Phoenix Mills Limited
Q2 FY15 Earnings Call
November 15, 2014

Moderator: Good afternoon everyone. I am Harpreet Kapoor, the moderator of this call. Thank you for standing by and welcome to the Phoenix Mills Limited Q2FY15 Earnings Call. For the duration of presentation all participant lines will be in listen-only mode, we will have a Q&A session after the presentation. I would like to now hand over the conference to Mr. Pradumna Kanodia. Thank you and over to you sir.

Pradumna Kanodia: Good afternoon Ladies and Gentlemen and thank you very much for participating in the Phoenix Mills Limited conference call to discuss the Q2 FY15 standalone and consolidated results. It gives us great pleasure to report that the operating metrics across all our malls continue to grow at a healthy rate and given the positive economic environment due to the new government we are very confident of continuing the steady growth even in the future. I do trust that you have received the Q2FY15 Results and Investor Presentations which we circulated and also uploaded on our website as well as the BSE website. I shall very briefly highlight the operating and financial trends of our operating assets, I will start with HSP High Street Phoenix.

During the quarter Q2FY15 consumption at HSP has increased 9% year-on-year to Rs.3.6 billion translating into a strong trading density of Rs.2456, this is up 9% year-on-year as well. And the consumption in the quarter two Market City Pune increased by 23% year-on-year to Rs.1940 million. Consumption at Bangalore increased by 22% year-on-year to Rs.1992 million while at Kurla it increased by 40% and stood at Rs.1569 million and of course Chennai which has been the star performer, the increase has been 53% year-on-year to Rs.2669 million, this has been the highest among our four newly open market city malls. We expect that the strong consumption trends will continue in the second half of the current year as well.

Now moving on to our development portfolio, One Bangalore West our flagship residential development in Bangalore, we have sold more than 1 million square feet at a current weighted average price and excess of Rs.8200. Currently our current selling price is Rs.11500 per square foot. Also, we have a large office space under development at Kurla, the new infrastructure development surround this location has led to an improvement in consumption at the mall and also the sales at the Kurla commercial assets have seen a direct impact of that. Phoenix Paragon Plaza, we have sold more than 100,000 square foot resulting in a sales of 1380 million and collection of over 970 million over a cumulative period. For this asset we have recognized revenues for the first time in this quarter and the total amount that was recognized was Rs.572 million as far as the Phoenix Paragon Plaza is concerned.

We have also repositioned and renamed our erstwhile Orion Park and now we call it Art Guild House, the sales and the traction at the property have been very encouraging, the current sales price have been increased to almost Rs.12000 per square foot and we have closed, almost 50% of the inventory has been sold as of date.Also we did a launch of our luxury residential project at Pune named as Fountainhead, we have roughly sold around 10% of this inventory to date and we hope to really capitalize on this initial interest as we go forward.

Very briefly on our hotel business, the revenues at Palladium have been steadily increasing due to better occupancies and also the fact that the revenues from F&B and banquettes have been really very strong. We also opened up a new Japanese restaurant Yuka by renowned chef Ting Yen, I hope you take the opportunity and visit the hotel pretty soon to enjoy the offerings at Yuka. Our Agra property, the Courtyard by Marriot is nearing completion and is expected to become operational in the first quarter of the new calendar year 2015.

The rest of the details are of course given in our presentation which we believe is pretty exhaustive and I am sure you had a chance to look at that. Very briefly on the financial numbers, for the Q2 FY15 the consolidated income from operations was Rs.4.4 billion and the EBITDA was at Rs.2.1 billion, we hope that we continue with our strong performances and based on the retail asset portfolio and also the residential and commercial projects where sales recognitions and sales are happening very briskly.

These were my brief opening remarks and I know welcome any questions that you may have regarding our Q2 numbers and otherwise as well. Thank you so much.

Moderator: Thank you sir. With this we will open the floor for a Q&A interactive question. First question of the day is coming from Jaydev Chakraborty from HDFC Securities. Your line is unmated.

Jaydev Chakraborty: Firstly, just wanted to ask a broader question obviously now the advent of online shopping a lot of obviously buying online, so across malls do are you seeing any certain specific 6**.32** being affected on account of this and over a two to three year period do you think the sort of CAGR growth which you are expecting in our rental income growth, could it be affected to any extent by this?

