Godrej Properties Limited
Q4 & FY 2014 Conference Call
May 05, 2014

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' Q4 FY2014 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, CFO 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 for Godrej Properties Q4 FY2014 Conference call. I will begin by discussing the highlights of the fourth quarter and we then look forward to taking your questions and suggestions.

In terms of the operational performance, I am happy to note that GPL in Q4 FY14 registered its highest ever quarterly sales and for the first time crossed Rs. 1,000 crore of sales in a single quarter. The total value of sales in the fourth quarter stood at Rs. 1,066 crore which represents a 77% year-on-year increase and a 150% quarter-on-quarter increase.

The response to our new project launches in Mumbai and Bangalore has been excellent. At Godrej Central in Chembur here in Mumbai, we were able to sell 200 apartments from the day we launched the project and in total we sold over 370,000 square feet with a booking value of Rs. 534 crore in the quarter at a time when the Mumbai real estate market has been quite challenging. We successfully launched Godrej United at Whitefield in Bangalore within 12 months of the project being added to our portfolio and sold over 200,000 square feet of space in Q4 despite the project being launched towards the end of the quarter.

We also saw good momentum in our new phase in Godrej E-City in Bangalore, where we were able to sell over 80,000 square feet in Q4. Our sales numbers for the quarter could have been even higher, but we decided to terminate the bookings of over 100,000 square feet of space where customer payments were inordinately delayed. These were mostly in our project Godrej Prakriti in Kolkata.

Despite a very good quarter for residential sales the biggest accomplishment from a sales perspective was in our commercial project Godrej Waterside where we sold more than 400,000 square feet of space. Given that sales in this project has been quite challenging and that the commercial market in Kolkata remains weak, we are very happy with this outcome. With some additional sales in the current quarter, we have now completely sold all the space at Godrej Waterside and have completed the project. Although our overall profit and profitability for the quarter was impacted as we took a practical decision on pricing at Godrej Waterside, we are happy to monetize the project and unlock capital, which we can deploy more productively in the new residential projects. We remain very focused on monetizing our two other old commercial projects, Godrej Genesis in Kolkata and Godrej Eternia in Chandigarh.

During the fourth quarter, we also totally completed the sales at our commercial project Godrej One in Vikhroli and we look forward to completing the construction of that project in the coming months and to launching the residential phase of that development thereafter.

Our important commercial project Godrej BKC continues to progress well. We sold a little under Rs. 50 crore worth of space at Godrej BKC in Q4 and have now sold Rs. 637 crore worth of space in value terms and over 250,000 square feet in area terms since that project was launched about a year ago. Especially given the fact that the project is at an initial stage of construction and the market has been subdued, we are pleased to see the response the project has received. We remain extremely focused on unlocking the investments we have made into this project.

While we have had a strong sales performance for the quarter, we have continued to face setbacks on the regulatory approval front due to which many of our planned launches in the last financial year were delayed. The multiple changes to the rules especially here in Mumbai was the main culprit for these delays. This is extremely frustrating, especially given the fact that the projects we are launching are consistently doing well. While it isn’t possible to bring total predictability to launch timing given the uncertainty inherent to the approval process, we have made every effort to improve our own internal capabilities and are starting to see improved results. In Bangalore we launched Godrej United within the same financial year as we entered the project and in Gurgaon last weekend we have launched our project Godrej Oasis within nine months of signing the development agreement.

We understand that expediting the time to launch is probably the single most important thing we can do to accelerate our growth and we are very focused on ensuring continuous improvement in this regard. FY15 is going to be an important year for us in terms of the new project launches. Fortunately we have started on a positive note with launches in both Gurgaon and Pune happening in April. We look forward to sustaining this momentum in the months ahead.

From a business development perspective, we have had very strong results for the last several years and ended the year on a very strong note by adding four new projects in four separate cities. Our new projects added were in Mumbai, Pune, Chennai, and Bangalore. All of these projects were in either the profit sharing model or the development management fee model which remain our preferred strategy. Cumulatively these projects added nearly 10 million square feet of residential area to our development portfolio. The Bangalore project in particular is the most important new project of the financial year. At 100 acres, this would be GPL's third township project after Ahmedabad and Panvel and has the potential to be a huge value creator for the Company.

Another positive operating highlight for the quarter has been the inauguration of the Global Indian International School at Godrej Garden City, Ahmedabad. We are confident that the project will do well in the years to come as we continue to demonstrate substantial progress in the delivery of the launched phases and in infrastructure development.

I would also like to briefly comment on an announcement we made regarding the merger of some of our subsidiary companies into GPL. As you may be aware in the past few quarters, we have given exits to private equity partners in three of our projects in Kolkata, Chandigarh and Chennai thereby making the companies developing these projects 100% subsidiaries of Godrej Properties. Since these became wholly owned subsidiaries, it was best to amalgamate these companies into Godrej Properties in order to allow us greater operational efficiency, flexibility in unlocking the capital from these projects, a simplified structure and other fiscal benefits. Accordingly, as per the applicable accounting standard and as sanctioned by the Bombay High Court, on a consolidated basis an amount of Rs. 397 crore has been adjusted from the general reserves. We expect this will improve our ability to expedite the monetization of these projects.

I am happy that we have ended a tough year both for the Indian economy and the real estate sector on a strong note. In terms of financial performance, our total income for the fourth quarter increased by 39% on a year-on-year basis to Rs. 436 crore and net profit for the quarter was down 9% to Rs. 48 crore. The decline in margins was entirely due to the large amount of space we sold at Godrej Waterside. On a quarter-on-quarter basis our total income increased 72% and our net profit increased 29%. For the full year, our total income has increased by 20% to Rs. 1,254 crore; EBITDA increased by 21% to Rs. 358 crore and net profit has increased by 15% to Rs. 159 crore.

