"Prozone Intu Properties Ltd. Q3FY19 Results & Business Outlook Conference Call"

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MODERATOR: **MR PRANAV JOSHI – DOLAT CAPITAL MARKETS PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Prozone Intu Properties Limited Q3 FY19 Results and Business Outlook on this call hosted by Dolat Capital Markets Private Limited. As a reminder, all participants' 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 '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Pranav Joshi from Dolat Capital Markets Private Limited. Thank you and over to you Mr. Joshi.

Pranav Joshi: Good afternoon all. On behalf of Dolat Capital, I welcome you all for the Q3 FY19 conference call of Prozone Intu Properties Limited. From the management, we have Mr. Bipin Gurnani -- President, Mr. Anurag Garg – CFO and Mr. Ajayendra Jain who is the Chief Compliance Officer.

Nachiket Kale: Hello, everyone. Good afternoon to you all. This is Nachiket Kale from Dickenson IR. We handle the Investor Relations for Prozone Intu Properties. In Q2 of this year, we saw revenue growth accompanied by the highest ever EBITDA. We are happy to announce that the momentum has sustained in Q3 and we have delivered a significant growth in revenue and margin. Our retail assets are consistently delivering an accelerated performance in their micro markets, indicating our confidence in the rising consumption levels of emerging tier-1 cities.

Q3 is usually highlighted by festivities and holidays, hence also marked by an uptick in footfall at our malls. The Aurangabad Mall saw a footfall growth by close to 50%. Our Coimbatore Mall completed one year of operations this time, and the footfall there has more than doubled on a year-to-year basis. We are also very proud to announce that both our malls have been conferred with the prestigious Economic Times Global Award for Retail Excellence.

Coming to the key highlights of our performance and developments in this quarter: On year-to-year basis, our consolidated revenue was up by 20%. Consolidated EBITDA was also up by 30.4%, while the EBITDA margin went up by 440 basis points. Cash PAT, which is depreciation plus PAT recorded during the quarter, was Rs.9.8 crores, which is up 38% YoY. A strong operating performance was seen at both our malls; at the Coimbatore Mall, leasing was at 89% and at 83% in the Aurangabad Mall. There was a lineup of new stores that opened in Q3; at the Coimbatore Mall we have opened six new stores; and at the Aurangabad Mall there were eight new retail stores.

We received statutory approval for the Coimbatore residential phase-1 where the construction is expected to commence soon. Our malls are close to reaching optimum occupancy levels and are poised for providing incremental growth. With multiple exciting projects in the pipeline, we have an optimistic view for the next fiscal. Now, I would like to hand over to Mr. Bipin – President of Prozone Intu Properties Limited to take over.

Bipin Gurnani: Thank you very much and welcome everybody. I hope all of you had a good quarter. At Prozone, it has been a good quarter considering the festivals. Both malls substantially grew in terms of footfalls and trading density. And I think we have started to see the real potential of our centres.

We have managed to open many stores and continue to sign new stores at Aurangabad and a few new stores at Coimbatore as well. The status of our mall has now moved from the start-up stage to optimising our efficiency, while creating high level of consumer experience. We believe that, whilst the brand that we have will help differentiate us in the marketplace, what will also help us differentiate is our customers' service. So, this quarter onwards we are putting a lot of emphasis on creating remarkable experiences for our customers, while creating a platform where we can pursue loyalty from the mall perspective. As I said, we continue to get interesting enquiries at both our centres and we are sure that in our next call we will also give you good news on certain international brands that are at an advanced stage of signing with us in Aurangabad.

As I had mentioned last quarter, we had received the OC for our PTC in Aurangabad. We have quite a few buyers who have taken their offices for a fit out. Lot of buyers have now come forward and completed their agreements and are now at the final stage of getting the sanctions on their loans for the units. A substantial number of people are now clearing their payments as well. We believe that in the upcoming quarters, we should be able to realise most of the backlog in terms of recoveries. And we also believe that by April-May, the entire office space will become functional with higher occupancy and operational businesses. It will help us to further ensure that more people come and take the units for a fit out. So, Aurangabad had an excellent quarter from the mall perspective, with PTC moving towards a much more stable environment, where lot of issues related to buyers have now been sorted out. We are now looking at completing and closing all the deals that we have signed.