Pradumna Kanodia: Hi Jaydev, I think the question is very relevant and pertinent keep in view what's happening around the country and the globe today. Very difficult for us to say how the things will span out and what would be the impact but clearly one should look at from a positioning of the malls, today we are the best performing malls across all the centers so whether it be the Bombay mall or the Pune, Bangalore and Chennai, we are the undisputed leader at each of these locations, any impact so called perceived impact of the e-commerce probably will felt by us pretty late in the day because we have the ability to absorb all these things being the number one and the leader in the market. Clearly the industry is evolving and I am sure as the ecommerce platform becomes more robust so will be the learning for us and we will be able to really see how we can differentiate, see already have a lot offerings which cannot be replicated on the ecommerce platform so if you look at the large entertainment S&P outlets that we have kind of we experience that you have in terms of day spent which is our theme line for High Street Phoenix. These are things which will continue to attract a lot of consumption at our centers, we spoke about how our consumptions have increased year-on-year across all the geographies, across all the malls, clearly the trends and the patterns are that the brick and motor is continuing to do well at our location. So how much of that will have an impact going forward, which categories will get impacted, very difficult to say but I am sure we as market leaders would be ready for these challenges and our malls will continue to show such growth as we move forward.

Jaydev Chakraborty: Right. And just second question on Palladium hotel, now when do we see this turning lets say when do you see your EBITDA being enough to cover your interest cost and when we do we see at least at a PAT level when do we see the losses going out, means is it this year or next year where the hotel turns profitable?

Pradumna Kanodia: Yes, so as far as the interest coverage is concerned we have been covering almost 60% of our interest cost over the last six to eight or 12 months in fact and with the winter season coming in and the tourist and the rest of the arrivals improving, the business environment improving our projections suggest that the hotel industry in general should be looking for much better days. Currently in the month of November if I can share with you some specific data, we have been doing occupancies in excess of 85% at our hotel at very strong ARR. So this month of course we should be able to cover our interest cost as well and the trend should continue for the next four to five months definitely which is the peak season. But having said that, I think the industry is also coming out of the cyclical trends and we hope that hotel industry will be able to commend a far better pricing in terms of ARR and occupancy. And the fact that we have also been talking about a new operator coming on board and that also should happen somewhere early in the last quarter of this financial year or maybe early in the first quarter of next financial year and with that strong brand coming in which has an international presence and a strong ability to market and sell the product we are very-very confident that the hotel specifically our hotel would be able to definitely cover all the interest cost in the next fiscal year without any doubt. But on the PAT side of course there is an element of the depreciation and the rest of the expenses, so I would give it another 15-18 months for the new operator to settle in. So clearly FY17 we would be hoping that we not only cover our interest but also take care of our, there would be no losses at the PAT level.

Jaydev Chakraborty: Okay sir. And finally on your this Kessaku project, please give us a color like have we already launched and what has been the initial response to the same sort of pricing we are being doing over there?

Pradumna Kanodia: Well, we intend to a full-fledged launch later in December, we have already done a soft launch which is basically word of mouth that spread there and we got very interesting feedbacks from people, we have also sold the few apartment and the current selling price is around Rs.13,500 but we are very selective in our customer profile so Kessaku being a very high end luxury product we really are looking for people who would come in using it for their own use rather an looking at investors who would want to block money. So from day one we have been clear that we want quality names to come and look at acquiring assets and there have been very high profile customers who have come and already buy initial 8-10 apartments that have gone and with the December launch the feedback from our marketing and sales team is that that there is very huge pent up demand and we hope to sell reasonable amount of quantity in the next six months itself, so that's our belief that the product has been well positioned, well launched, on launch it should be a reasonably good and interest attraction towards it.

Moderator: Thank you. Next is Gunjan from JP Morgan. Your line is unmated.

Gunjan: Firstly, I am just looking at the trading density across the malls, I mean except for Kurla and Bangalore we are above Rs.1000 a square feet per month. So for Kurla and Bangalore what do you think drives the performance and what do you think is the optimum level that we can get in these two malls?

Pradumna Kanodia: Hi Gunjan. So if we look at the numbers and observations are right, I mean High Street Phoenix we do almost Rs.2500 in terms of trading density and the lower end is our Kurla mall where trading density is at a much lower number. Clearly the fact remains that one needs to look at how the other malls have evolved. Chennai has been star performer for us and that's the reason why the consumption levels are where they are today. But from Kurla's point of view clearly there is a huge amount of catching up to be done and that's already getting reflected in the current trends and the way that the last quarter and the last six months have shown in terms of improvement in consumption, we hope to have a number which is probably closer to at least breaching a Rs.1,000 per square feet number soon so it could be a six, eight month or a 12 month journey while we achieve that. And as far as Bangalore is concerned I think the numbers may be appearing in lower than 1,000 but they are very strong, in fact as I see it is 1162 so it is not below 1,000.

Gunjan: No sorry Pune, my mistake, it was for the Pune mall because Pune was the first mall we opened right and I mean it's been operational for almost four years now.

