



Godrej Properties Limited

Q4 & FY2018 Earnings Conference Call Transcript May 04, 2018

Moderator Good Day, Ladies and Gentlemen and Welcome to the Godrej Properties Limited Earnings Conference Call. As a reminder all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anoop Poojari from CDR India. Thank you and over to you, Sir.

Anoop Poojari Thank you. Good Afternoon everyone and thank you for joining us on Godrej Properties Q4 FY 2018 Results Conference Call. We have with us Mr. Pirojsha Godrej – Executive Chairman; Mr. Mohit Malhotra – Managing Director and CEO; 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 emailed 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' fourth quarter financial year 2018 conference call. I will begin by discussing the highlights of the quarter and the financial year and we then look forward to taking your questions and suggestions.

We have just completed the best ever year in GPL's history in terms of the value and volume of real estate we have been able to sell. For the first time in its history, GPL has delivered sales of more than INR 1,000 crore in each of the four quarters of the financial year. Also, for the first time, we have emerged as amongst the top three developers by value of real estate sold in each of our four focus markets of Mumbai, NCR, Bangalore, and Pune. In FY18, we were the largest developer in NCR and Pune, the second largest developer in Mumbai, and the third largest developer in Bangalore by value of real estate sold. I am happy to note that we have sold more than 1.25 million sq. ft. with a booking value of over INR 800 crore in each of our focus markets. This has largely been possible by combining our traditional strength in new launches with a strong improvement in sales from existing inventory, which stood at INR 2,780 Cr in FY18. The total value of bookings in FY18 stood at INR 5,083 crore, which represents a 152% year-on-year increase.

As a result, we are likely to emerge as the largest publicly listed developer in India by sales value in FY18. We are especially pleased with this sales performance given that sales for the industry as a whole have declined during the financial year.

Our sales for the fourth quarter stood at INR 1,054 crore, which represents a YoY growth of 210%. We had a strong launch at Gurgaon with sales of 250 apartments worth approximately INR 245 crore and were able to combine this with robust sales from existing inventory across our project portfolio.

Coming to our financial performance, our total income for the fourth quarter was significantly bolstered by revenue recognition at Godrej Origins, the third phase of our flagship development, The Trees, and also by a deal with Godrej Fund Management (GFM), who has purchased a 50% stake in Godrej Two, our second commercial building at The Trees. As a result, our revenue in the fourth quarter increased by 79% and stood at INR 849 crore. Our adjusted EBITDA increased by 85% to INR 241 crore and net profit increased by 126% to INR 142 crore. For FY18, our total income increased by 38% and stood at INR 2,397 crore, adjusted EBITDA increased by 28% to INR 660 crore, and net profit increased by 14% to INR 235 crore. This has also been the best ever year in terms of collections with our collections having increased by 54% to rupees 3,891 crore. As a result, we have generated rupees INR 1,868 crore of net operating cash flow in FY18, which has allowed us to reduce our debt by rupees 653 crore while continuing to rapidly grow our company's development portfolio.

FY18 has also been the best ever year for business development in the history of GPL in terms of the number of new projects added. GPL added 12 new projects with saleable area of 23.5 million sq. ft. More than 80% of the area added in FY18 is in partnership with other real estate developers and all the projects added are in the four largest real estate markets in India. In Q4 FY18, we added four projects, including a project in Gurgaon which will yield a saleable area of 0.75 million sq. ft.

The Indian real estate sector has undergone a lot of disruption in the past couple of years- starting with demonetization in 2016 and continued with the Real Estate Regulatory Act (RERA) and GST being introduced in FY18. These measures are all helping drive consolidation in the sector. A weak property market and increasing customer preference for stronger developers has created an unprecedented business development opportunity for developers with strong customer franchises and development capabilities. We believe GPL is well placed to capitalize on these opportunities in the business development space.

We also believe the Indian residential real estate sector is at the cusp of a demand revival that will be aided by the fact that affordability is the best it has been in 15 years and also by new regulations that have improved governance in the sector and will lead to improved consumer confidence. Our launch pipeline looks robust with new launches planned in the current financial year in all our focus markets of Mumbai, Gurgaon, Bangalore, and Pune as well as in Ahmedabad and Kolkata. We strongly believe our focus on building presence in high return markets with a deep focus on execution across our project portfolio puts us in a strong position to benefit from a recovery in the sector and improve market share in the years ahead.

