply isn't going to be the supply to cover up that demand. This is exactly what leads to the cyclicality of this sector people over commit sometimes when periods are good and under commit when they are bad, but our sense is there is no reason to think that the commercial market is going to be in a sustained downturn over a very extended period of time unless one's outlook is that the Indian economy itself is going to be through a very difficult period for a very long time which is certainly not our outlook.

Tarbir: The other one is slightly more nebulous I think for you as well as us, but what is the probability of us selling 10 million square feet sometime in the next five years?

Pirojsha Godrej: Who knows what is going to happen and in real estate sometimes we don't know what is going to happen on the next day rather than the next five years but certainly our growth plans are such that if we are successful certainly that should be achieved.

Moderator: Our next question is from Mahesh Bendre of Quantum Securities. Please go ahead.

Mahesh Bendre: My question is broader in nature. We operate into 11 cities in India; apparently there has been a general slackness in the demand for offtake of real estate in various geographies. Some places affordability has become a major issue because of the sharp price rise in the prices. Do you think this is more of a cyclical issue and with softening and better economic growth buyers will revisit the market or there could be a structural issue wherein the real estate prices needs to turn the scale back so that the end user will come back?

Pirojsha Godrej: I think it is certainly more of the cyclical answer. Clearly real estate is a very cyclical business, there is no question when the economy has a year like the Indian economy has had over the last year that expecting this sector to do very well is unrealistic, so certainly as interest rates continues to come down and consumer sentiment improves, we feel the sector will undoubtedly be a key beneficiary of that. Of course there may be individual markets or micro markets where pricing is an issue but I don't think certainly on a holistic basis that is the key issue.

Mahesh Bendre: In the presentation we have mentioned that the Panvel Township project, we would like to launch in the second year probably in the second half of this financial year, so what will be the quantum of that launch?

Pirojsha Godrej: As we have particularly left that out of the official list of projects we have mentioned that we do hope to launch that. With the Township Project the approvals given our experience may take us into FY15 but certainly our intent would be to try and launch it this year. Frankly in terms of size of launching and pricing of launching which is something we decide much much closer to the actual launch so we won't know that internally until a few months before the launch but we have said that we expect the project to end up being a 10 million square foot plus project. Obviously for a project of that scale would like to get going with a substantial size phase, so again there is nothing particular that we have in mind now but it is not likely to be a very small phase as and when we do launch it.

Mahesh Bendre: But how many phases, or what in period will it be developed, any idea?

Pirojsha Godrej: No, with projects of this scale honestly is more of a thing of seeing how the launches react and then planning the next phase, so certainly the 10 million square feet plus sort of size we do think this is a 8 to 10 year project.

Moderator Our next question is from Shubhankar Ojha of SKS Capital and Research. Please go ahead.

Shubhankar Ojha Wanted to understand a couple of things about your financial structure, one is your current gross debt is about Rs. 1700 crores and your interest cost for the full year consolidated is only about Rs. 3 crores at an average cost of debt of about 12% roughly, so I guess a large part of your debt, interest cost is being capitalized, is that correct?

Rajendra Khetawat Yes, this is as per the accounting standards. When you start a project, till the project completion whatever money has been spent on that you capitalize those interests and the expense of that interest happens through cost of sales when the project start recognizing the revenue.

Shubhankar Ojha So the cost of sales is where the interest cost effectively comes in, so the cost of sales for the current year would have the cost of the completed projects as per the revenue recognition?

Rajendra Khetawat Right.

Shubhankar Ojha Secondly, I think this has reference to your earlier question since you have effectively disguised debt in the form of PE investments with assured return at the SPV levels, what would be the quantum of that of that liability at the assured future committed exits, some flavor of that would be very essential for investors to know, I think.

Pirojsha Godrej Again these are projects that over a duration the exits would be provided. We don't have that number off the top of our head. You can follow-up with us off-line

Shubhankar Ojha So how are you accounting for those assured exits, for example isn't the PAT over stated due to non-recognition of your effective financing cost because effectively your PE deals I understand from the industry is at around 17% to 18% assured return exits to a lot of the PE Funds. Last year also even despite a reported profit of about Rs. 140 crores your effective net-worth is actually down in FY13 over FY12, so is that because you are accounting for, is it fair to assume that Rs. 150 crores is the amount of effective financing cost that you have borne on account of assured returns to these PE exits because that is the amount by which your net worth is actually effectively gone down?

V. Srinivasan In all these subsidiaries, essentially it is checked for impairment and only along with the return if the value of the project is lower than that you need to provide for the impairment. So it is not correct to say that we are not expensing it out, the project is able to bear these kind of costs and as far as the net worth reduction is concerned which you said about Rs. 122 crores as we have mentioned in the notes to the account has been adjusted on account of this scheme of amalgamation which is approved by the court.