Our performance for the year underlined the effectiveness of our resilient and differentiated business model. An improved business development strategy with the introduction of attractive capital efficient structures like the DM Fee model, profit sharing model, redevelopment, and our residential platform will show marked improvements in the financial performance of the Company. We also believe the operating cash-flow performance of the Company will substantially improve as we begin to launch many of the new projects we have been adding to our portfolio. We are not only well positioned to cope with the current challenges facing this sector but are set to deliver significant performance upside in the coming years.

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

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

Aashiesh Agarwaal I had a couple of questions. I understand that we have Godrej Nandi Hills as one of the subsidiaries that was merged and second was Godrej Sea View which was holding Palm Grove, Chennai project. Would that be correct?

Pirojsha Godrej Yes.

Aashiesh Agarwaal Godrej Nandi Hills, I was looking from the annual report that we were having about 62.35% share in the project as on FY13?

Rajendra Khetawat Godrej Nandi Hills was 100% subsidiary of Godrej Properties Limited.

Aashiesh Agarwaal And which asset would this be holding?

Rajendra Khetawat It was holding Godrej Woodsman Estate. It was a company which we bought over from HDFC some three years back. We bought over their stake, so that company came along with the stake.

Aashiesh Agarwaal Palm Grove was the second asset that was merged. Now the question is the Rs. 400 crore of write down. I understand that about Rs. 200 crore would be on account of goodwill. But then how the balance of Rs. 200 crore has been allocated?

Rajendra Khetawat So basically we have fair valued the asset. When we do a merger we have done a fair valuation of assets, so inter-company loans and investment were fair valued to the current market price. These were Chandigarh assets, Godrej Genesis & Kolkata asset.

Aashiesh Agarwaal Could you help us break it down in to how much of the depletion would have been accounted for by which asset?

Rajendra Khetawat Aashiesh, I do not have that breakup right now I can give it to you offline.

Aashiesh Agarwaal My second question is with respect to the cash flows. Obviously we have seen some debt increase in the quarter. So first, in this regard I mean how much cash you would have received from the sale of Waterside during the quarter?

Pirojsha Godrej We received about Rs. 45 crore within the quarter. The sales were largely done in the last couple of weeks of the quarter, so we expect to receive the bulk of the cash in this quarter.

Aashiesh Agarwaal So Rs. 45 crore we would have received plus we have seen substantial increase in debt, plus we would have also had some operating cash flows during the quarter. So could you help us with the debt increase during the quarter?

Pirojsha Godrej We had obviously added several new projects to the Company's portfolio during the quarter. We added 4 new projects and we also had milestone linked advances on some of our previous projects. So I think the total was a little over Rs. 50 crore. We had our Vikhroli land payment which is about Rs. 30 crore. One of the major cash flow items for the quarter was on our Sahakar Nagar 2 redevelopment project where we had some payments to MHADA of about Rs. 70 crore. We had other payments like advance tax of about Rs. 40 crore.

If you add all of that to our operating cash flow, if you just look at sales and construction, it is certainly positive. But I think what I would like to highlight is that given the fact that we have added 8 new projects this financial year, 8 the previous year, 10 the year before, a lot of these projects are still at a stage where they require investments to get them to the launch stage. So I think we are in a slightly unusual position, which we think is quite a positive thing, of having a very large number of projects that are nearing the launch stage. While the projects have been added in a very capital efficient manner, they still do require some amount of capital to be put into them.

Aashiesh Agarwaal So if you could help us understand from the point of view of operations say broadly how much cash you would have collected as an aggregate during the quarter and how much we would have spent on construction. That would be very helpful to understand how the quarter has moved largely?

Pirojsha Godrej See I do not think we would like to get into those details. But certainly what we can say is you take out all of these things that I just mentioned, the cash flow, if you look at operations, sort of construction versus sales, it is certainly a very positive number.

Aashiesh Agarwaal And do you have any timeline by which quarter we would anticipate the net debt to start declining?

Pirojsha Godrej No, I do not think we would like to give any particular guidance on that. It is related to approval timelines and things which cannot be fully predicted. It is also related to monetization of commercial projects, payments for the BKC FSI and so on. So I do not think we would like to put a specific quarter to it. If you look at our operations, then you should look at the kind of actions we are taking both on the business development front and the types of structures we are getting into for new projects. We are attempting to launch these projects very quickly, making sure we are selling good inventories that are launched, and exiting some of our past unsuccessful projects. I think all of it clearly is geared to quickly improving the operating cash flow performance of the Company.

Aashiesh Agarwaal Is there any thought to hold on to a pace of project addition because our debt has been rising in a concerning manner at least from our perspective. So would you be thinking that you will hold on to adding new projects for the time being and focus on execution? You have added about 25 projects in the last three years.

Pirojsha Godrej I do not think it is either/or. We are very focused on doing both. Certainly, what I can say is that the amount of new projects as a percentage of our overall operations is bound to decrease. As I said, the number of projects we have already added has led to a much higher base than we had three years ago. Almost every single project we have added recently on the residential side continues to be a project we are quite happy with. It is important to also understand that we are not putting in huge amounts of capital to secure these projects. They are projects that are in structures where the positive cash flows are only a matter of time. So I do not think it’s a question of whether we would like to totally stop business development. Certainly that is not our intent.

Aashiesh Agarwaal And the cash reserve that you are holding of about Rs. 800 crore despite the debt would largely be to fund projects?

Pirojsha Godrej I think that will be deployed very soon through a combination of some of these new projects but also of course in paying down debt soon.

Aashiesh Agarwaal And finally if you could spend a minute or so on the new project that you have added and announced today?

Pirojsha Godrej Yes, so this is a new project in Gurgaon in Sector 79. It is about 1.6 million square feet. This is a project through our residential co-investment platform, the third project for that platform after Okhla project and Sahakar Nagar 2 redevelopment project. This is a project that we think will do well. We just launched our previous project in Gurgaon last weekend which has met a good response despite very tough market conditions. So we are quite optimistic about this project. And with a little luck, hopefully we can even launch this project in this financial year.