I would like to take this opportunity to update you on an important recent development. Today, our Board of Directors has approved a resolution to issue 1.27 million shares at a price of INR 783.5 per share aggregating to INR 1,000 crore on a preferential basis subject to shareholder approval. We intend to use the entirety of these funds as growth capital to further accelerate our scale within the country's four largest real estate markets.

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. We will now begin the question and answer session. The first question is from the line of Abhishek Anand from JM Financial. Please go ahead.
- Abhishek Anand** My first query will be of course on the growth capital we have raised. If I understand correctly does this growth capital mean that we will be more looking for outright land or profit share as against our DM model? Is my understanding correct, because DM of course does not require much capital?
- Pirojsha Godrej** It is not that we will not look at DM projects, we will continue to do those but yes, I think it is fair to say that what we are looking to do is accelerate the scale of expansion of the company both in terms of number of new micro markets we are able to enter as well as economic interest in these new projects we participate in. I do not think we are looking to shift to an outright purchase model by any means, I think we are very happy with the partnership structures we are currently using, but we are interested in looking at bigger higher value projects and looking at higher stakes for GPL within those projects.
- Abhishek Anand** I understand that this will not be used to repay debt in anyway, so I think it is a pure business development capital you have raised, so any timelines we should estimate for deployment of the same?
- Pirojsha Godrej** This is obviously dependent on timeline for various deals to actually conclude and for us to be able to put it to work, but I think certainly the team's main goal this year is to deploy capital in business development as rapidly as we can. We certainly hope to deploy this full amount within the financial year, but the exact timing will obviously ultimately depend on when deals close and so on.
- Abhishek Anand** Secondly, on Godrej 2 if Pirojsha you can give us some more details, I think 50% has been sold, but if you could give us some more details of maybe what was the valuation of the transaction and how much was booked during the quarter?
- Pirojsha Godrej** Abhishek, we are not at liberty to give the exact disclosures on amounts because there is obviously another party involved in it. But I think what I can say is that from our perspective, we are quite excited about Godrej 2 and the value creation opportunity, at the same time with the desire to deploy a huge amount of capital in new residential developments. We have got a structure where we remain strongly invested in the projects but we aren't responsible for putting in the full capital investment needed for a large project like this was the ideal balance, so that is what we have pursued here with this project, I think obviously the other income going up gives a general idea of the kind of valuation, but we are not at liberty to disclose the exact details.
- Abhishek Anand** How much will be the capital now required in the project from our side in Godrej 2?
- Rajendra Khetawat** The total capital required for Godrej 2 is in the range of around INR 1,400 to 1,500 crore, so 50% would be GPL's contribution.
- Pirojsha Godrej** Of course it will be little bit lower than that, one we have already gotten some capital, secondly, we will get some development management fees, etc., but that is the approximate numbers.

Abhishek Anand	Finally, last one Pirojsha, we understand the cash flow has been pretty good, but if I look at the construction spend year-on-year, I think it has declined from Rs. 1400 crore to Rs. 1100 odd crore, despite us adding significant amount of projects, launching significant projects. Is this a one-off or is that the run rate we are looking at - Rs. 1100 odd crore annually?
Pirojsha Godrej	I think you will see it sharply increase actually Abhishek. First of all, we just need to check the exact numbers I mentioned, but one of the reasons is that BKC was completing at the end of the previous financial year and the finishing cost and other things there were of relatively high nature, so that has slightly skewed those numbers. So I think certainly you should expect to see that number growing quite strongly in line with overall sales growth in the years ahead.
Moderator	Thank you. The next question is from the line of Tanuj Mukhija from Bank of America. Please go ahead.
Tanuj Mukhija	Congratulations once again for very strong pre-sales by Godrej Properties. My first question is now that Godrej Properties has raised Rs. 1000 crore of capital, which would be deployed purely for business development purposes and you added incredibly 23.5 million square feet in FY18, so what is the target of project additions that you have in mind on annual basis?
Pirojsha Godrej	Tanuj, it is not something we prefer to give guidance on and honestly, we are not that focused on that million square feet number, I think it is more on the future profit we have locked in is how we are really focusing on it. So according to the business plans we are making, how much future profits we are locking in. Obviously, if you do deals in an attractive location in Mumbai, you may not have the same kind of area numbers, but we will certainly look at the value sharply increasing. What I can say is that we are looking at this in a fairly exponential way, so I think looking at the capital we actually deployed in business development last year; we were looking to do at least 3x to 4x of that this year. I do not think that necessarily will again be reflected in terms of the area that is added to the company portfolio, but hopefully will be in terms of the future profit locked in.
Tanuj Mukhija	Just one small question, Godrej Properties added a project in Sector 3 Gurgaon on a model of 95% revenue share, that is incredibly high percentage of revenue share and I think we have moved away from revenue share to profit share, so can you elaborate on the terms and conditions for this project?
Mohit Malhotra	This, in all fairness, is actually a purchase deal, we have just structured it with a part revenue share because of various reasons, but you should look at it almost like an outright deal. The scale was very apt for us to take that project on our own balance sheet.
Tanuj Mukhija	What is the advance paid for this project and will it be a very high proportion for this project?
Mohit Malhotra	This is not an advance. Rajendra can give you the exact number, but we have paid the money as a non-refundable deposit which is almost like a land payment and a 5% to 7% of top-line goes to the owner eventually.
Pirojsha Godrej	I think one of the benefits is that it is somewhere in between our typical partnership structure and an outright so that the payment is slightly staggered, and there is a small upside through the stake. And given the fact that we think this can be turned around very quickly and in the foresight, we do think the returns would be akin to joint venture kind of project.