Pradumna Kanodia: Correct. See what happens is that 986 or 1100 is just a matter of a 5% - 10% here and there but if you have to look at the consistency and the growth, Pune also has shown a year-on-year growth of almost 20% and which is very-very good, I think a double-digit high double-digit growth coming in not only in teens but I think a 20% growth is very good and then the mall continues to really perform very well in terms of it's ability to leave the residual space at very attractive prices 140 - 150 but the footfalls have been very-very consistent, very strong and the consumption if you look at it has been very strong, the growth there also has been 23%. So as the consumption grows you will find that the trading density also will improve, there are certain areas which are now coming up for occupancy there because of that you will see that the consumption and the trading density will both improve. So for Pune and Bangalore I believe that we will continue to grow at 20% and Kurla will be something which can really surprise us going forward where the growth could be even faster. So I would want you to look at maybe a 12 month number and then look at how things are. Clearly Pune has been the mall which opened up the first but it has also been a very star performer from our point of view, collections are very strong, consumptions are strong, current rentals and renewals are very-very nice. So from all the angles I mean the mall at Pune is really not lagging behind anything though the number of 986 may just be a number but clearly at Rs.80 current rental it is not far behind any of our estimates and we don't believe that it is underperforming at all.

Gunjan: Okay. And besides the Bangalore West launch what are the other launches that we are looking for in the next two three quarters?

Pradumna Kanodia: We will also be launching our residential development at our Bangalore mall company which is the Island Star so we should be looking a launch there as well towards the end of December or early January, we'll share the details with you, we are almost close to getting that as they launch.

Gunjan: Okay. And just broadly on the rental portfolio, so we have seen almost 15% plus growth consistently over the last 1.5 - 2 years even after the malls have stabilized. Now that the renewals from High Street Phoenix get over in FY15 how do you see the rental portfolio growth over the next three four year, I mean is this 15% sustainable?

Pradumna Kanodia: If you look at the presentation there is a slide which talks about the renewals so High Street Phoenix which you observe the renewals have actually not happened because they are now beginning to happen. We have hardly done any renewals from a area point of view because the Palladium part of the mall is getting to be a five year old product only somewhere in December, January and thereabout. So if you look at the cumulative number which will be for Fy14-15 there is a 200,000 Sqft of space which is coming up for renewal so basically we have done less than half of it so far then next year we have another 100,000 and in next thereafter 200,000 square feet is again coming up. So in High Street Phoenix alone if I look at the next 24 month, I believe that over 250,000 square feet of space which is coming up for renewal and which is a very big number. And if that number gets translated in my overall growth and my overall rental portfolio along with the fact that the rest of the market which are also in the third year of journey and some of them will be in the fifth year in a year and a half's time. So while FY16 the number of renewals and expeditions in Bangalore, Chennai and Kurla will be low but Pune will start seeing almost 35% of space coming up for renegotiation towards the end of FY16 which is almost just 400,000 square feet of space. So each year there is a big chunk of area across all our developments and specially also on High Street Phoenix which is of course the per square feet rentals are the highest here. So if you look at an overall space, if I were to just give you an example, FY16 across all our five portfolios you would have around 700,000 square feet of space coming up for renegotiation and if we go a year further this is almost 1.3 or 1.4 or 1.2 million square feet. So the next two financial years are very strong in terms of renewals and of course the balance six months also you will wind that our rentals will continue to grow. Currently we are at HSP Rs.250, I think the next financial year the numbers will be significantly higher, not only for this but across all our development as well.

Moderator: Thank you. Next is Puneet Jain from Goldman Sachs. Your line is unmuted.

Puneet Jain: So my question is that, now after this quarter what are the remaining payments that needs to be done for various stake acquisitions?

Pradumna Kanodia: Well, the fact remains that our stake acquisitions have always been on a staggered basis. The fact remains that we have had a fortunate part to look at a long-term payment schedule from each of our private equity friends who exited and who are in the process of exiting. The numbers if I were to give you a strategic number, just let me open the sheet and be specific about it for you, just a minute if you can hold on.

The number could be closer to around 200 crores over the next 14 to 16 months time frame and that's the current commitment that we have. If we add a few more to this as we move forward the number could be slightly high but it is closer to around 220 crores as of now.

Puneet Jain: And this primarily comprises the Kurla street -- and as well as the one that --

Pradumna Kanodia: To ILFS on our Pune development, if you remember we had done a transaction with ILFS to buy their stake in Pune which was worth some 79-72 crores, so these are the two large ones. And there is an small one which is the Edelweiss as well for Island Stake and also these are the three large ones and there will be a few more as we move forward. So my assessment is that around 220 is the number that we currently have, we will be announcing a couple of deals maybe shortly once we sign off and then -- but I could wait for the announcements to be made before I give you the number for that.