Aashiesh Agarwaal What would be the share of the platform in this project?

Pirojsha Godrej 65%.

Aashiesh Agarwaal 65% and 35% would be land owner?

Pirojsha Godrej Yes.

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

Anand Agarwal Your net debt-to-equity is now 0.95. I remember last quarter you had mentioned you would like to keep it below 1, although not a hard and fast rule. The last time around your debt-to-equity was 1.1, we did the rights issue to bring the debt level down. So one, up to what level of debt-to-equity we are comfortable and if not I mean when we will have to look at again raising more equity?

Pirojsha Godrej I think that is correct, we have always of course since the IPO said that our comfort level for gearing is anywhere between 1 to 1.5:1. I had mentioned that we thought we could keep it roughly within the range given the rights issue. Given some of these write off it might temporarily go above that depending on cash flows. But certainly I do not think we feel our current net debt situation or gearing situation is at all uncomfortable. As we had said at the time of the rights issue we do not anticipate any near term fund raising at all. So I certainly do not expect any kind of entity level fund raising in this financial year.

Anand Agarwal Secondly, on the margins. Other operating income which is basically the DM fees has grown appreciably. If I exclude that and if I also exclude the Waterside project I mean the margin still seems to be very low on the residual projects. So have you taken any particular cost escalation during this quarter or is it the effect of the Prakriti cancellation on the margins? What is the reason?

Pirojsha Godrej No Anand, I think it is quite hard to compute the exact margins based on your impression, since each project is a little bit different. Godrej Waterside actually had a loss during the quarter. Certainly we are not seeing any margin pressure on any of the new projects. We have quite freely said that margin profile of our older projects, many of which are still in revenue recognition, is not where we would ideally like to have it but in all the new projects we are quite satisfied with the margin levels.

Anand Agarwal Thirdly, on the Panvel project. What is the thought process in terms of the pace of sales we want to achieve in this project?

Pirojsha Godrej Yes, so this is the project we hope to launch in this quarter. I think by the way we have had some questions that I might as well clarify. The project has not been launched yet, we have started our pre-marketing activities in terms of getting interest from customers. Customers have responded very strongly, many have wanted to block apartments. Our thinking is that we are going to launch the first phase of about 600,000 square feet or so very shortly and then we will look at the second phase of the launch. The FSI in the project is still not totally clarified, which is a little bit of an issue because we are not sure whether to consider this project as basically a 5 million square feet project or 10 million square feet plus project where obviously the pace of sales will be slightly different. But I certainly think our goal will be to launch two phases of this project this financial year.

Moderator The next question is from the line of Saurabh Jain from HSBC Bank. Please go ahead.

Saurabh Jain Just wanted to have an enquiry about Godrej United project. This project was not in the launch plan for FY14, right?

Pirojsha Godrej That is right.

Saurabh Jain So we launched it in the previous quarter and how was the sales response to this project?

Pirojsha Godrej It is nice along with all the bad news we give you on project launches getting delayed, to once-a-while be able to have some positive news. So this was a project which we thought we would be able to launch it in this financial year but we were able to secure the approvals so we were able to launch it towards the end of last quarter. The response has been very positive and as we have indicated we sold about 220,000 square feet of space. This was all in March. The project was launched right at the beginning of March. So I think it is a very credible response that the project has received. And I think generally speaking, we are very happy with the response all our residential projects are receiving and the focus is on making sure we can launch as many of them as possible.

Saurabh Jain So why we are not planning any subsequent phase launches in FY15 for the same project United?

Pirojsha Godrej Well, we still have quite a bit of inventory in the current phase. So the current phase is a little under 5 lakh square feet I believe. And so obviously we still have a fair amount of inventory to go there. But actually, if you look at our presentation, you will see that while it is not one of our guided projects that we will launch, it is a project that we have mentioned we hope to achieve the launch towards the end of the year or in early next year.

Saurabh Jain And similarly I think Hyderabad and the Ghatkopar projects we are not planning any launches in FY15?

Pirojsha Godrej I think on Hyderabad, the issue is, frankly, we have mentioned that we have been planning to launch it since the last two years. The approvals there have been a bit slower. Actually, a lot of progress has happened in the last six months, we have put it as a project we would like to launch but not officially guiding until we get better clarity. So again that project like Godrej United is mentioned as one of the projects we hope to launch. Our Ghatkopar project again is one actually where we had the IOD for the project. Some of these new rule changes in Mumbai around open space and podiums on open ground and so on have set that project back a bit. So we are awaiting some clarity on these new rules, which we hope will come about, and make it clearer how to proceed. But with these new changes that have come about which we think are going to again get changed, there is a challenge in that project, which is why we have not put that as one of the project. But certainly, if those rule changes get corrected, which we expect they will, that will certainly be a project we will look to launch.

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

Puneet Jain What are the pros and cons of routing it directly through balance sheet and not through profit and loss account?

Pirojsha Godrej No, I think this is as per the accounting standard and how the amalgamation has been advised. So I think the pros and cons, I will leave it to Rajendra to discuss offline. But essentially having a subsidiary, particularly one where there are losses is clearly inefficient from a tax perspective. Obviously having subsidiaries that are wholly owned subsidiaries of the Company do not make sense.

Puneet Jain So are there any more subsidiaries which can come up or mostly it is done in terms of amalgamation?

Rajendra Khetawat See Puneet, we have lot of subsidiaries where we do develop projects and we have a lot of partners. So once these partners have exited or once the project gets over, it is a natural process to amalgamate the subsidiaries because holding on to so many subsidiaries creates lots of administrative hassle. So going forward once the project gets over we may look at consolidating the subsidiary.