Tanuj Mukhija	Lastly, on this quarterly result, can you help us reconcile in what is the recurring EBITDA and are there any one-offs that you have booked in the expenses?
Pirojsha Godrej	There are several one-offs, both on the income side with Godrej 2 sale, there is also actually about little over INR 150 crore of write-off we have taken during the quarter. While we will not share the exact breakdown, I think the majority of that is in our older commercial project in Kolkata and Chandigarh and the rationale here was that we have been making best efforts to sell those projects. I think the pricing clearly needs a bit of a haircut for us to monetize those as fast as we would like. So I think the goal we have taken now is to clearly monetize 100% of those projects within the current financial year and to help do that, I think we have looked at what pricing we think would allow us to achieve that 100% sale and taken a write-off accordingly and few other minor items as well.
Moderator	Thank you. The next question is from the line of Puneet Gulati from HSBC. Please go ahead.
Puneet Gulati	Just two questions here, number one if you can share what is the other income attributable to Godrej 2 in this quarter?
Pirojsha Godrej	I mentioned earlier we are not at liberty given the confidentiality in the agreement to disclose the exact amount. We will get rough sense from the total other income, but we are not able to give the exact number.
Puneet Gulati	Secondly, in 4Q you have this advance to JV partners going at almost Rs. 146 crore, you have also raised money recently. Should we think that the advance number would also be at a higher run rate from now on or is it just one-off this quarter?
Pirojsha Godrej	No, I think it will be a disappointment if it is not a higher run-rate. Again, the whole purpose of this capital is to fund business growth, so you should see that reflecting in higher investments. As I said, we would like to this year that number growing by 3x or 4x, over last year so hopefully, we can make that happen.
Puneet Gulati	Because over last three quarters, you have been adding three to four projects anyways with 5 to 12 million square feet of area and you have been paying out almost Rs. 30 crore, this was almost Rs. 146 crore.
Pirojsha Godrej	You have to look at the share of the project, the structures and so on. But the reason we think that we can increase it is by taking sort of higher value project that can generate more absolute return in a shorter timeframe and again not necessarily exactly correlated with the size and terms of a million square feet.
Puneet Gulati	Lastly, we are now one year post RERA, are you seeing significant changes even now in terms of better valuation for these JD projects or has it remained where it is over last one year?
Mohit Malhotra	Puneet, I think the market obviously is quite tough and you know the RERA consolidation story is continuously playing out, so we see a good correction in the valuations when we are talking to the landowners for both partnerships and also on the land for sale.
Puneet Gulati	It has only improved since then?
Mohit Malhotra	Yes.