Puneet Jain: Okay. So is there some scope to go up because now the stake is almost 100% closely to 75% in most of the malls.

Pradumna Kanodia: Yes, you are right so we are also know that any acquisitions just for the sake of doing but I think given the fact that there is a lot of value proposition and we believe that these investments will give us a tremendous return. As you would have seen in one of our presentations in the website that there were a total around Rs.9 billion that we had or we land up spending on our acquisitions and the resultant value of that is for everyone to understand has significantly improved. So from our point of view these assets which we know very well, these are investments which are really risk free in every nature and going forward the valuations could definitely be significantly better than what we have been able to close the deals at.

Puneet Jain: Okay. And do you have any long-term plans on business growth once you acquire these assets?

Pradumna Kanodia: Well I think there are a lot of thoughts one could have, we always keep sharing when we meet individually. But clearly the cash flows that are visible from both our retail rental as well as our development portfolio, a very-very strong going forward the kind of sales that we have been able to achieve with our residential developments is a very-very encouraging from our point of view. The visibility has become very strong for these cash flows to be treated as certain going forward. So it gives us a huge amount of ammunition and comfort both I would say in terms of charting our growth plans. So we are evaluating a lot of options in terms of what is the next way forward. So as we have been discussing and sharing with everyone in the past we look forward to some of these opportunities actually getting closed and the journey in terms of growth will always be there but we will be taking one step at a time but the cash flows remain very strong and buoyant and they will definitely put to very productive use in terms of the way that we see the journey from here to the next maybe four to five years.

Puneet Jain: Okay. Also sir last full acquisition was at 2.5 billion was the last full acquisition total amount so what is the amount you have paid in FY15 till now?

Pradumna Kanodia: Can I give you specific numbers off line, I will just need to check that out and I will call you back. Rohini will give you the numbers and call you back.

Moderator: Next is Shashikiran Rao from Standard Charted. Your line is unmuted.

Shashikiran Rao: My question is regarding a number of stores that you have mentioned in the presentation, the is a sharp rise in most of them. I believe the numbers that you had given previous those were operational so what's the discrepancy I mean between this quarter and last quarter?

Pradumna Kanodia: So if you are talking of any specific slide within that or is it an overall?

Shashikiran Rao: In your all your market cities.

Pradumna Kanodia: So the number of stores probably would have gone up slightly, it may not have gone up significantly but yes we keep repositioning and the individual stores at times get either clubbed together to make for a larger space or a large unit is broken up and made into smaller store. So these numbers would tend to vary slightly from quarter-to-quarter, it does not mean that they are fixed numbers but the variations would not be very significantly large, there could be a gap of 10 to 15 units if I were to make a rough estimate, I may be not out of rack if I were to say that the gap could be in that range but is that something which…

Shashikiran Rao: For Chennai you had mentioned a number of stores trading last quarter like I think 227?

Pradumna Kanodia: Yes.

Shashikiran Rao: And you have mentioned number of stores is 259?

Pradumna Kanodia: Yes. So that is the total stores, so this time I think the presentation does not talk about the number of stores trading so while the 259 number remains correct and that is comparable to the 252 number which we gave last time, so corresponding to 227 I think the number could be 248 or something. So if you look at the occupancy, there is a 96% trading occupancy so that translates into roughly that much so that number probably we have deleted that one row because these assets have become mature and they are really performing at a very high level of occupancy. So the number of trading stores, we have removed that part of that information but those numbers can only be better than what it was last time and not worst then.

Shashikiran Rao: Okay. So how do you classifythese trading stores and these stores would also be paying rent?

Pradumna Kanodia: Yes, so what happens that the trading stores are the ones who are actually doing business and they are paying us the rent, so while some of the stores maybe under fit outs and some of them may not be leased out or assigned so we just want to clarify and if they are out of the total stores only an x number of stores are actually doing the trading and its just a way of analyzing the occupancy. So in the last presentation which you spoke about 227, it was 90% mall occupancy for the total area of 980,000 square feet. So this number of 227 now has improved so this is only a reflection of how many stores are actually doing business at the center.

Shashikiran Rao: Yes, I would request you to a little bit revert to give back status because I think that is more relevant and --

Pradumna Kanodia: We will share that, the number of stores trading we will share that information also. Of course Rohini will be sending you a small email with data as well and we will update the presentation also for that.

Shashikiran Rao: Okay great. And in terms of sir debt commitments, I see that your debt has marginally gone up at a consol level, can you give the picture of how do you expect it to evolve over the next few quarters and give a subsidiary by subsidiary what's the – where you would be using to repay and where you would have further investments to land in?