Pirojsha Godrej But I think in terms of the write off, Godrej Waterside, Godrej Genesis and Godrej Eternia are only three projects in the portfolio where we expect possible losses in the projects and therefore these kind of write off.

Puneet Jain So the project which you have announced in Gurgaon today so it has been purchased outright?

Pirojsha Godrej No, it is a revenue sharing project. The platform is both open to outright purchases as well as high advance revenue sharing project.

Puneet Jain So would you like to share that at what price the land could be bought or that is still under negotiation?

Pirojsha Godrej This is a revenue sharing partnership it is not an outright purchase.

Puneet Jain But then if it is not an outright purchase then what will be the need for a capital infusion in this project?

Pirojsha Godrej Yes, so as I said we are looking at the platform both for outright purchases or when the project requires a high advance. If we have say Rs. 100 crore plus advances in a project where we do not want to do that directly, we are then looking at the platform to step in. So for example, this project which is on a milestone linked basis, has an advance of Rs. 150 crore which is not something we would like to do directly, but of course, the returns we can generate are very good as well.

Puneet Jain And then in that case you will have a joint development agreement with the platform?

Rajendra Khetawat No, under the platform we will develop this project jointly whereby APG will hold 75% and we will hold 25%. This platform will have a JV with the land owner.

Puneet Jain And just one question from how you report residential sales. Now if you look at residential sales, what all does JVP account for? How much was the JVP portion of your sales?

Rajendra Khetawat See the slide number 21.

Pirojsha Godrej That is only area sharing project. So with an area sharing project where it is the partner's share of area that we are selling for them is reflected there. Otherwise 100% of sales are reflected in that.

Puneet Jain Like for Sahakar Nagar project it will have 100% of sales?

Pirojsha Godrej Yes.

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

Gunjan Prithyani Firstly, on the commercial portfolio it is good to see Kolkata being monetized in this quarter. What is the progress on the other two projects and by when do you expect that should happen? And also how much cash flow do you think once those two are monetized we can generate?

Pirojsha Godrej I think we are little reluctant to put any time frame for that. Clearly we have been talking about doing this for quite some time. It has taken us longer to do this than we would like. As you rightly said the momentum in Godrej Waterside is very good to see. I hope it indicates and we are quite clear in our thinking on how quickly we would like to monetize the project in our acceptance of lower prices to facilitate that. I think the exact cash flow will of course depend on the pricing. But for those two projects in addition to the Godrej Waterside amount we should be able to get about Rs. 350 crore to Rs. 400 crore.

Gunjan Prithyani In addition to the pending payment that is going to come from Waterside that you sold this quarter?

Pirojsha Godrej Yes, it is right.

Gunjan Prithyani You have two assets in Kolkata. So have you seen any demand for the other projects or there is still no clarity?

Pirojsha Godrej No, I would not say there is no clarity but also it is not that we have something wrapped up. Those projects are at a slightly earlier stage of construction. Godrej Eternia is basically complete and we expect OC, the occupation certificate, within the next few months. Godrej Genesis in Kolkata is at a slightly earlier stage. But clearly it is our intent to monetize both of these to the greatest possible extent within this financial year. But that is by no means that we will successfully monetize all of it in this financial year.

Gunjan Prithyani Secondly, I know a lot has been discussed already on the debt levels. When do you see this trend stabilizing or reversing? I mean the debt on an absolute basis has been increasing for the past couple of years?

Pirojsha Godrej Actually it has increased this year. Last year if you recall it actually decreased despite several project additions. So we did have a few exceptional items this year like some of these PE buyouts and large FSI payments and so on. But I mean, to your larger point, certainly, within the time frame you have indicated of two to three years we do see this very markedly improving. I mentioned as a percentage of our overall operations our new projects will be smaller and smaller part. Given the strong success we have had in business development which again we really do think has been very value accretive for the Company, that ratio of new projects that require investment to all projects that are generating cash flows has been a bit skewed over the last couple of years. That just as a matter of course will now change. So I think that will be massively helpful.

But frankly the biggest indicator of short term cash flows if you are asking is going to be more project specific thing like how quickly we can monetize Genesis and Eternia and very importantly how cash flows on BKC go. And I think that is a more of a short term issue which of course we are focused on. But I think our greater focus is on successfully monetizing all of these projects over the next couple of years, moving out of some of the residential projects as well that have not been as strong on the cash flow performance front, and redeploy capital very efficiently in new projects. So certainly I expect a strong change in this trend over the next couple of years.

Gunjan Prithyani Then your target guidance range is within one to one-and-half times net debt-to-equity at least for the next 12 months?

Pirojsha Godrej Yes.

Gunjan Prithyani And since you have mentioned the BKC project can you give us some sense on how much capex is already been incurred and the pending payment for the MMRDA as yet?

Rajendra Khetawat So we have paid Rs. 140 crore and the balance is still to be paid.

Gunjan Prithyani And in terms of construction cost what have we spent on that project?

Rajendra Khetawat I do not have that breakup. I can tell you in all we have spent around Rs. 1,150 crore. That is the capital employed on this project.

Gunjan Prithyani That includes the land cost? Okay, Rs. 1150 including the capital employed on this project initially?

Pirojsha Godrej We are two and half to two years away from completion. So I think certainly, at the very least, we will expect to get all that cash out which itself is a large amount.

Gunjan Prithyani So has the demand been subdued over the last two quarters for this project or is it because since you had mentioned that you would look to monetize it over the next four years and phase it out?

Pirojsha Godrej No, frankly what we have said was 200,000 to 250,000 square feet a year. So we are quite happy that even in this kind of a year and given the fact that the project is at an early stage we have sold over 250,000 square feet of space. So I do not think that has been a huge concern so far. Certainly, as we sell more and more obviously that cash flow position will only improve, but we have over a million square feet of space in that project for which no cash flows have started. And obviously, whatever value you take BKC at even if you look at a very distressed kind of value that is a quite substantial amount of cash flow to come to us. So I think, operationally, the project is on track. We will also see how the demand environment moves after some of the major milestones this year. So what is important to note is that we are actually ahead of where we said we would be at this stage of the project in terms of sales.