Moderator	Thank you. The next question is from the line of Manish Gandhi, an Individual Investor. Please go ahead.
Manish Gandhi	My first question is now the new DP is out, so do we have a clarity on Godrej 3, the commercial project?
Pirojsha Godrej	Manish, actually the final new DP is not actually out. So, while the Government has obviously made some announcements about it last week, we are still awaiting the final document. If there are no changes from the last one, Godrej 3 should be a possibility. However, we do not actually have the document yet, so it is not possible yet to confirm that.
Manish Gandhi	So, we should be knowing within a month or two?
Pirojsha Godrej	Yes.
Manish Gandhi	I was just wondering in new launches this year, why that Vikhroli two JVs are not shown because now the dumping rule has been relaxed?
Pirojsha Godrej	The dumping ground, obviously we lost time, and the DP we have not been able to make adequate progress. So once I think is that the dumping ground hopefully is resolved at least there is a temporary respite and the development plans we will have to see exactly when it comes finally. And you know the approval process in Bombay now that you have to also get RERA approval, you will have to get full environmental clearance and things, we think it is quite likely that these launches might actually get pushed into FY20. Obviously, we will leave no stone unturned to try and pull them into this year, but from a guidance perspective, we thought it was appropriate to keep it out of this financial year.
Manish Gandhi	Last one, Pirojsha, how do you look at the Mumbai market because last two years there has been dumping issue and many deals were stuck because of that and if I see as you said that you might have many larger opportunities to deploy capital in Mumbai and even if I see one of the competitors, Oberoi Realty is changing its stance talking about increasing volume and market share, so I am just curious to see what is happening in Mumbai?
Pirojsha Godrej	I think obviously Mumbai is the most vibrant and dynamic probably competitive market in the country. I think what is happening in Mumbai and around the country is that the sector is consolidating, so the largest 5 or 10 developers in each of these cities are significantly gaining market share. I think the data now clearly shows that if you compare top few developers' market share changes over the last four or five years. Mumbai is very interestingly poised because with this DP kind of lack of clarity is something that we can move fast and if this dumping ground issue is sorted out, I think there are a lot of positive factors going for Mumbai including the prices now have been relatively stagnant for a few years, so affordability which has historically been a big issue in the city is at least better than it has been in the past. If you look at the kind of infrastructure developments being planned in Mumbai whether the Metro, the new airport, the road network, I think you are going to see a dramatic benefit to the real estate sector from all of these. We remain extremely bullish on Mumbai, but really our focus in all four of these top markets will be to very quickly enter as many of the new micro markets as we can and certainly Mumbai is a big priority amongst those as well.
Manish Gandhi	Okay that is from my side. And I am very happy that we are raising all the Rs.1000 crore for the growth capital. It is a great opportunity. Thank you.

Moderator	Thank you. The next question is from the line of Mohit Agarwal from IIFL. Please go ahead.
Mohit Agarwal	Pirojsha, just a clarification, at the start of the call to a question you said that the growth capital will be used to enter into new markets or is it new micro markets within the four key focus areas that we have, could you just clarify that?
Pirojsha Godrej	Absolutely Mohit, that is totally new micro markets, we are definitely not looking at entering any new cities. Almost all of that investment you should expect to see going into Mumbai, NCR, Bangalore, and Pune, but within each of those four major markets, there are a large number of micro markets in which we do not have a presence. So I think the whole focus will be on entering as many non-competing micro markets as we can.
Mohit Agarwal	Secondly, this is the third probably consecutive year that we have not decided to pay dividends, just wanted to get a sense of what is the benchmark or what is the strategy if you could just refresh that for us, that will be helpful?
Pirojsha Godrej	The company we think is poised at a stage where there is an opportunity for rapid growth. There is an opportunity that is not going to be available forever for very significant deployment into business development and we think any capital that the company can source will generate a much higher return for shareholders being deployed in this manner than being paid out as dividend. Also, there are as you know some tax inefficiencies with dividend. I think the question on when the company will start paying a dividend is one that really will depend on how this balance between opportunity and capital availability looks. So, I would not expect honestly for the next two or three years that we would be changing this policy. Obviously, the Board will review this every year and take a call but certainly it seems to us that we are in a stage of the industry and stage of the company that there is a lot of opportunity to deploy capital and that the best results for shareholders will be to redeploy any capital we are earning into new projects. Clearly, at some stage with the opportunities seem less exciting or at a stage where the company is throwing up enough cash that it can both capture those opportunities to the full and also pay a dividend, this will obviously change. And over the long-term clearly, we hope to be a strongly cash generative company that does pay meaningful dividends. But certainly, it seems very clear to us that in the near term this is the correct strategy to maximize shareholder return.
Moderator	Thank you. The next question is from the line of Saurabh Kumar from JP Morgan. Please go ahead.
Saurabh Kumar	Sir, three questions – firstly, on this your cash flow statement, so this land and approval related outflow which is there is that for ongoing projects or is this for new projects?
Rajendra Khetawat	It is for both, certain approval related thing, it is for our existing projects like Trees, commercial project, and therefore, the new projects which we have tied up, and so we have to pay certain other statutory payment, so it is for both existing as well as new.
Saurabh Kumar	I am actually trying to figure out what is the net operating cash flow from your existing project, so I have this arithmetical sum of all your projects of INR 4,000 crore collection and roughly INR 2,200 crore of construction and how much of the INR 650 crore you think would have been for the existing month?

Mohit Malhotra Saurabh, we can take this off-line. Right now it will take a little longer time to explain you the full thing on the call.