I would like to give you an update on the residential part of our business in Coimbatore. We are scheduled to start construction work in the upcoming quarter. Our contractor has been finalized so, I think it will create a lot more activity at Coimbatore. We have a lot of people enquiring because of the fact that we have a successful centre there. There are a lot of enquiries, but as of now we are not closing those enquiries because we are yet to get the RERA registration. We have applied for the registration and are in the process of finalising that.

In our Phase-1 residential at Nagpur, the first two towers are almost ready for possession. But as a strategy, we are now planning to apply for the occupation certificate for all the four towers together because the other two towers will be fully ready in a couple of months. We have now started to work on the external infrastructure. So in next three to four months the external infrastructure also should be ready. We expect that by Q2 FY20 we will start delivering and giving possession to the buyers for taking over their apartments. As a part of our extended timeline, which we had applied for and received, the delivery is actually expected to be done by December 2019, but we expect that we will start delivering before that. We have also applied for our Phase-2 residential, which has about 330-odd units. So that application is in the pipeline. We have received our development approval for the retail and now we will push hard to make sure that we can initiate the project as early as possible. So the whole process of starting work on the retail site in Nagpur is in full gear. The approvals now are in place. The last approval which we are awaiting is the environmental clearance, which we expect to come through soon.

For the coming quarter, the focus will be on fine-tuning our efficiency. In the coming year we will have three projects under construction – one will be the retail mall in Nagpur, the second will be the residential in Coimbatore, and the third will be Nagpur Phase-2. So we have got a lot on our plate in the coming fiscal. We are constantly striving to make sure that we can improve our bottom line at the existing retail centres in Aurangabad and Coimbatore. So that was our update for this quarter, and we are hoping to continue this good run in the coming quarters as well.

I think we can open the forum for Q&A.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Vikas Seth, an individual investor. Please go ahead.

Vikas Seth: I have a couple of questions: First one is we are seeing an occupancy level of close to 80% in Aurangabad Mall. Despite it being older than the Coimbatore Mall, this number is yet to rise. At what level do we expect it to consolidate?

Bipin Gurnani: As we have said in the past, our Aurangabad centre is the largest centre that we have built. What we have also tried to do, while we are getting a lot of new enquiries and opening a lot of new formats and stores, we are also using this to our advantage by creating some plan churn. If we are opening 60,000, we are also pushing out 15,000 sq.ft. on all the non-performing formats, and brands are being churned out to bring in newer entrants into the mall. This year the budgeted and targeted occupancy that we wish to achieve is upwards of 90%. So, our target for this year is to make sure that the Aurangabad centre achieves at least 90% occupancy, and the rest of it, honestly, will have some churn that will continue.

Vikas Seth: Despite the same level of occupancy, we have seen an increase of approximately 9% in rental income in Coimbatore Mall. So could you please shed some light on the same?

Bipin Gurnani: One of the reasons for that is simple: the multiplex INOX, opened in the last quarter. In this quarter we are seeing a full quarter of its rent coming in. So that is the main reason. I do not think there is anything additional in terms of rental income which would have kicked in.

Moderator: Thank you. The next question is from the line of Akshay Jain an individual investor. Please go ahead.

Akshay Jain: I had a couple of questions: I was just referring to the investor presentation, we see our EBITDA margin has crossed over 50%, but the depreciation and interest cost is so high that the bottom line is still under pressure. So when can we see improvement in the bottom line?

Bipin Gurnani: Basically, I will tell you, this is a capital-intensive business. So obviously, the CAPEX that you make in terms of new projects remains. I would say that the real way to judge the performance of these assets would be to look at the EBITDA margin. The valuation of a shopping centre is normally done on the basis of the NOI, which is its EBITDA. I think people understand that the business is very capital-heavy and therefore depreciation and interest will always be higher. At some stage, even if you absorb all the interest costs, you will still reinvest in the asset in terms of refurbishment, etc., So I think the best way to analyse and look at the performance of the asset is to look at the EBITDA margin and the growth in EBITDA.

Akshay Jain: Just a follow up on this, so in the current quarter, that is Q4, do we see EBITDA on the same level?