Gunjan Prithyani And just lastly, how has been the response to the Oasis project because the demand in Gurgaon seems to be quite weak?

Pirojsha Godrej It has been excellent.

Gunjan Prithyani And any sense on the numbers how the bookings have been?

Pirojsha Godrej I think we will come back to you with all those details in the next quarter. You guys start discounting anything good that happens from now. But it has been another positive launch path. What's very encouraging for us, as we look at building the scale of our operations, is that in the last three months we have had in a very challenging market conditions, very successful launches in all the top real estate markets of the country. Last quarter, of course, in Mumbai at Godrej Central and in Bangalore, Godrej United and this quarter with Godrej Oasis and of course a small launch in Pune of Godrej Prana. So that is very encouraging within a short time frame, we are seeing projects do well across markets and particularly encouraging given that we have a good portfolio lined up with Panvel, Sahakar Nagar 2, and Vikhroli and so on.

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

Sameer Baisiwala Pirojsha, I know you do not give guidance but if I look at new sales that you achieved roughly Rs. 27.6 billion in Fiscal '13 and Rs. 24 billion in the last year. So how should we think about this going forward for Fiscal 15 and beyond?

Pirojsha Godrej So Sameer, clearly our targets are to outperform that. That said, even our last year's target was certainly to do better than where we ended up. So it is, unfortunately, ultimately, quite linked to things like approvals. So obviously we have seen even at the start of this year with Central, United, Oasis, etc., that once these approvals are coming through we are registering very good volumes. Even our performance on existing inventory we think is pretty good. So longwinded way of saying that while I do not want to give specific guidance, certainly, we would like to go ahead of either of the last two years, and if our approvals come through we should go quite substantially ahead.

Sameer Baisiwala And just looking at the new projects that you did in Fiscal '14 of the eight projects, six projects were actually less than 1.2 million square feet in size so it was bulk of that 13 million is actually being lifted by two projects. Just thinking aloud I mean how do you strategize these new tie-ups and does it make sense to get in to these

0.7 million square feet, 0.8 million square feet projects and should you not focus simply on large ticket sizes?

Pirojsha Godrej I think, Sameer it is hard to come up with a straightforward answer to that question as it depends on a lot of things. First of all, certainly, just the area in a project is not the only determinant and of course you know half a million square foot project located in a prime area in Mumbai or Delhi for example is obviously worth much more than a 5 million square feet project located on the outskirts of some city. So I do not think clearly area itself can be a cut off. But I think your broader point that is there is a minimum size of the projects that we would like to look at is a fair one and it is certainly something we are keeping in consideration. So broadly, internally, what we are looking at is anything under a Rs. 100 crore profit is not as much interest, with the possible exception of some DM fee project where that threshold might be closer to Rs. 50 crore. But it is as much about the location of the project, confidence in the project and so on. While it is true that many of the projects were under 2 million square feet, every single project was over 0.75 million square feet. So if you look at it, for example, the 0.75 million square foot project we added in Bhandup in Mumbai we think it should easily be a couple of hundred crore of profit kind of project for the Company. So I absolutely think that adding those kind of projects make sense.

Sameer Baisiwala And when you say Rs. 100 crore profit threshold you are referring to the overall project or your share in that?

Pirojsha Godrej Our share of the PBT in the project.

Sameer Baisiwala And just a related question. Do you think at some point of time you would be thinking of graduating to doing your own land acquisition of 100 acres to 200 acres suburban land with which slightly longer gestation?

Pirojsha Godrej No.

Sameer Baisiwala And just one final question from my side. It is on the interest cost I see what you have expensed for the Fiscal '14 on consolidated basis is roughly about Rs. 44 crore odd. What is it that you had capitalized?

Rajendra Khetawat So for entire Fiscal '14 we have capitalized Rs. 250 crore.

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

Adhidev C As mentioned earlier now we have done around over Rs. 5,000 crore of sales in the past couple of years, refer on to FY13 and FY14 numbers. So could you just give us a ballpark of how much would be the total money collected out of this Rs. 5,000 crore odd till date?

Pirojsha Godrej No Adhidev, I do not think we have that information of the top of our head. I think obviously it depends a lot on which projects are at what stages. But in any case we are not breaking down our cash flows by projects for the Company.

Adhidev C No, it is okay if you just give an aggregate figure as an overall scenario in percentage terms also is that like 40%-50% or is it more or less than that?

Pirojsha Godrej No, I actually do not have the number. But it is something that it can be fairly well understood if you look at our construction progress, and we can give you our typical cash flow payment milestone from customers at what stage we ask them for collection. So you can get an approximate number for that, but I do not have the number of the top of my head.

Adhidev C And second a question is on our Ahmedabad project. Now again we got totally 20 million square feet and I am guessing we sold around 6-6.5 million square feet till date if I am not wrong?

Pirojsha Godrej No, we have sold less than that, about 5 million square feet.

Adhidev C So what is our overall plan on and what is the overall time period do we see for this project? Would you like to set some timeline over the next 5 to 6 years or 10 years that you expect the project to get monetized fully?

Pirojsha Godrej I can certainly say it is not going to be over the next 5 years. But look, I think really it is largely a function of how the market moves. Our goal this year frankly was to sell closer to a million square feet. So clearly we fell short of that. Ahmedabad market like other market has been struggling quite a bit for the last couple of years. But certainly, as things pick up we do think we are establishing this project as an attractive destination as we mentioned in the presentation. This quarter or in Q4, we delivered our first school for project. Children are already starting to attend that school. The infrastructure is starting to build up. We handed over 600 apartments last year. We have a number well over a 1,000 to hand over this financial year.