Saurabh Kumar Okay, and secondly just on this underwriting for this new projects the way you guys are thinking about it, I mean what is like Godrej Properties' economic interest of this Rs. 5000 crore odd you sell, how should we think about it in terms of PBT or however you want to define it?

Mohit Malhotra Can you just repeat that question Saurabh for the new project?

Saurabh Kumar Basically, I was just trying to figure out how much of the Rs. 5000 crore you are selling, how much is our economic interest in the profits, so the Rs. 5000 crore generates x profit and what percentage of that basically belongs to Godrej Properties?

Mohit Malhotra Going forward, you are saying?

Saurabh Kumar Yeah, what should be your economic interest of this Rs. 5000 crore?

Mohit Malhotra Basically, the strategy is obviously to maximize our share of profit per square feet of sale, to summarize it in a simplistic manner. Now, exact numbers are based on the situation, the site, the micro market dynamics, but from whatever we are currently earning, it would be significantly higher because the capital deployment will be much higher for the same set of transaction.

Saurabh Kumar One last question, basically on this Rs. 5000 crore the way I understood it just per my understanding the land is already paid out, so that is not part of the free cash which Godrej gets, right, so it is netted off from that, so it is only the incremental approval against land, so sales minus incremental approvals and the construction and that balance profit is what is shared with you?

Rajendra Khetawat Whatever the balance land payment which we have to meet on account of Trees project has been paid out in the last financial year, so there is no additional land payment on account of Trees and you know other than that like I said, most of it is a joint-venture and our advances get linked to certain milestones, so there may be certain milestones for which some advances would be paid out in the future.

Saurabh Kumar Basically, if I look at your cash flow statement, so Rs. 4000 crore of inflow less Rs. 2000 crore of outflow, you get about Rs. 1900 crore of operating cash flow for the year which is effectively a 30% depending on how you treat this Rs. 650 crore, but basically you have a 45%-odd operating margin of this 5000 crore and this belongs to Godrej, right?

Mohit Malhotra This is for the entire project.

Saurabh Kumar Yeah, basically, you are capturing about 45% of the entire project fee cash, that is a fair assumption or?

Pirojsha Godrej Saurabh, this cash flow can be sometimes in terms like BKC or something which is already sold by collecting 100% of it to the company, so I do not think there is a back load somewhere like that.

Mohit Malhotra I think that correlation may not work at the portfolio level.

Moderator	Thank you. The next question is from the line of Manish Jain from Sage One. Please go ahead.
Manish Jain	I just want to know in Mumbai when can you start doing the BD deals given the dumping issue it is still there or if you were in talks with someone you can start closing the BD deals?
Pirojsha Godrej	Manish, first of all when we are saying Mumbai, we look at Mumbai even Greater Mumbai like Thane and some of the other areas and we feel those are very interesting micro markets, but specifically coming to Mumbai, we are looking at opportunities where some of the opportunities, the approvals are at advance stages and things like that, some of the redevelopment opportunities and we are finding interesting opportunities within the Mumbai city as well today and we are in advance talks with couple of people.
Manish Jain	You can go ahead and close this with the issue resolved now?
Mohit Malhotra	Yeah, given there is a window of opportunity right now, I think project which are at fairly advanced stages of approval are somewhere we can enter and turn it around within the timeframe.
Pirojsha Godrej	If any major capital deployment would be affected by then, we would link this to the disbursement of that capital.
Manish Jain	Two housekeeping questions for Rajendra, first is this IndAS 115, revenue recognition issue, what is exactly going to the impact on new projects revenue recognition from April 1, 2018?
Rajendra Khetawat	Manish, we are studying this in fact, so there is a standard which is effective from April 1, it is dependent on certain conditions, so we are discussing with our auditors, so exact nitty-gritties and nuances we are working out and we are talking to several other industry players, so it will be premature for me to comment exactly what would be the impact, so as we get more clarity we would be in a better position to give you the impact.
Manish Jain	My last question is on Godrej BKC we had the money to be received, have we received the entire money or still something is to be received?
Pirojsha Godrej	We received half of the outstanding amount in the fourth quarter, I think half is expected this quarter.
Moderator	Thank you. The next question is from the line of Adhidev Chattopadhyay from ICICI Securities. Please go ahead.
A. Chattopadhyay	Sir, first just to understand with Godrej 2, you said it is Rs. 1500 crore of capex gross and we are also building the five-star hotel there on The Trees, so combined these two projects, what is the total committed capex over the next three to four years, which we will have to put from our balance sheet?
Pirojsha Godrej	Hotel again, we have not decided the exact capital structure etc., so we have just figured out Godrej 2 we would like to do it through this route. That is obviously a much, smaller project compared to Godrej-2, Godrej 2 is a 1.2 million square feet development. Hotel will be a fraction of that. I do not think any of us have the exact details, but hotel total investment is I would imagine in the range of Rs. 400 crore to

Rs. 500 crore and our share of future investment will be another Rs. 500 crore to Rs. 600 crore.

