



## Godrej Properties Limited Earning Q3 FY-2019 Results Conference Call Transcript January 28, 2019

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

**Anoop Poojari** Thank you. Good afternoon everyone and thank you for joining us on Godrej Properties Q3 FY2019 results conference call. We have with us today Mr. Pirojsha Godrej – Executive Chairman; Mr. Mohit Malhotra – Managing Director and CEO and Mr. Rajendra Khetawat – CFO of the Company.

We would like to 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 start, I would like to point out that some statements made on today's call may be forward looking in nature and a disclaimer to this effect has been included in the conference call invite emailed to you earlier. I would now like to invite Mr. Pirojsha Godrej to make his opening remarks.

**Pirojsha Godrej** Good afternoon everyone. Thank you for joining us for Godrej Properties' third quarter financial year 2019 conference call. I will begin by discussing the highlights of the quarter and we then look forward to taking your questions and suggestions.

I am happy to report that the third quarter of FY19 was the best ever quarter for residential sales in GPL's history. The total sales for the quarter stood at rupees 1,528 crore which represents a QoQ growth of 89% and a YoY growth of 25%. We had strong launches across Mumbai, NCR, Bangalore, Pune, and Ahmedabad. Godrej Reserve, our first plotted development project, in Bangalore, received an excellent response and we sold ~750,000 sq. ft. with a booking value of rupees 247 crore during the quarter. At Godrej Golf Meadows in Panvel we sold more than 400 apartments measuring ~417,000 sq. ft. with a booking value of rupees 254 crore. Our NCR team successfully launched two projects simultaneously and generated a very strong response; Godrej Air in Gurgaon and Godrej Nurture in Greater Noida cumulatively sold more than 600,000 sq. ft. with a booking value of rupees 338 crore. In December 2018, we launched a new phase at Godrej Garden City in Ahmedabad after a gap of almost 4 years. We sold approximately 230,000 sq. ft. with a booking value of rupees 76 crore and expect to see continued sales in that project in the current quarter. Since most of these launches happened in December, we expect to see continued sales in these projects in the current quarter.

Under the new project completion accounting standards, for Q3 FY19, total income increased by 58% and stood at rupees 473 crore. Adjusted EBITDA increased



multifold to rupees 145 crore and net profit increased to rupees 42 crore. For 9M FY19, total revenue increased by 30% and stood at rupees 1,996 crore, adjusted EBITDA increased by 62% to rupees 525 crore, and net profit increased by 116% to rupees 96 crore.

We successfully delivered 1.7 million sq. ft. across four cities in Q3 FY19. We delivered 0.66 million sq. ft. at Godrej Central in Mumbai, 0.43 million sq. ft. at Godrej Prakriti in Kolkata, 0.38 million sq. ft. at Godrej Prana in Pune, and 0.2 million sq. ft. at Godrej Summit in Gurgaon.

In the third quarter, we added one new project through a joint venture agreement with Hero Cycles and Godrej Fund Management to develop 1 million sq. ft. of prime office development on Golf Course Road, Gurgaon. The visibility on business development is the strongest we've ever witnessed and we hope to have numerous positive portfolio enhancement announcements in the current quarter. The liquidity crisis in the non-banking finance company (NBFC) space has further weakened the prospects of many real estate developers who were reliant on financing from these NBFCs, but at the same time has strengthened the opportunity for stronger developers able to invest in the current economic environment.

We expect to close FY19 on a strong note as our launch pipeline looks robust and business development momentum is strong. We expect to further scale our sales momentum in the coming quarters, given our exciting launch pipeline across the country that we believe will be significantly enhanced with new project additions in the coming quarters. We are well positioned for continued growth with our differentiated and scalable business model and strong execution track record.

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

- Moderator** Thank you very much. We will now begin the question and answer session. We have the first question from the line of Abhishek Anand from JM Financial.
- Abhishek Anand** My first question is on the P&L. We are seeing a good 42 crore of profits from JV projects. My take is that these are from the completions we had during the quarter. If you could share some more details on them, may be the top-line which has been recognized from them during the quarter?
- Rajendra Khetawat** Abhishek, this was from the JV projects basically from our redevelopment project – Godrej Central and some of the buildings from Godrej Prana where we have received an OC. So as you know, all profit sharing projects are accounted under equity method of accounting. That's why you see that one line-item coming in.
- Abhishek Anand** So, Rajendra if you could share the top-line, is it possible for you to share the top-line number of these?
- Rajendra Khetawat** I can share it with you offline, we can discuss offline on this.
- Abhishek Anand** And secondly, Pirojsha if you could help us understand the progress of the 5 million square feet that you have shown in the launch tracker slide. At what stage these are at? Have some of them been already launched since we are already a month in this quarter? Have we launched the projects in the pipeline, the 5 million square feet, which we are showing in this slide?
- Priojsha Godrej** Sorry, can you just highlight to us Abhishek, which slide figure you are referring to?