Pradumna Kanodia: Shashi, if you permit I will give you a macro view right now and specific detail on specific assets maybe we will send you a separate presentation or a separate sheet for you to understand it better. But to give you a sense out of the 3,200 odd crores of debt which you see on a consol number, almost 85% of that is like LRD or equivalent to an LRD. So these are self liquidating in nature against the lease rentals of each of the mall so our four market city mall and High Street Phoenix put together is our rental portfolio and majority of our loan is against these assets and these are on the basis of a normal LRD that one would see in the market. The repayments are all over the period of seven to nine years depending on how the loans have been structured but typically they are seven to nine years in terms of their tenure. And this is almost 85% of our portfolio, we will see as I have been talking earlier the cash flows from the rental business the loan have been growing significantly year-on-year, the surplus cash which is available of course is there but the loan repayment as I said stagger over the next seven to eight years so you will see a consistent repayment happening as the numbers have already been agreed for. So clearly it is our desire to keep the dept at an optimum level, this allows us to also use the interest as an advantage towards our tax planning because clearly there is a lot of tax leakages if the company is not leveraged to a reasonable level. So given the fact that our debt is mostly on the LRD form so clearly there is a very limited amount of concern from our point of view, we will continue to use the debt on a reasonable manner and of course these will have their own repayments as I mentioned to you aligned with the cash flows of the malls. And form the development portfolio there is hardly any very limited exposure that we have, our construction loan across all our portfolio today if I look at it could be less than my sense is less than 225 crores.

Shashikiran Rao: Okay. So you said that 85% or 225 crores would be the construction debt and remaining whatever --

Pradumna Kanodia: Yes, correct, it would be LRD or LRD equivalent sort of a thing.

Shashikiran Rao: Okay. And your construction cost on the development projects would be equivalent to your collections?

Pradumna Kanodia: Yes-yes, so like in our case of Bangalore, while there is a credit line available of 125 crores we have not used a single penny out of it because the cash flows have been very strong and there has been no need for us to draw down. While we have done a small draw down in our Chennai residential projects and a small draw down at our Kurla commercial office project because there also we don't intend the selling maybe part of it, we will hold on a release portfolio, so towards that we are using a part of that as a construction loan.

Shashikiran Rao: So in terms of your construction cost overall -- what do you expect because I think you have 700 crores odd receivables, some sales that you are already in.

Pradumna Kanodia: Yes, so overall if I look at the development portfolio I think the cash that we collect will be more than what is required for our construction and also for our repayment and other interest obligation. So clearly there will be a surplus which gets generated across all our development portfolio. Clearly Chennai, Bangalore and Pune may throw a much stronger numbers because those are pure play residential developments. The Kurla one as I mentioned that we are looking at partly retaining the asset as a lease model so the cash flow that come out could be partly or equivalent to the construction cost and some of it may not be because we may want to keep a larger share for the rental portfolio, in that case it might dip slightly into the construction loan. But overall if you look at across all our geographies then on a combined level the cash flows will be more than what is required for the construction proposes In our development portfolio.

Shashikiran Rao: So Kurla, you are retaining in Phoenix, in Orion Park or which one?

Pradumna Kanodia: Yes, in the Orion Park we have currently sold 400,000 square feet of space so we are looking at retaining the part of the balance as our portfolio in that company and also in the Phoenix Paragon Plaza part of the retail space and the office space that is available will be held on as on rental model and part we will liquidate so as to just knock off the loans that are there and probably we will have a small portfolio in terms of rental income coming from those two assets as well.

Shashikiran Rao: Okay. And both of them are combination in terms of small offices and --

Pradumna Kanodia: No, the Phoenix Paragon Plaza is a mix of that but the Art Guild House is a power play commercial office space and there is no retail that we have built in there.

Moderator: Next is Tejas Seth from Emkay Global Management. Your line is unmuted.

Tejas Seth: Sir just wanted to understand, when you look for this negotiations of the renewals, what are the three parameters, criteria or ratios do you really look at while negotiating and what does even the client side looks at?

Pradumna Kanodia: See, there are several factors, this would have been an answer better given by my leasing head then me but since I have been in the company for so long I can probably share my thoughts around how this happens. We definitely believe that we are the most favored destination as far as every retailer is concerned. Today we are the number one mall in Bombay, the number one in Pune, Bangalore and Chennai, so clearly that advantage and that positioning is of great help and strength to us. Newer brands are coming into the country, a lot of new brand from across the globe have chosen India to be the destinations and these brands in turn have chose our Market Cities and our malls to be their first preferred choice of destination. So whenever a new and international brand or a brand of great name and strength comes, we by default become their first choice because they know that our centers are the best performing centers, the consumption at our place is the best, the kind of property that we have delivered in terms of circulation, in terms of look and feel, in terms of experiences, clearly not easily found across any of these cities. So gives us a huge advantage, our ability or our understanding of this retail business we have been in this trade for almost close to 15 years now so our understanding of the business is very high. So given all this fact we clearly have a advantageous position when we sit down for negotiations. The rents also have moved up significantly, what was leased out three four five years back when markets were at their dumps today, we are looking at a very different business environment with the new government in place, 2008 was a different environment where we had the global crises. So the mark-to-market also needs to happen, the rents have to be aligned to the current market. So all these things are there and of course both the retailer and the mall owner like us we would want to have a very strong and healthy relationship, so while we welcome new brand so that our mall continues to be the most favored malls. But at the same time I think definitely the current market rentals and the current economics behind the space cannot be ignored to we continue to drive that kind of a premium, we continue to drive the best numbers. So that should be the trend as we go forward.

