



Godrej Properties Ltd.
Q3 FY2013 Earnings Conference Call Transcript
January 31, 2013

Moderator

Ladies and gentlemen good day and welcome to the Godrej Properties Limited's Earnings Conference Call. As a reminder all participants' lines will be in the listen-only mode. And there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call please signal an operator by pressing * and then 0 on your touch-tone telephone. Please note that this conference is being recorded. I would now like to hand over the conference to Mr. Anoop Poojari from CDR India. Thank you and over to you Sir.

Anoop Poojari

Good afternoon everyone and thank you for joining us on Godrej Properties' Q3 and 9M FY2013 results conference call. We have with us Mr. Pirojsha Godrej, Managing Director and CEO, Mr. K T Jithendran – Executive Director, Mr. V Srinivasan – Executive Director and Mr. Rajendra Khetawat – Vice President Finance and Accounts of the company.

We will begin the call with opening remarks from the management following which we will have the forum open for an interactive question and answer session. Before we begin, I would like to point out that some statements made in today's call may be forward looking in nature and a disclaimer to this effect has been included in the conference call invite email to you earlier.

I would now like to invite Mr. Pirojsha Godrej to make his opening remarks.

Pirojsha Godrej

Good afternoon everyone and welcome to Godrej Properties' quarter three financial year 2013 conference call. I will begin by quickly discussing the operational and financial highlights for the period under review.

The third quarter has been a successful quarter for GPL, we have delivered strong growth in bookings, revenue and profits in Q3 and for the first nine months for financial year 2013. We have added five new projects to our portfolio in the first nine months of the year including one new redevelopment project in the third quarter. With this new project we have now added one new redevelopment project in each of the four quarters of calendar year 2012. It is encouraging to see the momentum we have in this space and these projects coupled with our new joint venture projects and our residential partnership platform will help to ensure sustained growth

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going forward. The most important new project we have added this financial year has been our joint venture for a new township we will be developing in Panvel. With Maharashtra government's introduction of the new township policy in the third quarter the FSI available on this project is likely to very substantially increase and we expect the salable area in the project may go above 10 million square feet, the exact amount will be confirmed once the policy is ratified but our expectation is that the salable area will move from 3.5 million currently to 10 million square feet. Also given the profit sharing structure and the fact that we feel Panvel is one of the most exciting upcoming location, we are very confident that this project would be a higher margin and high velocity project for GPL. For new projects that we add to our portfolio, the focus has been entirely on residential projects in target cities and on favorable deal structures that enhance our margin profile. Given the kind of deal flow visibility we currently have, we expect to have further positive news on the business development front throughout 2013.

The key operational highlight of the third quarter was a successful launch of four new projects across our primary target markets of Mumbai, NCR and Bangalore. In NCR, our Gurgaon project Godrej Summit continued the tremendous momentum created at its launch in September. With a strong base created in terms of volume, cash flows and margins in the first phase our focus on the second phase has been to further expand the margins from this project. With this in mind we substantially increased the price of the second phase by approximately 25% over first phase prices. Despite the substantial price increase we have been able to sell 110,000 square feet of space in the third quarter. We also launched the third tower of our project Godrej Platinum in Vikhroli in the third quarter. Here to we were very pleased with the response we received. The third tower of this project was launched exactly one year after the first tower of the project had been launched and we have been able to increase the pricing for the third tower by approximately 40% over first phase prices. Despite these higher prices we sold over 100,000 square feet of space, or over two-thirds of the launched inventory within the launch quarter. In Bangalore, we had two new launches in quarter three, one a group housing project in Electronic City and second, a villa project on Tumkur Road. We have been very pleased with the response to both these launches. Our project Godrej E-City in particular received an overwhelming response with the first phase of the project selling out within few weeks, which allowed us to launch a second phase in the project within the same quarter and several quarters before we had initially anticipated. Our total sales for this project in the third quarter stood at 375,000 square feet.

From an overall perspective despite a sluggish environment we witnessed good sales momentum in most of our projects. The total area booked inclusive of our joint venture partner share in the third quarter was approximately 1.04 million square feet as compared to approximately 570,000 square feet booked in Q3 FY12. The total booking value in the third quarter was Rs.672 crore which represents an 85% increase over the Rs.364 crore of bookings we registered in Q3 FY12. For the first nine months of the financial year our bookings growth in area terms was 95% and in value terms was 160%.

Other operating highlights for the third quarter included receiving the completion certificate for the first phase of our Kolkata residential project Godrej Prakriti. We have begun the process of handing over apartments in that project to our customers in the current quarter and this project has been delivered to the customers as per the committed timelines. We also received a total of six awards this quarter two were company level awards and four were specific projects we are currently developing.

Despite strong progress in most areas in 2012 there have been two important concerns for us in the current financial year. The first has been that the regulatory approvals delayed some of our important launches. Notably our projects Godrej Garden City, Phase 5 and Godrej BKC were both expected to be launched in the third quarter and have not yet been launched. Unfortunately, the regulatory approval process is rarely fully predictable but we do understand the criticality of delivering these launches and expect to be able to launch both these projects in the current quarter. Unfortunately, we do expect some of the launches we have planned in the current financial year to spillover into the next financial year due to approval delays. This includes two projects in Hyderabad and one project in Nagpur.