Shubhankar Ojha Can you confirm what the assured return rates are to the PE funds on the SPV level?

Pirojsha Godrej There are different rates between 15% to 20%.

Shubhankar Ojha So your effective cost of funds is much higher than what you have actually reported?

Pirojsha Godrej No it is not higher, this is a different form of capital, so no, I would disagree with that.

V. Srinivasan The project bears the cost of these funds.

Pirojsha Godrej If you require clarifications take this off-line.

Shubhankar Ojha But what is am asking is, isn't the SPV level debt where Godrej Properties effectively holds 51%/49%, isn't that just another form of debt effectively because it is backed by a guarantee by the parent and there are clear cut exit IRRs assured to the investors, they are not exactly equity transactions? So isn't that effectively a debt deal? How is it different from an assured return?

Pirojsha Godrej They are structured equity transactions with returns linked to the performance of the project with committed minimum returns.

Shubhankar Ojha Exactly, so effectively are they disguised debt as far as future liability on the company?

Rajendra Khetawat They are not, under Indian GAAP these are purely equity transactions and this assured return comes into play only when your projects cash flows are insufficient to meet their exit goal, so till the time the project gets completed and exit comes it is very difficult to say these are an assured debt.

Shubhankar Ojha Right but there is a corporate guarantee by the Godrej Properties, the parent company?

Rajendra Khetawat There is no corporate guarantee, these are exits which all the investors need to be provided whether it is the assured returns or a non-assured return. The PE investor needs to have some form of an exit.

Shubhankar Ojha But the company regardless of whether the project delivers the expected cash flows or not, the parent has to bear the cost?

Pirojsha Godrej We said that there is a committed return and we do plan to give on these projects

Shubhankar Ojha I'm saying you are obviously honoring and intend to honor all the assured returns assured to the PE investors of 15% to 20% as you said, right? So that does constitute a future liability on part of the company at the parent level?

V. Srinivasan The project is bearing the cost of those returns. So long as the return of the projects is higher than this cost there is no further charge which is to be levied. As in the case of all the other projects where we funded through normal debt also the cost of all this funding is capitalized to the project in terms of the accounting standards, the same thing happens at the SPV level also, there is no change in that.

Shubhankar Ojha But the only information which I am lacking is the amount of this future liability because we know that the gross debt of the company is Rs. 1700 crores but this liability on account of the future assured exits to PE investors could be any amount right now it could be Rs. 500 crores, it could be another Rs. 1000 crores so it is just a relevant information to the investors that a liability be know.

Pirojsha Godrej There is no liability that has been created yet, these are projects with all still underway, there is no liability is being created. Any case, we have spent quite a bit of time on this, in any case please follow up with us off-line if there is anything further.

Moderator: Our next question from Puneet Jain of Goldman Sachs. Please go ahead.

Puneet Jain: My question will be with respect to your other operating income, could you give top 3 projects which contributed to this operating income?

Rajendra Khetawat: It was from Platinum Vikhroli development management fee, Nagpur, E-City and there was a compensation received on account of shelved projects which we had signed earlier, so the other operating income includes this as well. .

Puneet Jain: How much will that be?

Rajendra Khetawat: Around Rs. 15 crore.

Puneet Jain: Could you provide some more details on this?

Pirojsha Godrej: It is a project in Pune that we have been working on at the MoU stage and some expenses have been incurred. We have an agreed timeline by which the project approval and things if not in place, we would be exited with at this valuation.

Puneet Jain: And how will this be accounted for as part of cost?

Rajendra Khetawat: Whatever the cost is it has been expensed out and it is part of the operating expenses.

Puneet Jain: Also what could the margins be of Godrej One and for that life-cycle of your Godrej BKC, what are the margins that you think the project could earn?

Pirojsha Godrej: I don't think we would like to give guidance on the BKC margins, as we said previously for the past margins of Godrej One has been a little bit above 40%,

Moderator: Our next question is from Anand Agarwal of Jefferies. Please go ahead.

Anand Agarwal: Just a follow-up on the Waterside project and the tax benefit. From my understanding, Rs. 120 odd crore that we have adjusted against the reserves there will not be any tax benefit available on that. If in future we do end up selling the property or commercial property for a prize at lower than the book value of that or the cost of that assets, on that part because now it is a consolidated entity or it is a part of the Godrej Properties, we will get a tax benefit. So is that understanding correct?

Rajendra Khetawat: Correct.

Moderator: As there are no further questions from the participants, I would now like to hand the floor back to the management for closing comments.

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 very 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 -

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