Bipin Gurnani: There might be a slight drop in EBITDA because of our sales component. The recognition of PTC, which took place in the second and the third quarters, maybe slightly lower. But overall if I was to look at the segment wise performance, the retail segment will give us a similar EBITDA. This was a peak quarter for us in terms of festivity, but I would expect the performance to be similar. We now are required to look at recognition from a project completion point of view and not percentage completion. So a lot of that is also changing and may affect the EBITDA in the build and sell segment. And the way you look at our numbers in terms of comparison to the previous quarters and years will also change.

Akshay Jain: What is our current working capital cycle, and will it stretch in the upcoming quarters as we have simultaneous projects going on, and to what extent it will be offset by the cash flows from Aurangabad?

Anurag Garg: For our retail assets, we take debt, and the mall is constructed from the debt from the bank or financial institution. For the residential project, it is mainly funded from the pre-sales, but now the environment has changed. So as a policy, we will tie up for some debt so that project can get delivered on time. There is no dependence on the cash flow from the sales. There will be free cash flows from Aurangabad, definitely, but we plan to utilise it for the development of the balance FSI in Aurangabad. All the residential projects will be funded. We do not see any stress in the working capital requirement.

Akshay Jain: What is our current working capital cycle?

Anurag Garg: Debtors are about two to three months, creditors are one month, so two months of working capital cycle.

Moderator: Thank you. The next question is from the line of VP Rajesh from Banyan Capital Advisors. Please go ahead.

VP Rajesh: My first question, if you can give some commentary on your key residential markets, Coimbatore and Nagpur?

Bipin Gurnani: From the market perspective, I do not think they are any different to what is happening in the rest of the country. The residential absorption is slow but we are seeing a positive change. For example, in Nagpur, because our project is now reaching a completion stage, and in the next couple of months will be applying for an occupation certificate, we are seeing some movement. But I think people are still reluctant because the government has still not made the GST reduction effective yet. So people still believe that if they can wait for a couple of months or three months, and only come forward when the OC for the building is received, they may save about 12% in terms of their payment. In Coimbatore, we ourselves have not gone out to do any sales because we want to start construction, reach a certain level of construction, and then open up the sales. We understand that when you are going to people right at the start of pre-construction, the expectation on the price rise is aggressive and we do not want to sell at a discount. So because we have arranged funding to be able to achieve our certain level of construction, we are not in a hurry to start selling. We have planned that we will start construction, let the buildings come up to a certain level, and then we will open up our sales. In terms of enquiries, again at Coimbatore, as I mentioned earlier, because there is an operational mall, there are a lot of people who want to live around the mall. The way we have done our marking is that while the residential still has its own privacy and has an enclosed gated area, the access to social space is very easy. So, that is something which we have found people are very interested in.

VP Rajesh: Just one quick follow-up. Are you seeing the supply coming down in these two markets, i.e., small, local builders who perhaps have not registered for RERA, are starting to move out of the market?

Bipin Gurnani: In Nagpur and Coimbatore, we have not heard of any new launches in the last one year. I think people who are already constructing are still going ahead with their projects. In the last one year there has not been any launch, which means that people who are already building are very focused on completing the existing projects and new developers are sitting on the fence in terms of planning, etc,. and waiting for markets to shift. In Coimbatore, if we were not a part of a larger integrated scheme, we may have also perhaps waited, but the fact that we are a part of a larger integrated scheme, we are very confident that the response to our project will be good.

VP Rajesh: On the balance sheet side, what is the debt on the books both working capital as well as long-term?

Bipin Gurnani: As of now we have debt of Rs.89 crores in Lease Rent Discounting (LRD), balance in Aurangabad, in Coimbatore we have about Rs.195 crores of debt which is again LRD. So overall, roughly close to Rs.300 crores of debt and it is mostly LRD.

VP Rajesh: What is the cash on hand ?

Bipin Gurnani: We do not sit with it unless it gets reinvested. In case of Aurangabad, as Anurag has said, this year will be the first year where we will generate a free cash flow because we will have collection happening on PTC and the mall is also expected to generate some free cash flow. Coimbatore, as of now, meets its full requirement in terms of both interest payment and repayment terms. So we expect that any free cash flow that will get generated from our Nagpur residential project, you will see that having accumulated right at the end because as of now we are still investing in the project.

VP Rajesh: So, is it fair to assume that if you take your LRD out, then you are actually a net cash company?

Bipin Gurnani: Yes, you could say that.

Moderator: Thank you. The next question is from the line of Shruti Mehta, an individual investor. Please go ahead.