- A. Chattopadhyay** Secondly, this is again for Rajendra, just again an accounting question now, if I see your balance sheet on the financial asset both on the current and non-current investment has gone up by quite a bit in both current and non-current plus our investment in joint-venture and associate, so is that the cumulative figure which is there in the JVs?
- Rajendra Khetawat** Because of the IndAS it gets classified into, so the equity part gets classified into investment due to joint-venture, which is non-current asset and the non-equity part gets classified into financial assets, so like we do investment like Godrej-2, ours is a 50% stake, so half of the equity portion has gone into whatever has been funded through debt it will come into the investment into non-capital side. Similarly, we have done certain deals for Pune, so it gets split between the two depending on the structure of the transaction.
- A. Chattopadhyay** Going forward in next couple of years, do you expect more projects to come in JV to hit the revenue recognition because currently I believe lot of projects are not getting captured where we are doing lot of sales?
- Rajendra Khetawat** This could be because these are like you know the existing accounting standard of the guidance note require certain conditions to be fulfilled before you start recognizing, so if we continue into the same standard definitely we will see lot more recognition coming into the coming quarters.
- Pirojsha Godrej** One of things which we have to now understand is that as Rajendra says is the new IndAs 115 that has come about suggest that there might be a stream of project completion method accounting, which clearly would then delay some of the recognition, but I think whether that is applicable, which cities it would be applicable, all of that is currently being understood.
- A. Chattopadhyay** Just last question on your balance sheet, now obviously with your 1000 crore you have raised now a debt-equity is pretty comfortable now in terms of absolute ratio, so going forward now again are we looking at debt at an absolute level or again like 1:1 or 0.5:1 what is the sort of ratio that we would be comfortable with?
- Pirojsha Godrej** I think we will stick with the guidance we have issued on this ever since the IPO which is that to us the appropriate range is probably about 1:1 to 1.5:1, I think one of the strategic advantages the business has is our ability to access capital at an attractive cost, so our average borrowing cost today is only about 7.8%, tax adjusted it is a 5% source of capital. Given our outlook for the industry, given our outlook for the total opportunity, we think it would not be sensible of us to not take full advantage of this 5% source of capital, while obviously also maintaining overall prudence and making sure that we do not let that become a drag on business performance as it has often happened in the sector and we think that the range at which those things are balanced, it continues to be in that 1:1 to 1.5:1, anytime we are over that we will look at steps to generate more cash flow and bring it within. Anytime that we are under that as we are now likely to be at the end of the current quarter, it clearly is a signal that we are looking to deploy more capital as fast as possible.
- Moderator** Thank you. The next question is from the line of Abhinav Sinha from CLSA. Please go ahead.

Abhinav Sinha On the new capital that you have raised, just wanted to check if the deployment of this is almost sort of set for you in that it will be let us say a large portfolio that you acquire or couple of large projects or you are still pretty much flexible on this one?

Pirojsha Godrej It is nothing set in stone, we have a large number of opportunities that are under the evaluation and negotiation state, but it is not that we have identified this for a specific thing and the deployment will happen tomorrow anything like that.

Abhinav Sinha On the Godrej-2 development, so from here on are we likely to see a lease and hold model for this or?

Pirojsha Godrej Yes.

Abhinav Sinha Or you will prefer to follow the BKC model where you will lease and then sell out to the private equity partner?

Pirojsha Godrej I think we will definitely lease this, I think in all likelihood it will be a lease and hold, but it could be a lease and then once fully leased, sell as a full development. So I think whether to hold it or not post-leasing is something we will evaluate, but I do not think we have strata sales as we did in BKC.

Abhinav Sinha Just on the launch pipeline that you have given for the next year, so can you give an idea what we can expect in the first half or what is likely to happen near-term?

Pirojsha Godrej I think so much uncertainty on this regulatory approvals, etc., even the full year guidance is tricky to give, but I think we hope to launch in Mumbai, a project what we have lined and a couple of other projects to launch this quarter, but I think better not give too many details on this for now, but I think we were quite happy last year to start the year off with a very strong momentum with our residential sales last year were higher in the first quarter, so we hope to start with good momentum again, but frankly it will depend on the final approvals etc.