Tejas Seth: So where I was coming from, have we ever compared a retailer who has presence in your mall as well as a similar kind of presence in Linking road side and how would be the consumption density difference would be and what would be the rental difference?

Pradumna Kanodia: Yes-yes, clearly. So if you look at the slide in the presentation that we have on this specific subject, there is a comparison where you see the same store sales of five or six different retailers across their different portfolio may not be Linking road from that point of view but it is a slide which is I think on page 49 which talks about pan-India retail position. So while the average growth that these names which I can take McDonalds, Dominos, Pizza Hut, Big Baazar or a Pantaloon, the average same store sales growth has been 42%, 16%, 34% whereas for the same brand across pan-India the sale growth have been in times -6% of a +2% or a +6%. So clearly it may not be a true reflection of how things because in a growing environment some stores will take their time and some geographies will be poor but clearly just to give you a perspective that’s why we introduced this slide and the reason why retailers continue to flock our malls is because they know that the performances of our Market Cities and our malls have been absolutely the trend setters in terms of the performance and clearly any store which opens up at our mall has the better chance of showing growth and improved performance as compared to if it opens up somewhere else in the country or maybe somewhere else in the city. So we definitely have numbers, we do track how consumption and other patterns are there in some of the other malls, but those are very micro numbers but from a macro level if this slide helps to understand clearly our positioning and our performance and our Market Cities clearly have that edge.

Tejas Seth: Would there is a huge gap in the rental to consumption, of rental to sales ratio and Linking road to your HSP or… what I am trying to draw is, is there a huge room for rental growth because when we hearthat Linking road charges anywhere between Rs.800 to Rs.1000 a square feet rental and while we are still at Palladium level will be at Rs.400 to Rs.450, what kind of gap is this, I mean is it something where you people can really increase that kind of rental charges?

Pradumna Kanodia: One has to also understand that these are one off numbers which you are talking, if you look at our numbers also the 400 number that we talk about Palladium clearly there are retailers like Gucci and the rest of it who land up paying us Rs.1400, Rs.1100, Rs.1200 a square feet; so clearly there is the ability of higher performing retailers to be able to pay you a much larger rent as compared to what you see as an average here. And the trading density growth which we spoke about initially, the same store sales growth which we spoke about a lot of room for across all our market cities and also high street phoenix where the trading densities have been growing and the consumption and the rents have also been growing. So if you look at High Street Phoenix and Palladium, the growth has been fast but if you look at Chennai if I were to give example, the trading densities have grown 21% on a quarter-on-quarter basis and similarly for the rest of the malls it is 25%. So the rentals will increase, it will be aligned to that or even better than that because Kurla may be an aberration where the consumption has grown 20% but the rentals have grown almost 12%. And the rest of the cities you will see that the trend in terms of the ability of the mall to continue to improve in terms of consumption and trading density and the way it gets linked to the rental income is clearly there because our contracts are structured in such a manner that there is a minimum guarantee in terms of rental outflow from the retails point of view plus there is a percentage of revenue which we are entitled to. So the higher the consumption the better the trading density, the better is our ability to look at rental. So our rental should be close to almost 18% of or 16% of the consumption at the center on a very average and a macro view. So as long as our consumptions and trading densities keep improving we should be looking at 18% to 20% of that coming to us as a rental and that growth should be possible given the fact that we have the leadership position across these locations.

Tejas Seth: Okay. And has the occupancy in Market City Pune improved in this quarter because it has been struggling for last four quarters?

Pradumna Kanodia: No, it is not a struggle in that manner because there was some space which is under some sort of a renovation which will then take up the leasing to the next level. So because of the fact that space has taken a little more time in terms of how we want to design it and how we want to position it, the struggle has not been there clearly, the rents have improved almost to Rs.80 as compared to maybe Rs.75-76 which was last quarter. So give us six months, I think the total leasing area and the leased out area will be much higher and of course the rents also will move up correspondingly, there is no struggle, Pune is a very-very high performer for us and we are very happy with the way things are currently with Pune.