Shruti Mehta: My question is regarding malls and the stores line. Just wanted to know if we have any grocery stores like Big Bazaar and all in our mall which will attract people coming there?

Management: Shruti, to answer your question, yes, we certainly have hypermarkets in both our centres. In Aurangabad we have Big Bazaar, in Coimbatore we have Star. Other than the hyper markets, the footfall drivers that we have is the multiplex, which is the largest multiplex in the region in Coimbatore and also the most successful multiplex in Aurangabad. Both have occupancies that are far higher than the national average. Other than the multiplex, we have a very good F&B offering. Whichever big anchor you can think of, we have all those anchors in our centres. In terms of the brand mix and format mix, we believe that we have one of the most fine-tuned category mix and brand mix in both our centres. That is one of the reasons why as regional shopping centres, we attract substantial footfall. Of course, Aurangabad being the only centre in the entire Marathwada, we get footfalls almost equal to the population sometimes in a month. Considering that some people might be coming twice or thrice in a month. And in Coimbatore also, we have seen post the multiplex being launched, our footfalls have almost doubled, and we continue to see growth.

Shruti Mehta: My other question is referring to your slide #19 on Aurangabad PTC. Just wanted to know is there are any delay in payments? If yes, could you specify the reasons for the same delay in payments or cancellation?

Bipin Gurnani: We mentioned that earlier in our calls that we were facing an issue of collection at PTC. But since the occupation certificate has been received, the building is now complete, and we are starting to give possession and handover for fit out, a large number of those people have come forward to complete their process, get their loan sanctioned and pay. What we have done is to make things slightly more aligned and streamlined is that anyone who we feel is not in a position or is not moving forward in a positive direction to complete their possession and fit out formalities and payment formalities by March 31st, we are terminating their contracts legally in terms of what the agreement allows us to do. Generally, we have not found buyers coming to terminate, but what we are doing is that if they are not coming forward to complete the process, we are sending them termination notices. From our perspective, it is better to refund them, the reason being that then we free up units for further sale. We must return the money to them once we have done the second sale on it as per our agreement. So, while we are not seeing that much resistance, and a large number of buyers are now looking forward to complete their payments and take hand over, there is 10-15% space where we are finding buyers who are unable to get their loan sanctioned or facing cash flow issues. We are trying to meet them and sort out if they are in a position to complete the transaction, then we are offering them sometime. If not, we are giving them the cancellation and then reputing those units out for sale. When we initially sold PTC, we sold at an average of about Rs.3800 per square feet. Today the rate is Rs.5500 per square feet.

Shruti Mehta: Sir, one last follow-up is have we seen any co-working space emerging in the cities you operate?

Bipin Gurnani: As of now, we have not seen any co-working space come up. But I feel that there is a potential. One of the buyers who has taken a large space from us in Aurangabad, I believe that at the moment they are looking at converting their 8,000 sq.ft. to shared office space concept. I think as of now we have not seen any sort of larger players come in. But there is some sort of movement and we expect that this will also very soon be ready for co-working space.

Moderator: Thank you. The next question is from the line of Saurabh Jain from Sushil Finance. Please go ahead.

Saurabh Jain: I have a couple of questions: First, if you can throw some light on this acquisition of the subsidiary which you have released a note yesterday? And if you can talk about the new opportunities which we were looking over the last couple of quarters and then status on AIF front?

Anurag Garg: Royal Mall is a 100% subsidiary of Prozone, we have a subsidiary Prozone Intu Developers to this extent. It was created when we were looking for some acquisition. But that has not moved ahead. So, that structure is not required. So we have collapsed the structure. Now the company PIPL is making the Prozone Intu Developers as a direct subsidiary.

Bipin Gurnani: To avoid layering, we have now decided to collapse the Royal Mall with the PIPL. So that PIPL can directly hold PIDPL. We have got a registered AIF and interested investors but have not been able to close any acquisition deal. While we have been exploring and working on 3 or 4 deals, unfortunately, due to various reasons, they have not been able to close. We do not want to call for any money till we have a finalized deal.

Thank you very much everyone for being part of the call and we look forward to a good quarter and a good year ahead. Thank you very much for your support.

Moderator: Thank you. On behalf of Dolat Capital Markets Private Limited, that concludes the conference call. Thank you for joining us and you may now disconnect your lines.