Sales in our commercial projects, has been another area of concern. Although we continue to successfully monetize our project Godrej one in Vikhroli, we recognized that the traction in our commercial projects in Kolkata and Chandigarh has been very disappointing. We are focused on exploring all available options to monetize these projects. The present commercial real estate market as we have discussed previously in these cities has made progress towards achieving this goal far slower than we would have liked, but we do expect to see better traction in 2013 as the environment for commercial real estate improves due to the expected improvement in business sentiments.

With that in mind the Board of Directors of Godrej Properties Limited and Godrej Waterside Properties Private Limited has approved a scheme of amalgamation of Godrej Waterside Properties Pvt. Ltd a 100% subsidiary of Godrej Properties Limited with Godrej Properties Limited subject to the approval of the High Court of Bombay. The appointed date for the amalgamation is 1st April 2012. The amalgamation of Godrej Waterside Properties Private Limited with Godrej Properties Limited will allow us greater operational flexibility, a simplified structure, rationalized operating cost, and other fiscal benefits.

I will now brief you on the financial performance for the period under review. Our financial growth for the quarter on a year-on-year basis has been strong with 58% growth in total income to Rs.268 crore. EBITDA for the quarter grew at 63% and stood at Rs. 77 crore. Net profit for the quarter increased by 24% to Rs.35.5 crore. For nine months our total income has increased by 64%, EBITDA has increased by 85% and net profit has increased by 47%.

Other positive developments include strong operating cash flow for the quarter and an improvement in EBITDA margins to 29%. Our net debt at the end of December was Rs.1,506 crore which represented a decline of

105 crore from the net debt at the end of the second quarter of the financial year. Our debt equity ratio declined from 2:1 at the start of 2012 to just under 1:1 at the end of 2012.

We believe the recent reform momentum, the new Finance Minister has brought in coupled with the shift in the interest rate cycle which commenced this week is very positive for the Indian economy and for consumer sentiment. We hope that the government is able to both successfully implement the measures already announced and maintain the reform momentum we have created through the introduction of further reforms. The combination of better GDP growth, lower interest rates and improved consumer sentiment could lead to a hugely improved outlook for the real estate sector. We believe that our national presence, strong brand equity and large number of new projects leave us in a good position to fully capitalize on this opportunity.

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

- Moderator** Thank you very much Sir. Ladies and gentlemen we will now begin the question and answer session. We will take our first question from Anubhav Gupta of May Bank. Please go ahead.
- Anubhav Gupta** Second quarter profit of Rs. 326 million this year contained a one-time fee of Rs. 15 crore which you received from restructuring in Hyderabad project, so was there any such element in the third quarter?
- Pirojsha Godrej** No, there was no one off fee this quarter. The operating income has been largely from the development management of three projects where we are operating, primarily Godrej Platinum in Vikhroli and Godrej E-City in Bangalore, both of which had successful launches during the quarter.
- Anubhav Gupta** And four launches which took place in the third quarter, can you give the size of those projects in rupees value terms?
- Pirojsha Godrej** We launched about 900,000 square feet across these projects, I don't know what you mean by value of the project launch. Our presentation has the breakdown of the area sold and the price that each of those projects we are selling at.
- Anubhav Gupta** No, I am talking about the launches, not the sold area.
- Pirojsha Godrej** We have indicated the amount of area we have launched and the price we have launched there and how much has been sold when you say the value of the launch I am not totally certain what you mean.
- Anubhav Gupta** I will look into that, thank you.
- Moderator** Thank you very much. Our next question is from Anand Agarwal of Jefferies. Please go ahead.

Anand Agarwal Firstly any comments on the cost side, how you are seeing it move in this quarter was it within the range or are you seeing any pressure on that front?

Pirojsha Godrej No particular major movement Anand, the good news for us has been that over the last six months cost has remained relatively stable. As we have discussed on previous calls and other interactions, one of the things that has affected our business quite badly was the kind of cost escalation seen across both commodity prices, labor cost etc in 2010, 2011. We haven't seen in the same kind of cost increases continuing, somewhat sluggish global microenvironment has also factored in that, so no there hasn't been any major movement we have seen in cost. We are also doing a lot of work internally on ensuring that for projects that we have not yet contracted out that we are looking at ways to further reduce costs as compared to historical projects.

Anand Agarwal Second just wanted to get a sense on the pace of sales for couple of your key projects. Firstly on the platinum Vikhroli, like you very rightly said that the prices are up by almost or average realization is up almost 40% since you launched it in the third phase. Demand permitting, what is the run rate that the Company would be targeting from the Vikhroli land parcel because you have a large parcel as a group to monetize. I mean at the current pace of sales is pretty low in our opinion. The prices now that they are 40% higher demand permitting would we see a significant pick up in launches and sales in the Vikhroli belt over the next two years.

Pirojsha Godrej As we have indicated clearly, you are right, we do have a larger picture to look at in Vikhroli and clearly we don't see current volumes being our aspiration over the medium to long term. I hesitate as I have indicated previously to put in an exact targeted number as such, it would really depend on what the near term supply is also, frankly there is no point selling huge volumes if immediate near term in 2013 does not involve huge supply. I should point out also that the volumes we sold, at 40% higher prices, were roughly the same volumes as we sold at the launch for tower one as we did for tower three. Clearly, over a period of time it is not our aspiration to just focus on prices and just see prices going up. We are very happy that without particularly having to focus on prices and maintaining the kind of volumes we want on this first project, we have been able to move prices quite substantially. But over a medium term horizon certainly the focus will be to also substantially increase the volumes we have seen.