So we think operationally the project is going well. The sales pace really will depend as much on market conditions generally as anything we can do, we have activated a variety of channels to keep the inventory in this project moving and frankly it is by far the highest selling project in Ahmedabad. So while it might not be at exactly the level we would like to see, the market as a whole has not been at that level. So certainly based on the current visibility it will be at least 10 years but how much more than that I think will depend on market condition.

Adhidev C And just a couple of more questions relating to Mumbai. As you said in the last call a lot of new regulations had delayed the launch plans. So could you just clarify all the regulations the regulatory changes? Have the final clarification come from the various agencies or are you still awaiting the same?

Pirojsha Godrej There are some things where current clarity is available, but we think that is likely to get changed because of the impractical nature of some of the changes that have come about. So there is a general sense amongst developers that some of these new rules that have been brought in, if they stay, then lot of development in Mumbai will come to a standstill because there simply isn’t the ability to plan many projects in compliance with those rule. So I think there is a little bit of a wait and watch on how some of those develop. But the problem with the approval environment is there could be something new that comes about at any time. That is what the problem was this year. But certainly, we hope that is not the case and all governments are now talking and understanding more seriously the problems that these kind of changes are bringing about. So, hopefully, I think there will be a more realistic approach towards bringing about these rule changes in the future.

Adhidev C And finally in the state level do you expect the Maharashtra Real Estate bill to come in to force any time during this year?

Pirojsha Godrej Hard to know. I think we have heard mix things. The news is I think Congress does want to bring it in so it is quite likely to bring it in. And of course, there are also elections for the Maharashtra State Assembly later this year. So we will have to see, but our anticipation is that this will probably come in at the state level. The Central Government rules are somewhat less likely this year.

Moderator The next question is from the line of Ritwik Sheth from Span Capital. Please go ahead.

Ritwik Sheth Sir, I have a couple of questions. First is regarding the investments which we made of approximately Rs. 4,000 crore of which is Rs. 2,300 crore in residential and the balance in commercial. So my question is on the commercial side. Out of that Rs. 1,100 crore is the BKC and the balance is around Rs. 600 crore which is Kolkata and Chandigarh. So what is the view on the balance of the project Rs. 600 crore?

Pirojsha Godrej I am not sure exactly what you mean.

Ritwik Sheth It has been part of your net worth, Rs. 600 crore, so how do you plan to exit in the next couple of years?

Pirojsha Godrej We have already exited from Godrej Waterside over the last two months as we mentioned and we expect to receive around Rs. 100 crore more in this financial year. From that and as we said earlier on the call about Rs. 350 crore to Rs. 400 crore from the other two projects.

Ritwik Sheth So would it be safe to assume that in the next couple of years we will be exiting these commercial projects?

Pirojsha Godrej I think it is safe to assume that that is our intention and our goal, we obviously have to execute and get that done. So certainly I hope that happens over a couple of years. I think we must make that happen. But the exact timing is not something that we can fully decide ourselves.

Ritwik Sheth And would you reinvest it in to commercial or you will go the residential way?

Pirojsha Godrej No, I think we will go with some of these new very value accretive residential projects.

Ritwik Sheth And my second question is regarding the Vikhroli land like there are many reports coming in that Godrej & Boyce has around 300 acres to 500 acres. So can you give us an idea of what Godrej Properties can develop in the coming five years?

Pirojsha Godrej No, I cannot. As a group, we said we have a very large landholding in Vikhroli, it is much larger than the number you mentioned. The developable area is also something that we have said is not totally clear, but we expect it could be in the range of somewhere between 500-1,000 acre. The timeline for that development is not something we are talking about, but certainly, it will be much more than the timeline you have indicated.

Ritwik Sheth And whenever you develop these projects what is the arrangement with the parent Godrej & Boyce?

Pirojsha Godrej The umbrella agreement in Vikhroli, we have one project called 'The Trees' which is out of this, which is a profit sharing and was announced before this agreement. But for the vast majority of the Vikhroli land, the understanding is the development management fee model, where we are entitled to 10% of the topline for our role in the development and our costs we expect on that will be about 2%.

Ritwik Sheth Cost will be 2% and on the topline you will have 10%?

Pirojsha Godrej That is right.

Ritwik Sheth And so going forward this will be like precedent for the coming projects, is that right?

Pirojsha Godrej Yes, that is the understanding for all future developments in Vikhroli.

Ritwik Sheth And sir, as I see that we have about 90 million to 100 million square feet of projects going on. So what will be the strategy going forward will it be execution before taking any more projects or we are comfortable with the current level of projects we have on our hand and we can add more in FY15?

Pirojsha Godrej Certainly we will add some more as we have mentioned. We added one more project just today. I think it is important to understand that each location and geography is different and there is very little competition that happens between these geographies. So just because we have a 20 million square foot project in Ahmedabad, we cannot sell that any faster if we do not add another project or if we do add another project. So I do not think the linkage is as tight as that. Clearly, I think our primary focus is obviously on execution and on launching the project we have in our portfolio. But certainly, we feel the structures that we are entering into, new projects are very value accretive. And I certainly think that we can expand to new projects if they are available in the right locations, where we do not see any competition with our existing projects.

Ritwik Sheth No, the reason I asked is because in case like we plan to add more projects so we need more cash to execute these projects and we will have to raise more debt. So we will go above one or 1.5:1 in terms of the debt equity ratio in the coming 12 months?