Abhinav Sinha Given that we do not have Vikhroli inventory available with us significantly this year, do you think last year is a fair benchmark to compare FY19 sales?

Pirojsha Godrej For Vikhroli?

Abhinav Sinha Vikhroli inventory is much lesser?

Pirojsha Godrej I do not think, unless we get a new launch, we will not be able to do the same value as last year. Last year we sold about Rs. 700 crore to Rs. 800 crore worth of space in Vikhroli, I do not even think we have that much inventory.

Abhinav Sinha Sorry, I meant from a company's perspective, will you be able to hit INR 5000 crore again?

Pirojsha Godrej Nice roundabout way of asking for guidance, which we tend to try not to give, but clearly the goal of the company is not to degrow in any years, at the same time it can happen if things do not go according to plan and things get delayed or we are not as successful as we hope to be, but certainly it is the start of the year, our aspiration is not to degrow from last year.

Abhinav Sinha Just one last question on the NCR market itself, we have three to four launches planned this year, is it looking better now the market itself?

Mohit Malhotra	Abhinav, market is looking very similar to what it was in past, we do not see much change in any direction.
Pirojsha Godrej	As we have seen with our project in Noida now this most recent project on Sohna Road, I think we are happy with the volume we are achieving despite the market.
Moderator	Thank you. The next question is from the line of Samar Sarda from Kotak Securities. Please go ahead.
Samar Sarda	My apologies, I joined the call a bit late, so sorry if I repeat the questions, Pirojsha firstly many congratulations on an amazing quarter on sales as well as FY18 as a whole, just had a couple of questions on the financials and the launch pipeline. On the financials, one, Rajendra if you might explain why the gross margin is particularly low this quarter?
Rajendra Khetawat	As Pirojsha said, we have taken certain write-off/one-off so into Q4, so because of that the gross margins are there.
Samar Sarda	What is the quantum of the write-offs?
Rajendra Khetawat	It is at Rs. 150+ crore.
Samar Sarda	This will be against?
Pirojsha Godrej	This is largely as we have said in the start of last year, the goal was to monetize our commercial portfolio completely in FY18. We see the progress on BKC as last year being very satisfied and while we have not fully monetized, I think most of it is monetized and clearly the rest will go at current pricing this financial year; however, we also saw that in Chandigarh and Kolkata the pricing we had we were not really able to move much stock very low sales in those projects during the year, so we have once again set as the target of fully monetizing those two projects this financial year and the question to the team was that whatever we have tried to do so far hasn't adequately worked, so if we take a big haircut on the price, we think that can allow us to do this, so this was largely reflected in writing down the fair value of those two assets.
Samar Sarda	Could we assume this Sector 3 addition in Gurgaon is an outright purchase because 95% revenue share seems pretty high?
Pirojsha Godrej	It is akin to a outright purchase, I think that is a fair way to look at it but I think just a couple of caveat I would add to that is that the returns that we can generate we think are quite similar to a JV because some of the payments are staggered unlike a full outright purchase on day one and the owner does feel that there is some upside potential from the small revenue share they have which also helps with valuation, so I think with those two caveats, yes, I think it is more akin to an outright purchase then a typical joint-venture.
Samar Sarda	Just one query on the launches somebody just asked it, but ten new launches for FY19 and I am pretty confident that a lot of business development or business plan activity goes into it, some part of it is dependent upon approvals and we have seen that in the past that the launches have been delayed and most of these projects are large projects for FY19, what is the confidence that even 70% to 80% of these launches will go through in FY19?

Pirojsha Godrej We see the confidence is reasonably good or we would not put it there, but at the same time if you look at the slide we have put a pretty prominently displayed disclaimer talking about the kind of risk of regulatory approval, so there is two ways we could do this which is only put things which we are relatively certain about, but the fact is that any project where we have the approval, we tend to immediately launch, so at the beginning of the year there is not a high degree of certainty on almost any project, so is it likely that 10%-20% of these for some reason or the other that we cannot anticipate right now slip out of the financial year, if I have to bet on it, I would probably say yes that is likely. At the same time, we think currently based on the information we have that most of these are very likely to be launched. We also in most recent years have been able to add some new projects to this list during the year, so hopefully, we can also do that.

Samar Sarda If I could just squeeze in a last comment it is mostly on your accounting of course like we will wait what happens with the 115, but you show most of your income from the joint-venture project as a part of your other income from an accounting standpoint, so it becomes a little difficult to track it so any thought process to make some changes towards it or make it a little easier for analysts or investors to track it?