Anand Agarwal Secondly, could you elaborate on the approval delay that you hinted towards the GGC Ahmedabad Project, I mean what is the reason that's holding back on to the launch there.

Pirojsha Godrej We were initially planning to launch that project last quarter as we indicated also on last quarter's call. We have had a couple of delays, one is that due to the elections in Gujarat in December frankly we hadn't anticipated how difficult it would be to get much attention from anyone within the bureaucracy in terms of moving these files along. And also the delays have happened to us frankly on most projects, it's not something very exceptional. We are working on that, now that the election is over, we do

hope to be able to execute that this quarter but there is no sort of specific problem or anything like that.

Anand Agarwal

And I mean originally you had planned to have two launches in this fiscal year from the Ahmedabad so I guess it will be one launch now in the fourth quarter, will it be the same area as both the launches put together or slightly lower that you would be looking to launch.

Pirojsha Godrej

Actually Anand as soon as we are able to launch anything in Ahmedabad we do expect to be able to launch both simultaneously. The projects we were launching in Ahmedabad included a residential portion of the same type that we have been selling in Ahmedabad as well as a smaller area and smaller ticket size flat which was supposed to be 5B. We now anticipate that both those phases with slightly different products will be launched simultaneously.

Moderator

Thank you very much. Our next question is from Sumeet Rohra of Prosperitas Investment Advisors. Please go ahead.

Sumeet Rohra

Pirojsha I just wanted to get a sense on the project approvals, because nearly five or six of the projects which are to be launched and actually have got delayed. So I wanted to get your thoughts on that and secondly if I am correct we have sold close to 3.5 million – 3.6 million square foot in the nine months period till date so again not focusing on a quarter over the bigger term, can we do 6 to 7 million square foot in FY14 and hopefully 10 million by FY15, I wanted to get your sense on that. And on Vikhroli which I wanted to ask, you have already spoken about that but I just wanted to know when is the next launch in Vikhroli in particularly The Trees project?

Pirojsha Godrej

On the launch delay front you are right, we have been delayed in many of our launches this financial year. Frankly unlike some developers our launches are entirely timed to approval, so it's not that we are waiting for us to judge market conditions we are supportive with, we are confident that we can successfully launch projects across market conditions, so our launches are tied to regulatory approval. I would say frankly that I am personally quite disappointed, everyone in the senior team is quite disappointed that we haven't been able to execute these on time, clearly when we put out external guidance at the beginning of the year we were quite confident that we would be able to get these approvals on time for one reason or the other that hasn't happened across a lot of projects and even the projects that we still have to execute in Q4 we do realize there are lot of launches to get done in the next two months.

So, there are couple of takeaways, one we have to make sure that we are doing everything possible to expedite this launch process, again it's not entirely predictable, not entirely within our control, it's certainly something that all of us are getting much more personally involved with and really making that a number one focus for the business. In terms of launches for next year certainly we expect to continue the momentum. First of all some of the launches that would happen this year that have been delayed will happen next financial year. We have added five new projects this financial

year, all of those we hope to launch next financial year. And we have a very healthy looking business development pipeline, so both in terms of new business development deals that we hope to announce and then positive news on hopefully taking those projects to the launch stage, much quicker than we have historically been able to do, are things we are very, very focused on.

As we have indicated we are quite hesitant to put out future looking guidance on things like bookings and other growth. We have said though that we would like to sustain a very rapid period of growth over the next few years, clearly that is going to need to involve both whole slew of new project launches, continued sustained momentum in bookings growth, in P&L growth. That is what we will strive to achieve but I don't want to make any specific comments on numbers for the next year or year after.

Sumeet Rohra And also about The Trees project?

Pirojsha Godrej Our goal is to launch The Trees residential component in FY14, it will be in the latter half of FY14, the exact date we don't have total visibility on yet.

Moderator Thank you very much. Our next question is from Gunjan Prithyani of JP Morgan. Please go ahead.

Gunjan Prithyani Pirojsha if you could just briefly explain your strategy in terms of new business developments, that's new project acquisitions that you do. Recently most of the projects have been added via development management agreement and not really as JDA or JV, so is there a strategy we are looking at a larger mix of development management agreements now. Also in terms of cities we have seen lot of momentum on Mumbai so is there a particular focus that we want to strengthen our presence in Mumbai, Gurgaon or any other location?

Pirojsha Godrej On the first question on whether we are prioritizing development management fee projects over other business models, the answer is not particularly. We are very interested in handling development management fee projects we think it's a good model but certainly we have no interest in going totally towards that model. We do think that is important to continue to add projects in the joint venture model in particular, less so on JDAs unless we are able to strike a very attractive term. But the prime model for us will remain profit sharing joint ventures, we are of course very focused on closing some new deals under the residential co-investment platform we have created which we think is a very good opportunity for the company. The redevelopment space in Mumbai is throwing up some good opportunities we have had some success there. So all four of these Gunjan we will aim to close new deals in and in terms of deals on the horizon for us again it is no real point talking about them till they actually happen but we are seeing opportunities across each of these models. Certainly we expect to add several substantial profit sharing joint ventures in calendar year 2013. Our biggest project addition in the current financial year is also a joint venture for our Panvel project so absolutely the momentum and the focus in terms of continuing to add projects under those models remain intact.