Pirojsha Godrej As I said we are quite confident of staying between 1-1.5:1. Again certainly, we are not looking to make big ticket investments in to new projects. If you look, we have now added 20 to 25 projects in the last few years all of which we are happy to talk about the kind of investments that we are making and how quickly we can get those investments back. While I fully appreciate and understand the importance of cash flows as a metric for real estate companies and while it is perhaps the most important metric we look at as well. I do not think that we have a view of our company that is anything close to being cash strapped or anything like that and needs to only focus on conserving cash. We feel our balance sheet is in a very healthy position and can support both the execution of the existing projects and steady addition of new projects. But what I have also said is that we have been adding consistently for the last three years somewhere between 8 and 10 new projects to our portfolio. The impact of 10 new projects on a base of 20 projects is very different from the impact of 10 new projects on a base of 45 projects. So I do not see that as a major concern and frankly it would be foolish of us to not add projects of the type that we have adding recently.

Ritwik Sheth And sir, in the previous call a participant had asked you that your ambition is to generate Rs. 20,000 crore revenue in the next 10 years. Do you think that we can achieve half of that by 2020?

Pirojsha Godrej Frankly as I also sometimes joke we do not know most of time what is going to happen tomorrow in real estate. So trying to forecast where we will be 7 years from now is not the easiest thing to do. Look, we did an aspirational exercise three years ago, what the full potential for the business could look like if things go very well and that was the number we came up with. Certainly we hoped for better than 4.5% economic growth during that period. So if things pick up, we have set ourselves up well for growth. We can capture market share and grow the business well. Whether that results in us being a Rs. 5,000 crore or Rs. 10,000 crore, Rs. 20,000 crore company, I think time will tell. But certainly, we are fairly confident of securing good growth for the Company in the coming years.

Ritwik Sheth And sir, we have been maintaining our ROE target of around double digit somewhere around 13% to 15% in the coming two years. So can we expect at least a double digit in FY15 and going forward we can accelerate the momentum from there?

Pirojsha Godrej Yes, I do not want again to give guidance on this, but certainly, I think one of the most important objectives of the Company is to markedly improve our ROE and ROCE performance, which has not been up to the mark recently. So again, I hope you can tell from the actions we are taking on the old commercial projects or new launches and the type of new projects we are adding. These are all geared towards getting us there. I think the exact timing of that will again depend on quite a few things including the general market environment, speed of approvals and so on. But certainly we would like to demonstrate consistent and visible improvement in our return metrics over the next couple of years.

Ritwik Sheth Sir, final question is on the BKC project. We have seen slight price cut of about 5% from the previous quarter. Is this a strategic move or it is one off because it has not spurred sales compared to the previous quarter. The sales have halved from 36,000 sq.ft. We have come down to 18,000 sq.ft?

Pirojsha Godrej No, I do not think we should look at this as a price cut necessarily. There is different pricing for different types of units, different floors and so on. So this is just a reflection of that. There are certainly no price cuts we have taken in the project.

Ritwik Sheth And just on the commercial project can you give me a breakup of the inventory?

Pirojsha Godrej We do not have that at presently. I can give it you offline.

Moderator Thank you. The next question is from the line of Sumeet Rohra from Silver Stallion. Please go ahead.

Sumeet Rohra Hi Pirojsha, most of my questions have already been answered. But I must say congratulations on achieving a Rs. 1,000 crore sales mark in the quarter just concluded and frankly in my eyes I think that you have laid a brilliant foundation. I think that you are very much on the target to achieving Rs. 4,000 - Rs. 5,000 crore of topline this year though I know you are not going to be able to give guidance. But generally seeing the amount of the launches which we have done over the last couple of weeks are we actually seeing a structural change in the approval process?

Pirojsha Godrej Thank you very much for kind wishes. UnfortunatelyI do not think there is any structural improvement. These things are coincidental. We are obviously launching projects as soon as we are getting the required approvals. And it is fortunate that for 3-4 projects that has happened in the last 2 to 3 months. The good thing is there are noises being made about creating structural improvements particularly related to the environment clearance rules and bringing about some time bound limits for these approvals. So hopefully, we will see some action from the new government on some of these. But so far I would not really say there is any structural improvement.

Sumeet Rohra Sure Pirojsha. That's very helpful. Thank you very much. You have given a good perspective on your outlook for Godrej Properties and I wish you all the best. My sincere wish is that you will achieve Rs. 5000 crore sales figure this financial year.

Moderator The next question is from the line of Bharat Sheth from Quest Investment. Please go ahead.

Bharat Sheth Just wanted more clarification on what you have earlier said that we expect to realize around Rs. 350 crore between Genesis and Chandigarh whenever it is monetized?

Rajendra Khetawat Yes.

Bharat Sheth While selecting the project I mean in revenue model, profit sharing or development management what are the criteria that we have?

Pirojsha Godrej It is not any one thing. There is a vast series of metrics and things we look at. I think lot of it is of course non-financial. So what is the location, supply demand in that location, what is the partner profile, much more detailed analysis on those kinds of parameters. There are a large number of things we look at from the financial side also. What is the total peak investment required, what is the period to cash flow neutrality; what is the IRR of the project, NPV of the project, what is the margin of the project, what is the scenario planning if things go wrong and how does the project look. So I think any new project goes through very exhaustive series of checks and analysis before we enter it.

Bharat Sheth In the last quarter we added one more 8 lakh square feet project in Vikhroli. When do we plan to launch? I believe that is with our parent Godrej & Boyce?

Pirojsha Godrej That is right. The exact time will be linked to approvals. We are working on the planning and things, so probably next financial year.

Bharat Sheth Not in this current financial year?

Pirojsha Godrej Likely, given the sort of timelines for approvals in Mumbai.

Moderator The next question is from the line of Arjun Ashar from Envision Capital. Please go ahead.

Arjun Ashar A question was previously asked as regard what specifically triggered the need to write off those losses on amalgamation through reserves and not route it through P&L. Can you please elaborate on that why would we go through reserves and not through P&L?

Rajendra Khetawat So this is a specific scheme, which has been approved by High Court, and it has been as per the applicable accounting standard. So whenever you do a merger, you do a fair value of the asset and the fair value of the asset has been taken out of the reserve.