Moderator: Next is Sandeepan Kaul from Motilal Oswal. Your line is unmuted.

Sandeepan Kaul: Sir, I need your thought about probably your future foray into any project going forward like now in EWDL is not working, the depreciation is not working any more so may be what's your outlook on the tier 2 t market? And Secondly is that, what about the fourth phase of the High Street Phoenix, when we can see another asset coming up over there?

Pradumna Kanodia: I think the fourth phase if I were to take the liberty and answer that question, we really have a lot of work going on across all our market cities, if you look at our development portfolio we currently are executing over 4 million square feet or will be doing that kind of work over the next three to four years timeand that needs to be really prioritized for us. High Street Phoenix fourth phase, now with the new government in place maybe we will be able to have more clarity around how the approvals and what is the best suited development for that particular piece of our parcel of land. So we may not be in a rush or hurry to do anything with that, maybe give us another year at least before we look at announcing certain plans on that. We are looking at various options but we are not frozen on to anything, so maybe minimum of a year to 15-18 months before we crystallize some thoughts around that, we will share with you as and when it happens but looks like any development on that would be at least a couple of years from now.

And the other question regarding your Tier-II cities and their reference of Entertainment World, I think wherever we have seen our malls we have become the number one mall operator and owner, we look at Pune, Bangalore, Chennai. So clearly we want to keep our positions that way, wherever we go whether it is a tier-II town or a tier-I town, we need to maintain our leadership position and Greenfield projects we have seen in the past have taken six seven years for us to complete and deliver and I think the timelines are no longer possible for us to stretch or any other development to stretch, so these are assets which will anyway take six years, five years for anyone to come and build from a grass root level. But there are in this environment a lot of opportunities which keep getting bounced to us in terms of ready assets, so not that we have identified or crystallized anything but if there is an opportunity where we believe that we could become the number one mall of a particular city and we believe that mall has our kind of thought process in terms of look, feel, experience, etc, we may be interested. So nothing in a rush on that, but clearly there those options also remain and if something materializes definitely we will share with you.

Sandeepan Kaul: Okay. And secondly on the development side sir, I mean development project where I can see the execution is going on very steadily, but I think -- we need to pick up in that way, probably it could be a strategic reason also, I don't know I mean making some of the projects which are nearing completion like Chennai or so where the inventory level is still high. Now question is that, I think almost all our projects are currently creating a Rs.10,000 per square feet plus, so is there any challenge which needs to be faced or you feel once the inventories are ready then selling is just a matter of time?

Pradumna Kanodia: No, I think lets break it up into different cities, because what is relevant in Chennai may not be relevant in Bangalore and vice-versa, so Bangalore if I were to speak, today the first phase of our One Bangalore West whatever residual apartments are there are selling like hot cakes and we are able to price that Rs.11,500. So clearly Bangalore portfolio continues to have strong numbers on a quarter-on-quarter basis as well and as we launch our phase-II and the luxury product as well you will find that the traction should be in line with that and our marketing and sales team gives us the reason that our products clearly have a lot of edge and of course when we share the numbers then only you will come to know about it. So hopefully once the launch has been done we will be able to take it forward from there. Chennai is since the project was initially launched at a sub 6000 level almost three, three and a half years back, it's been a long journey but the cash flows of the mall have been so strong that there has been the ability of the company to really keep the price at a point where we believe we can market and sell the products. So the inventory which is left out is sub 20% - 25% and clearly there is no pressure on us to sell it out and liquidate because the cash flows are such that we are able to complete the project and hand it over in the next six months time and there is no need for us to decrease the price and sell the product because there is enough cash available from our existing sales and also the other sales that are happening. So once the product is ready and people start using it you will find that the balance inventory in Chennai gets sold off pretty fast and that's the reason why we want to hold up, it's not a very huge number. But apart from that Bangalore as I mentioned already doing well, Pune had just been a recent launch so things are moving there as well.

Sandeepan Kaul: Right sir. And just one final one, it's a small clarification, probably a continuation from the previous question from Tejas, when you price I mean the minimum guarantee is it always higher than the existing tenants, effective rental what is currently giving in the form of minimum guarantee plus revenue share.

Pradumna Kanodia: Yes, so when it comes up for renegotiation I think if we have seen that he is effectively paying Rs.100 the new negotiations would definitely be not lower than those numbers, there could be aberrations here and there but otherwise clearly based on the standard benchmark so in one of our earlier presentations where we given the chart in terms of how the things span out, how the revenue share and the minimum rentals, how the graph moves very differently and then it converges on to a single point and then starts the journey all over again. So yes you are right, when we set up a new agreement the threshold would be almost equal to what you were saying in the earlier avatar and then it starts moving up from there.