- Gunjan Prithyani** And this would essentially be under the APG platform that you have created because you have about Rs. 770 crore committed there right?
- Pirojsha Godrej** The joint ventures won't necessarily be focused to that, probably will not be unless there is a huge advance component. The idea of that platform again was to supplement our existing business not in anyway to replace our existing business. The primary use of that platform will be to buy land and the exception to buying land will be joint ventures or JDAs where there is a large upfront commitment needed and for that we would not like to do that in our own balance sheet. We think this partnership model is a win-win where for us it looks a lot like a profit sharing joint venture but essentially the land owners are getting replaced by our financial partners. For the financial partners it's a strong opportunity and we see it as a very good opportunity for Godrej Properties as well.
- Gunjan Prithyani** In terms of cities I mean Mumbai is where you have seen lot of traction but other than Mumbai are we doing something to strengthen our presence in Gurgaon or any other city?
- Pirojsha Godrej** Yes, so I think I would say the cities we are most focused on are the top markets. Mumbai for us remains a priority market, the change of the development control rules at the beginning of 2012 which as we had expected would give us a better competitive positioning in Mumbai, has in fact yielded results and we have been able to add projects at a much faster clip. In addition certainly we are very, very happy with the kind of response the projects we have launched in NCR have received so we would like to add new projects in NCR and not necessarily just in Gurgaon, other parts of NCR we are open too as well. Bangalore certainly is another important market, we have some good deals on the horizon there that we hope to be able to close. And of course we are looking at things in Pune and Chennai and Kolkata and all the other cities that we are in. We have clearly said that for the next couple of years we need to now really focus on building our presence in the cities we are already in. I think we have done a credible job of expanding our presence into every major real estate market in the country. So the real focus now is to make sure that we become one of the top developers in each individual city and that is in line with sort of our long term aspiration, so I don't think we will be focused on entering any new markets.
- Gunjan Prithyani** I do understand on launches we have seen a lot of approval delays but it would be good if you could just tell us in the next may be three to six months which are the bigger launches on which you have really high visibility on?
- Pirojsha Godrej** Gunjan we do have a slide on anticipated launches so that gives our current best estimate on when these launches can get done, that's the best thing to go by. We are looking hopefully by the end of the quarter to have launched the next phases of our Ahmedabad project, launched Godrej BKC, to launch our projects in Pune in Kolkata. Again these are all linked to approvals so we hope to be able to get them all done by March and if not by March you know just after March but there is nothing where again we are sitting on an approval and waiting to launch, there is no project which I

can say that there is a 100% certainty that will get launched in the next couple of weeks or anything like that.

Gunjan Prithyani And the Jet BKC delay is also on account of approvals?

Pirojsha Godrej That's correct.

Gunjan Prithyani Lastly on Ahmedabad when do we see the first set of deliveries happening?

Pirojsha Godrej Our committed timeline to customers is September of this year for first phase. We hope to do it actually in advance of that, the construction has been quite rapid but we are working on some infrastructure and other things we would like to finish a little bit of a retail component and so on before the handover. We are looking probably somewhere between around the first quarter of next financial, that is my best estimate currently, which again would be several months ahead of the committed timeline.

Moderator Thank you very much. Our next question is from Manish Gandhi he is an individual investor. Please go ahead.

Manish Gandhi I just wanted to know that this new Maharashtra township policy, is it going to be beneficial for our Vikhroli Trees project?

Pirojsha Godrej No, Manish it is not applicable to projects within the city limit, so there is no impact on The Trees project. But in any case the FSI available now for project like Panvel was already available for The Trees and other Vikhroli development. The change in the development control rules and the introduction of fungible FSI in early 2012 did increase the salable area available in Vikhroli very substantially, by more than 25% and that's applicable to both The Trees and overall Vikhroli development, but specifically this township policy has no impact.

Manish Gandhi And just about this Panvel township, can you just please explain how is the profit base of 35% but upside promote to JV partner about a certain profit?

Pirojsha Godrej Yes, so it's a profit sharing agreement of 35% to GPL and on the upside what we have agreed to, where we have a very low advance and other things, is above a certain threshold per square foot profit for GPL we would share any incremental profit back with the land owner. That threshold is Rs.1,000 per square foot and above that Rs.1,000 a square foot we would share 50% of our incremental profits with the joint venture partner.

Manish Gandhi Okay so 1,000 to GPL you will get after that whatever you get ?

Pirojsha Godrej Correct, so for example if the GPL share of profit is Rs.2,000 we will get Rs.1,500.

Manish Gandhi Just last question, is more of a hypothetical question. Just wanted to know whether in the next three months, six months or whatever you get some partner for the Vikhroli JV in the financial terms what we are looking for so for the next three four years we would be okay with our equity, we won't

raise our equity, I am just asking because after one or two years we will have a lot of DM fees in Panvel and Trees kind of very high RoE projects coming on board, so just trying to build a case that of 25% plus kind of RoE after two three years on a sustainable basis, so just want some comments on that equity dilution?

Pirojsha Godrej I thought you were initially asking whether we were looking for any kind of equity investment to our Vikhroli project, we are certainly not looking for that.