Pirojsha Godrej No, I think we are happy to discuss this and understand better, but obviously our first priority is on making the system work for us as in our JV partners in terms of sort of present value of the cash flows, but certainly happy to help simplify if there are ways we can do it without affecting that.

Moderator Thank you. The next question is from the line of Himanshu Zaveri from Dhruv Gems. Please go ahead.

Himanshu Zaveri I want to ask though our profit has come good, but is it safe to assume that except The Trees we have not been able to scale up the profits as much as we would like to and then would not it be a good idea to have three or four high margin projects like the Oberois of the world where they buy couple of big lands and then sell them at a healthy profit of 40% to 50% net like they are doing in Borivali and Thane in the Glaxo land which they bought currently?

Pirojsha Godrej Thanks Himanshu, I think there is obviously relative advantages and disadvantages to different strategy, but I think it is fair to say that we would like to see the profitability of overall portfolio move upwards from here and I think our business development strategy is tailored around that. We do not believe that means that we should shift to an outright purchase model, but certainly the share we are able to get in our profit sharing partnerships and the locations we select could be geared towards the improving profitability and we certainly will look to do that.

Himanshu Zaveri As we have raised this new Rs. 1000 crore, so can we now take that next big leap of launching couple of or 3 new projects for quarter and then along with that the other project phases which we can sell with that, so that we can sell like 2.5 million square feet easily per quarter, so we reach that 10 million square feet easily per year?

Pirojsha Godrej Certainly, that is what we would like to do, I think obviously saying it is easier than doing it, but I think the near-term target I think Mohit sets the team and maybe he can talk about it some more is that in every one of our focus markets, we should have a launch at least every quarter which would then obviously lead to a number even higher than what you mentioned.

Mohit Malhotra	Himanshu, that is the overall vision and that is how we are driving the business, but as Pirojsha said, to build that pipeline and to get those projects and approvals in place, I think it is a matter of time when we will get into that cycle.
Himanshu Zaveri	Regarding the Mamurdi project, is it that DM of 11% and plus the profit sharing of 26%? I think we have never signed the kind of deal like this before and what advance have we paid over there?
Mohit Malhotra	Mamurdi is a deal where we have bought the land with a fund and the project is paying us 11% DM fees and it is a perfect way of doing an outright purchase, but when structuring it is a profit share arrangement between us and the fund, you are right, it is a first time we have got DM fee of that magnitude from the fund partners.
Himanshu Zaveri	This is the same one that Godrej fund which we have or is that some other fund?
Mohit Malhotra	It is some other.
Himanshu Zaveri	How about the Godrej fund which we are doing, the money is like exhausted or still we have like quite a lot of money to be deployed over there?
Pirojsha Godrej	No, it was a little bit of additional capital to be deployed and also certainly we are looking at it both from our fund management business and from GPL as kind of a long-term opportunity and strategy, so as and when this capital gets deployed, the goal will likely be to raise another fund to do this. I think in a future fund one of the things we are likely to do in line with the overall business development strategy we have mentioned is to try to increase our share in the fund economics so that we are continuing with the JV structure, we think definitely generate higher returns than outright purchase, but within those JV structure, we are taking up our share of profits.
Moderator	Thank you. We will take the last question from the line of Ritwik Sheth from Deep Finance. Please go ahead.
Ritwik Sheth	Sir, most of the questions has been answered, just a couple, what is the value of inventory for Kolkata and Chandigarh after this Rs. 150 crore write-off?
Rajendra Khetawat	It will be around Rs. 275 crore to Rs. 300-odd crore.
Ritwik Sheth	Area on the books would be, the inventory?
Rajendra Khetawat	Area would be somewhere around 8 to 9 lakhs.
Ritwik Sheth	8 to 9 lakhs, both combined?
Rajendra Khetawat	Yes.
Ritwik Sheth	Sir, once we get this Rs.1000 crore capital, promoter holding will go down from current 75%, so any plans going forward to bring it back to 75%?
Pirojsha Godrej	Nothing at the moment.
Moderator	Thank you. Ladies and Gentlemen, that was the last question. I now hand the conference over 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 happy to be in touch directly. On behalf of all of us, thank you again for taking the time to join us today.

Moderator Thank you. On behalf of Godrej Properties Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.

- ENDS -

This is a transcription and may contain transcription errors. The transcript has been edited for clarity. The Company takes no responsibility of such errors, although an effort has been made to ensure high level of accuracy.