Arjun Ashar How does one get handle of the profitability of various projects currently under execution because there is always a possibility that certain losses may come up which may eventually be directly written-off through reserves? I understand you are saying that the accounting standard permits you to do that but this is such a huge number and your cumulative profits for the last four years would be Rs. 490 crore itself?

Rajendra Khetawat This is on account of merger. So when you are doing a project within Godrej Properties Limited you cannot do this. This is on account of merger when it is a 100% subsidiary and is through a valid court scheme.

Arjun Ashar Sir, but piercing through the accounting aspect of it, ultimately would this be your business loss and if that is the case what would be the factors which triggered this loss. Before this amalgamation was carried out how much of the losses or profits were recognized?

Pirojsha Godrej This is clearly how the accounting standard calls for this to be done. The actual accounting loss will happen as the project is sold and obviously if a project is sold and there are losses that are directly taken through the P&L. If you would like any further information on this we are happy to take it offline.

Moderator Thank you. The next question is from the line of Amrit Kalantri who is an individual investor. Please go ahead.

Amrit Kalantri My question is regarding capital allocation and corporate finance. I was a bit worried in terms of the dividend payout that has been proposed this time and also the last time considering that we are really a growth company. We did a Rights Issue a few months back and a dividend payout just before that, and we are again paying a dividend now. In the meanwhile we also did a stock split. What is the management thinking in terms of when we are in a growth stage, when we seek higher capital and we still go out and pay a dividend? The dividend distribution tax is at 17% and we still need capital. So if you can give your perspective on that and what could be the future strategy in terms of dividend distribution. Would we go and still do it just because it is kind of looks good on the paper that we are a continuous dividend distributing company?

Pirojsha Godrej I think it is a very fair question. Our philosophy has been to pay about 25% of our net profits as dividend on an annual basis. We think that strikes the right balance between keeping cash flows for the Company’s forward growth, which as you rightly pointed out is important, and also returning some cash in the form of this 25% roughly of net profit on an annual basis. So that has been the thinking but happy to get your feedback on this.

Moderator Thank you. The next question is from the line of Abhinav Sinha from CLSA. Please go ahead.

Abhinav Sinha How big a role has pragmatic pricing played in getting a good response to new launches? And secondly, what is the outlook on pricing?

Pirojsha Godrej I think it is probably a little bit different in different places. So in most of our projects we are able to achieve a premium pricing over market. But certainly, at the same time, we are not looking to price our projects unrealistically or looking to price project at levels where volumes are very slow. So certainly pricing is an important input in to projects but I do not think the reasons for the good response is any case that we are undercutting prices. But we are charging the price that we think is fair given the Godrej brand and other things. So it is an important component but I would not say it is the determining component of our recent success.

And the outlook again is quite hard to call especially on a pan India level because it really is quite a market-by-market and even micro market by micro market phenomenon. But the outcome we had hoped to see for the rest of the year is a pickup in the general economic sentiments. Hopefully the election, interest rates coming down and other such triggers will provide that impetus for sentiment. And I think, the way that it will really benefit both the real estate developers in this sector as well as customer is through an improvement in volumes. And that will be our focus more than trying to take too many price increases.

Abhinav Sinha Given that you have seen good response in all three markets of Mumbai, NCR as well as Bangalore. Which one do you think is particularly exciting at this moment or easier to sell in let us say?

Pirojsha Godrej Each market has its own pros and cons. Frankly, there is not one of these three markets that is only going to do well and our horizon is a little bit longer term than what could happen over the next one or two years. Even the projects we are adding right now are really projects that will be with us easily for four, five years or more. So I think we are taking a slightly more long term view of the business, and with that kind of a view, all three markets look very attractive to us and are important markets for us to establish a stronger presence in and seek more growth.

So, as we have seen even in the last three years, different markets are performing well at different times and it is not perfectly predictable which market is going to do well. For example, the last year we saw Bangalore has been a better performer and NCR has been very weak but a year before that NCR was perhaps the best performer. So we think in the medium term all markets present a good opportunity and I think a lot of what happens in real estate is looking at the current environment and extrapolating that excessively. So I do not think that what is happening in the market today is a very good predictor of what is going to happen in a market two years from now. The simple reason is that basic supply and demand things. When markets are doing well from a demand perspective supply also ramps up and sometimes can get excessive which in turn puts pressure on that market and the flip of that is also true that when markets are not doing well, supply dries up which in turn can lead to improved performance. So these things are quite dynamic but certainly our overall take is that all three of those cities that you mentioned and of course the other big real estate markets in India will do well from a medium term perspective.

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

Puneet Jain I have got couple of questions. The first is that your last proportion of debt seems to be short term debt while a couple of your projects are actually long term. Would there be any particular reasons for the same?

Rajendra Khetawat The long term debt is basically for Godrej BKC. The short and the long term debt get classified as per the revised Schedule VI based on the maturity. So in the balance sheet you will see quite a few movements happening every quarter.

Puneet Jain And what will be the average duration of these loans?

Rajendra Khetawat This average duration can be anywhere from three months to a year or two years.

Puneet Jain And finally, can you provide a breakup of other operating based income. Where is the biggest chunk coming from?

Pirojsha Godrej No, we do not give the breakdown of that, Puneet. But there are several projects under this model including some of the projects we launched this quarter like Godrej United and Godrej E-City.

Moderator Thank you. I now hand the conference over to the management for their closing comments.

Pirojsha Godrej Thanks again all of you for joining the call. I hope we have been able to answer all your questions. Of course if you have any further questions or require any additional information we will be happy to be of assistance offline. Thanks again for your support in a continued basis.

Moderator Thank you very much, member of the management. Ladies and gentlemen on behalf of Godrej Properties Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.

- ENDS -

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