Manish Gandhi Sorry BKC project, we are looking for some partner in BKC?

Pirojsha Godrej Yes, we have been looking and we haven't frankly made any substantial progress on that. We are still in discussions with these people but it is not something we expect very eminently so we have already said that the main focus now is on the launching the project from an operational perspective. But certainly I think the goal will be to manage that project for cash flows and try to ensure that we don't have to commit any further capital in that project. We also have some other commercial projects that we need to find way to monetize in 2013 and we are quite focused on that. Most of the actions we have taken over the last year have been geared towards ensuring that the performance we have historically displayed over on return on equity and return on capital employed can be improved. We have locked up too much capital certainly in some of these commercial projects but also some of our residential projects and a combination of some of the things we are trying to change on an operational perspective, also some of the new deals and how we are structuring those new deals, we do expect can lead to a much higher and much more sustainably high RoE going down the road, but I hesitate to put an exact target to that.

Manish Gandhi I can understand that but just equity dilution are we looking at next two three years or is it difficult to answer right now.

Pirojsha Godrej You know we have no immediate plans, so yes no point commenting on that. We are very comfortable though as we have said time and again with our current state of balance sheet, our gearing level has come down from 2:1 at the beginning of 2012 to 1:1 at the end of 2012. We understand that that is high by peer benchmarks, but we think that given our model, given the kind of DM fees we have secured and other income we have secured, this is a very comfortable level and is actually below now what we have been guiding as our targeted level.

Manish Gandhi In Panvel in nearby area where we have our project what are the current prices going on in our kind of developers?

Pirojsha Godrej It's hard to say, of course we do much more thorough work as the project is closer to launch. But just a very rough estimate would be a range of about Rs.5,000.

Moderator Thank you. Our next question is from Abhishek Kiran Gupta of Merrill Lynch. Please go ahead.

- Abhishek Gupta** Pirojsha you spoke about Trees launch in the second half of '14, we already have a Chembur project, we have Sahakar Nagar deal closed, and we have Vikhroli. So, is Sahakar Nagar happening now and we find in the papers this about Rising City 100 acre plus township just around that Chembur-Vikhroli belt, does that mean Vikhroli might slow down going forward or are we to worry about oversupply in that region?
- Pirojsha Godrej** Not particularly, obviously there will be dynamics in the market that we will have to keep an eye on. But we have always maintained both specifically to Vikhroli and as the larger area around Vikhroli starts to develop so, that will actually greatly benefit Vikhroli development. While very sort of a simple way of looking at it would be doesn't increased supply put pressure on prices, I think what that leaves out that is extremely important at least as we see it, is that increased development improves the quality of the neighbor improves the desirability of people to live there and in turn increases both volumes and prices. Most developments in India and around the world would support that argument. Look at for example, just here in Mumbai since that's what we are talking about, the western suburbs and the eastern suburbs I would say that the western suburbs have seen much more development over the last 10 years much more supply in terms of new projects and higher price escalations and higher volumes. So you know it's not necessary that higher supply just automatically means that it will put supply pressures and pricing pressures. Examples of this abound in Gurgaon in NCR we have seen huge development happen over the last 15 – 20 years and prices increase and volumes increase. So there is a huge amount of room we feel for eastern Mumbai prices to catch up with western Mumbai. At Vikhroli given the kind of infrastructure we already have, given the benefit of the mangroves in the vicinity, given the ability we have to plan an integrated high quality development. To our mind there is little question that there is a lot of upside potential at least in both volumes and prices.
- Abhishek Gupta** Sure. Some visibility on the Sahakar Nagar launch, will it happen this current quarter or is that pushed into next fiscal?
- Pirojsha Godrej** That is still what we are targeting. We only have two months left to go, we don't have final approval, so I can't with any huge degree of confidence say it will definitely happen. But certainly our target is to get it done this quarter. We do think positively that as and when we do get that launch done then it will be another very successful launch for the Company. We see, we have a good amount of leads and build up to that launch so certainly we are making every effort to get it done this quarter.
- Abhishek Gupta** Yes, definitely I would agree, I had visited that particular area and I also heard that in the newspapers that another set of society in that vicinity have approached you for a redevelopment, would that be true?
- Pirojsha Godrej** We don't like to comment on anything at the business development stage. First of all it doesn't in anyway help us as there are you know other competitors who could get involved with the project so we don't comment on any deals. But I would really say that until we are able to finalize the deal and announce it, there is really no point paying much attention to it because in any given time we are looking at literally over 100 deals in various parts

of the country, most of those will never fructify. As soon as of course we are able to finalize the deal we do announce it, so I won't comment specifically on this.

Moderator Thank you. Our next question is from Abhishek Bhandari of Macquarie Capital. Please go ahead.

Abhishek Bhandari Pirojsha just on an operational front given that the number of projects which are currently under execution have increased manifold over last three years and likely to increase more so in the next 12 months, so at any particular point in time, management bandwidth has become an issue for you or do you think you can still manage significantly higher number of projects with the current set of team what you have?