Sandeepan Kaul: So basically revenue share has to be kicked in again gradually after that?

Pradumna Kanodia: Yes, obviously. You cannot leave too much space on that front.

Moderator: Next is -- Management. Your line is unmuted.

Participant: Hi guys, I have three questions. The first question is on your residential development, just wanted to check in terms of revenue recognition because we know that One Bangalore throughout the first phase and just and -- complete in terms of the during completion, so I just want to understand for the rest of the year what kind of revenue recognition are we looking at for this particular project?

Pradumna Kanodia: So, while we refrain from giving forward-looking statements because clearly the idea is to deliver and then talk about it rather than talk and then delivery.So in our revenue recognition if you look at One Bangalore West, the pictures itself speak a lot because the buildings are in a very-very advanced stage of completion, the civil work is almost done and now we are on track for looking at a very on time schedule of delivery for this project. In fact one of the few developers today who can boast about on track performance, so in the current six months if you look at our incremental percentage completion in the first six months was close to around cumulatively we are at around 64% so we had a 10% to 12% incremental completion this first two quarters so I think in the next two quarters if I were to give you a very rough estimate, a 15% completion additional would be achieved. So by March I would be surprised if we don't achieve 80% completion as far as One Bangalore Phase-I project is concerned.

Participant: And maybe can I just touch on, on HSP there is a sharp increase in OPEX as well as the Kurla mall as well as hotel Could you just comment on the OPEX -- for these three properties?

Pradumna Kanodia: If I were to understand your question correctly, I was slightly caught up in few other things while your question was getting repeated because I was flipping through few pages. May I request you to repeat your questions please.

Participant: Okay. For example the High Street Phoenix mall, on a standalone basis the OPEX has increased, year-on-year it is like 20% growth and so --

Pradumna Kanodia: I understand. So basically the operating expenses at times are also having certain sort of numbers which are particular to that quarter or that fiscal quarter and payments relating to property tax become part of that expenditure. So property tax though it is evened out and we provide for it on a regular basis based on our estimates but at times when we receive the invoices form the government there are certain changes and that needs to be factored in. So there has been a little cost which gets built in and the cost increases so for both our Bombay properties at Kurla as well as our High Street Phoenix, the operating expenses to that extent have gone up slightly and that's why you have seen that the EBITDA margins are slightly lower than want they were as compared to last year but if you look at Q1 and Q2 of the current fiscal year, my EBITDA margin have been pretty much at 65% and 66% for High Street Phoenix and in terms of Kurla the EBITDA margins have been slightly less but more so because of the fact that in the Kurla property there have been certain provisioning also that has been required because the mall in the initial stage when it opened, the billing that we were doing we were not able to recover the entire money and after much negotiation we have given some credit for the initial part of the billing that we had done two years back and part of that provisioning expenditure also sits into our operating cost and that's the reason why in Kurla you see that operating expenses have been on a higher side as compared to the previous numbers.

Participant: Could you also comment on Hotels side as well

Pradumna Kanodia: Yes, in the hotel part also the property tax on the hotel has come for the first time so there has been an impact of almost Rs.50 million in this quarter alone on the expense part as far as property tax is concerned. And also the fact that some new restaurants and new F&B outlets have opened so in the initial part of the journey when new restaurants and new F&B outlets open there is a tendency for a little larger expenses as compared to the normal standardized operating returns that you would get on that. So I think these two are also slightly an aberration, when you go forward in Q3 you will again find that the operating expense numbers have become better and the margins which were there with you will again be on a similar pattern. So if I look at Q1 of the current fiscal year the EBITDA margin was 13% which fell to 6%. I think we should be able to have a much better EBITDA margin for Q3 which should be better than 13% as well as we go forward.

Participant: Right. And just one last question from me, probably the interest rate now we see that inflation is coming off right now, so I just want to understand in terms of your interest expense, much of the --

Pradumna Kanodia: So, fortunately for us we had kept all our interest rates on a floating basis so clearly the ability of the company to take advantage of the downside curve which we expect to happen very shortly will be there. We are already seeing that the short-term interest rates across the country have come down, of course it is not directly impacting us but it's a precursor to the fact that long-term rates also are likely to come down and we are hopeful that December and January when the Reserve Bank of India meets up and they announce their policies, they will definitely be very strong indications toward reducing these benchmark rates so that overall cost for us will come down and since we are on a floating rate we stand at a advantage and we get the benefit immediately once the announcements are made.

Moderator: At this time there are no further questions so I would like to now hand over the floor back to Mr. Kanodia for the final remark. Thank you and over to you sir.

Pradumna Kanodia: Well, I thank you one and all for taking time out and spending this hour with us. We hope to be in touch with you on a regular basis. If there are any other questions and other