Pirojsha Godrej Well, we do think we have a very good team in place but there is also nothing static about the team we currently have in place. We are constantly recruiting at various levels of the organization we are constantly looking at the organization structure and how it is capable of expanding. Look, our aspiration is to achieve a certain scale and quality of company and we need to work backwards from that aspiration to see what we need to put in place to achieve and I think that's how we are approaching it rather than saying this is what we have in place and this is what we have in place and can handle. And I think that is probably true of any successful company in any sector that if a company is to achieve rapid growth and achieve a certain scale in the organization structure, the capabilities of the team, the team composition all do have to evolve. That's the way we are looking at it. Certainly, we are very much focused on continuing to grow our business, we understand the challenges and frankly even the risks that are in front of us but we do feel that there is a huge opportunity here and that we do have the strategy in place, the capability is in place to take advantage of that opportunity.

Abhishek Bhandari My second question is on the BKC, so we are still sticking to our old model of starting with outright sale and not offering it for lease in the first phase at least?

Pirojsha Godrej That's correct, one of the initial thing that we had explored and had come quite close to closing was a private equity model where we would have then through the private equity partner constructed and at least to the end. Since that hasn't been able to fructify we are moving to a sales model, we still think that the real upside in BKC will be captured closer to the end of the project so our aspirations will be to manage the project for cash flows for the first half of the project and make sure that we don't have to pump in substantial incremental cash flow or any incremental cash flow into the project. And then on the second half of the project once construction is at the much more advanced stage and once we think the Indian economy is at a much more buoyant phase we think the capital values in BKC have a huge amount of headroom from current levels.

Moderator Thank you. Our next question is from Puneet Jain of Goldman Sachs. Please go ahead.

- Puneet Jain** My question is actually with respect to development management fees. Now, how do you typically account for these fees, given the fact that there is a sharp jump in this quarter compared to previous quarter adjusted for one-offs which you got in the previous quarter?
- Rajendra Khetawat** See, the development manager fees accounting is based on the billing and the collection which happens to the customers. So our share wherever it is either 10% - 11% we account for as and when the billing and collection happens.
- Puneet Jain** So this will depend on collections, as and when collection is done from customers?
- Rajendra Khetawat** Yes, billing and collection to the customer.
- Puneet Jain** And the second thing will be what are the cost corresponding to these billings?
- Rajendra Khetawat** So, the cost for us in Vikhroli Platinum is on account of marketing which we have indicated that it is roughly around Rs.200. Basically the cost would be marketing and some amount of project management which would not be very high.
- Pirojsha Godrej** I will just add to that Puneet, the margin on DM project will also improve over the life of the project. Because initially there is marketing cost which as a percentage of the overall DM fee is very minor but it is slightly higher proportion of the initial profits that we are able to book from it.
- Puneet Jain** The employee cost changed quite dramatically on a quarter-on-quarter basis.
- Rajendra Khetawat** Yes, basically our bonus provisions are linked to achievement of certain targets, so there is a variation in the employee cost as compared to the last quarter.
- Puneet Jain** Have we thought about the pricing strategy for the BKC project?
- Pirojsha Godrej** Yes, we more or less have in mind what we would like to launch the project at and how much we would like to initially sell. I don't think we want to get into details on that today but yes we do have our plan in place.
- Puneet Jain** And what will be the cost right now including TDR and some expectation of construction cost?
- Pirojsha Godrej** It depends on a lot of things because one of the key components of cost is the finance cost but perhaps off line we can give you more detail, the breakdown of cost.
- Puneet Jain** But if you exclude finance cost, if you just take the land cost.

Rajendra Khetawat Yes, the land cost is around 500 crore, this is the initial payment which we have made to Jet, bulk of it was for the land cost and the other approval cost they have incurred.

Moderator Thank you very much. Our next question is from Sameer Baisiwala of Morgan Stanley. Please go ahead.

Sameer Baisiwala Pirojsha just wanted to understand the rationale of doing deals such as the one in Curry Road, and the reason why I asked this is it looks like a pretty small project and you would be earning 10% DM fees over here less the cost and taxes, I am not quite sure whether how do you justify doing a project like this?

Pirojsha Godrej We have said that a smaller size project is something that we have to look at on a project by project basis. For any non-development management fee project we have said that anything under say Rs.50 crore profit at the very lowest is not something we would be interested in. For a development management fee project, if the project does give us reasonably sizable fees with almost no financial risk and the approval risks, etc., and not to our account, we do think sometimes go a little bit lower than that does make sense. It's good cash flow with the company and it helps overall company margin and it doesn't take a huge amount of incremental effort from the Company. We do have a team running projects already in place, so that's our logic, the smallest project we should do is something that it's hard to decide exactly I think this project was certainly at the lower end in terms of size of what we would currently consider.

Sameer Baisiwala Second is what are the key demand drivers for the large Panvel projects that you have and this is especially in the context of what if the new airport plan actually keeps getting postponed and may actually not happen over a long period of time?

Pirojsha Godrej I think that's a great question. I do think the Panvel project I wouldn't say it's dependent on the airport and the infrastructure but certainly I think the prime driver of the excitement of that location is some of these future infrastructure. That said I think many don't realize that Panvel today through the current rail access is closer to most parts of Bombay and say something like Kalyan where prices are also in this Rs.4,000 to 5,000 per square foot range. So it's not that it's entirely dependent on that and I think I will flip the question around and ask what you think might happen to Panvel as a location if and when this airport does come and if and when the road access from Nhava Sheva to Sewri does come and my answer to that is it then becomes by an order or magnitude more valuable than it is today. So I think there is a lot of potential upside and quite little downside as I see it in that location.

Sameer Baisiwala Just on Panvel a bit more your profit share equation did not change before and after the FSI changed over there?

Pirojsha Godrej No, I think there is a little confusion we inadvertently missed out putting this upside kicker to the land owner in last quarter presentation. We added it

this time, it did not have anything to do with the FSI that was just a mistake from our end.

Sameer Baisiwala How do you think about the leverage position, say next 12 and 24 months out?

Pirojsha Godrej As we have better operating cash flows and we increase the scale of the Company, we would like to see our gearing levels lower. We have historically guided between 1 to 1.5, we are currently at the lower end of that or just under, over time we would like to probably take that guidance lower. I don't see certainly our gearing levels ever moving up substantially from here, we think there is quite a lot of room to move them down, again I hesitate to put any immediate target on it, at the same time I also want to be totally clear that we don't see any great merit in trying to become a zero debt company or anything like that, we think debt is a perfectly reasonable part of our growth strategy. Also just to add that our borrowing costs for example are totally different than most other developers in the country, our borrowing cost today is about 11.8%. So we feel very comfortable with the status of our balance sheet as in, but we do think that some of these new measures we are taking for example trying to monetize our commercial portfolio, focusing going forward on residential projects and operationally ensuring that the cash flow cycle on those residential projects is better than it has been historically, all should allow us to further improve and strengthen our balance sheet but I wouldn't say that we have any very specific target in mind.

Moderator Our next question is from Abhinav Sinha of CLSA. Please go ahead.

Abhinav Sinha My question is on cash flows for the quarter. Sir, you have a reduction in net debt of about a billion rupees, so was there any special one-time payment from say Godrej One?

Pirojsha Godrej There is no one-time payment, We are monetizing that project. And as we said, the reason that we are monetizing it quarter by quarter instead of one go, is that we want to make sure that the cash flow due is made available at the time of the sale. It is a large project, the cash flow that the other companies are using to buy this is not necessarily available at one-time so each quarter we are getting payments for Godrej One, but there wasn't any one-time payment in this quarter.

Abhinav Sinha What was that payment this quarter?

Pirojsha Godrej I don't know the exact breakdown.

Abhinav Sinha And do you see the payout for that BKC TDR happening this year or it is postponed to next year now?

Pirojsha Godrej We don't see that happening this financial year, exact timeline has not been fixed with MMRDA so we can't comment on that too accurately but our best assessment currently is that, that will be delayed at least till the end of the calendar year.

- Abhinav Sinha** And from the rest of the projects how are the cash flows?
- Pirojsha Godrej** I think as we said we are not going to get into each project-by-project cash flows but we are quite happy with the overall operating cash flow performance of the company, we have had several new launches that have lead to improve cash flows. I think all the projects are doing much better on operating cash flow metrics today then they were doing 12 months ago. We expect all our new launches to do much better than any of our historical projects .
- Abhinav Sinha** On the other operating income part, Can we have a breakup of this from the two main projects, Vikhroli and E City?
- Rajendra Khetawat** Abhinav we don't have the breakup but bulk of the operating income is coming from the DM projects. I can provide you the breakup offline.
- Moderator** Thank you very much. Our next question is from Aashiesh Agarwaal of Edelweiss Securities. Please go ahead.
- Aashiesh Agarwaal** Sir, just to get back at a follow up on the BKC project, so we understand that there is an approval delay, could you just help us understand as to which part of the approval cycle this project is getting stuck and also thoughts on the same?
- Pirojsha Godrej** I wouldn't say again it is getting stuck, you have to get a variety of NOCs from variety of departments. We have spoken to MMRDA, we do hope that it happens eminently so nothing is stuck as such, we have taken longer than we have anticipated.
- Aashiesh Agarwaal** When would you expect this project to get launched?
- Pirojsha Godrej** This quarter, that's our current expectation.
- Aashiesh Agarwaal** And how would you coincide the timing of the balance TDR payment, you said the balance TDR payment, the next installment would happen towards the end of the calendar year, so would it be linked with the stages of construction you would be at or I mean how do we see the timing of that in relation to the project lifecycle.
- Pirojsha Godrej** Our aspiration will be to make sure that the operating cash flow of the project can pay the next installment. But certainly we will have to make it before the part occupation certificate is granted but that will be even after the end of the calendar year.
- Aashiesh Agarwaal** So, it's not linked to any of the approvals that you have to make the payments.
- Pirojsha Godrej** No.
- Moderator** Thank you very much. Our next question is from Bharath Seth of Quest Investment. Please go ahead.

Bharath Seth Sir, on this development management fee which has helped in improving our EBITDA margin reported, so what kind of momentum that we expect to see or this momentum will continue or may slowdown?

Pirojsha Godrej Bharath I am not sure what you mean by momentum, I think clearly this is a model that for us is a relatively new model. We added our first project under this with our own group company in October 2011. We did feel that there were lot of merits to the model and since taken it externally, since then we have added I think four new projects aside from Vikhroli project under the model. So in just over a year we have already added four new projects under the model, so I think there has been a good momentum. The cash flow from the model each quarter just like the cash flow from other projects will vary slightly depending on the performance of those projects, collections and so on. But we do think it's a good model, we think it's an attractive additional model to have in our portfolio, it will help to raise margins in the short term and in the longer term. And even some of our other models now we are looking and adding components of development management fee in so, for example, our co-investment platform does have a portion of our realizations that will come through a development management fee.

Bharath Seth Going ahead EBITDA is sustainable or are we looking for last quarter in con-call you said that we want to improve at 30%, so when do we really like to see that?

Pirojsha Godrej Well, you know we were 29% this quarter, we were at 31% last quarter so it may not be that far off. Frankly we have been quite open in saying some of our older projects are at very disappointing current margin levels, there is not much that can be done on those projects where sales are already in and construction is under way. Having fully sound and sustainable higher margin portfolio will take us a little bit of time to achieve and we are quite happy though that even in the short-term we have been very close to achieving our 30% target. We do think once more and more of our newer projects start kicking in, once, for example, The Trees residential start kicking in and once Panvel gets launched, once the P&L impact of Godrej Summit in Gurgaon starts and more of these development management projects are launched for example in Byculla and in Curry Road that there is good visibility on improving margins. We also think there is good visibility on the work we have done over the last year in reducing cost that should give us lasting margin improvement in our newer projects. But unfortunately this is not something where there is a silver bullet for that we can say certainly our margins would be above a certain level immediately or anything like that.

Bharath Seth Are we losing any amount on these two commercial projects Kolkata and Chandigarh whatever we have invested and interest is increasing on those projects, so at current market value are we really making money or are we losing?

Pirojsha Godrej So, we have been very open in saying that we are not making any money, in fact we are losing some money and the three commercial projects each are a little bit different. But we are certainly not making any money on any

of them, they have been a bad drag on margins, again we hope that 2013 is the year that we can put these projects behind us.

Moderator

Thank you. Our next question is from Prem Khurana of B&K Securities. Please go ahead.

Prem Khurana

First question on the Ahmedabad project, I mean if I were to look at our standalone numbers and if I look at the project margin that we are doing on essentially our standalone number consist of two projects for NCR and your Godrej Garden City in Ahmedabad and if I were to look in margins and if were knocking-off for your other operating income the project margin does not seem to be sufficient enough to make good for your fixed cost. So how do you see it given the fact that this project comprises of one-third of our total project portfolio, it accounts for some 27 million odd square feet of 82 million square feet. And just to kind of to continue this you have not had any significant hike in terms of realization at Godrej Garden City in last one-and-a-half year but cost have been going up for us, so how do you see these two things?

Pirojsha Godrej

Yes, on your first point again we don't think it's a very meaningful exercise to say take out every successful project and then look at margins and that is somehow interesting. If I will take out all our unsuccessful projects and then our portfolio looks very high margin, so it's a little bit meaningless. We have said at the entity level that we are aiming for 30% EBITDA margins, I think we have been reasonably close to achieving that in the last couple of quarters, we do have a lot of work to get done. We have also said quite clearly that on projects like Ahmedabad and Frontier where a lot of the sales were locked in at initial prices and there has been cost escalation, margins are affected. That said on newer phases of Ahmedabad we will both look at tighter cost management but also prices, while they have not, you are correct, increased in the last 12 months or so because the market has not been extremely strong, the prices as compared to the first phase we launched are up by about 40%. So it's not that prices are the same as when we initially launched the project. A project like Ahmedabad is a large format project, a long duration project, and there will be during this kind of a cycle periods of relative strength and relatively weakness in markets. We remain very confident of the overall potential of the Ahmedabad real estate market, we think the state has been doing really well, we think the city will continue to grow, we think that neighborhood is getting established and part of it will create some short-term difficulty in terms of competition and other things but as I said for Mumbai and other areas, as the area starts developing, values in that area do increase. We have our first deliveries in Ahmedabad slated this calendar year, and of course we think that will give further momentum to the project as things in the infrastructure in the area starts getting ready. I think the first year and half of the project surpassed most people including our internal expectations in terms of volumes, in terms of pricing. Clearly the market hasn't been very strong, if you look at Ahmedabad city level data you will see that the market has not been extremely strong over the last year, we do think that all cities go through this cyclical dips but again the project will do well, we are confident that the next phase when we launch it will see good volumes and I think margins will continue to improve in a project like this. So it's not necessary that on

day one, margins will be extremely high but it is a large project and I think the important thing is to establish the quality of the project and make sure that we are taking margins up on a continual basis.

Prem Khurana And the Waterside project, we had a partner in this project so how much did we buy them out for?

Rajendra Khetawat We paid Rs. 49 lakh, which was their initial equity.

Prem Khurana But sir, I mean just want to understand the rational on providing exit to your partner given the fact that you are not making any money in this project. So going forward you will be suffering all the losses and partner has taken all his money, so how do you see this?

Pirojsha Godrej Our goal is to exit this project and move beyond it. We feel that having full operating freedom to price the project as we like, plan to sell it as we like is beneficial. In any case the equity partnership was very minor so we felt that this makes a lot of sense for the Company.

Moderator Thank you. That was our last question Sir. I would now like to hand the floor back to the management for closing comments.

Pirojsha Godrej I hope we have been able to answer all your questions. Thank you all again very much for joining us and taking the time today. If you have any further questions or would like any additional information please do reach out to any of us and we would be happy to be of assistance.

Moderator Thank you very much Sir. On behalf of Godrej Properties Limited that concludes this conference call.

- ENDS -

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