- Abhishek Anand** The slide where we show the project tracker. This is I think Slide #13 which contains Godrej Platinum, Godrej Aqua, Godrej Seven as the new launches plus Sarjapur 3, what is the progress there? Have any of these been launched over last one month? How confident are we of launching all these 5 to 6 projects?
- Mohit Malhotra** We have already launched Godrej Aqua. We have got RERA approvals and we have started the activation for that and the other launches which are mentioned here like Mamurdi, is something where we are at advanced stages of approval, so we are pretty confident on that one. Godrej Tranquil, again we are at fairly advanced stages of approval. So, I think that is again something which we should be on track for this quarter. Godrej Reflections, we have all approvals, it is our choice whether we want to launch it or not. We are taking a call depending on how Godrej Aqua will do and Reserve is still going very strong in the market in spite of doing such a large sale. So some of these are fairly at clear, good stages of approval. The others are something where we are still working on, but can't commit right now.
- Abhishek Anand** Finally on the portfolio addition. Pirojsha clearly mentioned that you are seeing some good flow, so just trying to understand whether things have changed over the last 3 months, we had a call almost 3 months back and you were mentioning that you expect to see certain deals come through. Are you seeing now some changes in the valuation, the quality of deals or the quantity of deals? Are you seeing any changes the way the portfolio is getting added to the Godrej pipeline?
- Pirojsha Godrej** Yes, Abhishek, I think the environment frankly was already quite attractive 3 months ago, if anything, it is probably further improved from there with all these NBFC issues and other liquidity challenges facing the sector. I think we recognize the announcements year-to-date aren't matching with the commentary, but we certainly hope to bring those two into alignment in the current quarter. But yes, I think deal flow certainly from an internal perspective is the best it has ever been and I think there is quite a lot at the threshold of being ready to be announced.
- Abhishek Anand** But any comments on the valuation you are getting for these deals, where exactly is Godrej focused at this point of time on the quality of deals or the mix of quality valuations, where should we look at it?
- Pirojsha Godrej** I don't think it is either-or. I think we need obviously need the right deals and right quantity of deals. What I think we have said historically is that even on previous deals, we have always been looking at ensuring both that our returns are suitable, but also that the joint venture partners aren't making disproportionate returns through our efforts. So, I think the extent to which the terms of any deal can be improved do have their natural limits in ensuring that the joint venture partner does also do well through the deal and we have always believed therefore that the quantity of deal and quantity of value it can add to the company is greater to the scale of deals we do. That said, certainly I think market conditions have further tilted bargaining power to our benefit and I think there are deals on the table now 6 months ago, perhaps would not have been possible.
- Moderator** Thank you. The next question is from Abhishek Bhandari from Macquarie.
- Abhishek Bhandari** I had actually three questions. I will take them one by one. First if I look at your other income which has been a meaningful contributor to both EBITDA and PAT, if you could help us breakdown that line a little more, what constitutes this other income in your P&L?
- Rajendra Khetawat** Abhishek, the other income basically there are two buckets in that, one is our JV interest income, like I have explained in my previous calls also. Because of the

accounting norm, the interest has broken into two parts, it is grossed up. Whatever we fund to the JV projects, the income what we earn is shown as a part of other income and whatever that we pay on account of the money borrowed, we show it as a part of our financial expenses. So majority income of the interest income comes into the other income bucket and the second is on account of mutual fund income due to the money we have raised and are yet to deploy the full money. So those are parked into mutual funds, so that is the second bucket which contributes to the other income.

**Abhishek Bhandari** So basically, it is all interest income which comes into other income?

**Rajendra Khetawat** Yes.

**Abhishek Bhandari** My second question Pirojsha is, you guys have had probably one of the best presales we have seen in the sector in last 6 to 9 months. I understand, brand plays a very important role. Do you think there are any other things which might help you, especially around marketing your projects well, learning from some of the experience of not-so-great launches, especially in first half of this year? Or is it just that you guys probably had a better location to launch with? And if you could probably give some more details, it will be helpful.

**Pirojsha Godrej** Yes, obviously, the brand helps, but there are lot of good brands in the real estate sector. I think the team obviously has built quite significant capabilities in executing launches and executing them well and I think the process of learning is of course, ongoing both from not as successful as we hope launches, but also from the good launches and understanding what worked for those. But really I think we hopefully have established good credentials to be able to successfully launch new residential projects across the country and I think if you look at it, even sort of a 4-5 year track record on this, the vast majority of these projects have done well. I think the thing that is what probably made this quarter very successful is that we were able to get a lot of the regulatory approvals that have been pending in the first half approved and therefore, saw a bunch of launches come at the same time which is what we really hope to see every quarter as I had mentioned in previous communications. We would like to have a base level to ensure that we have one launch per zone per quarter and this is one of the few quarters where we have achieved that and I think thus the results then speak for themselves. But I think the combination also I would like to point out that despite these several launches ongoing, I think the team has done a great job in making sure our sustenance sales of existing inventory continued at a very healthy clip. So, I think that combination and getting that right is what we have been working on for the last couple of years. A lot of credit to Mohit and his team that this all come together this quarter.

**Abhishek Bhandari** But are there any specific marketing campaigns run around these projects, especially the ones which were launched now or were they were just like normal launch what you have otherwise?

**Mohit Malhotra** For all our projects, we have a USP, we have marketing campaigns which are based on consumer research. So I would say nothing extraordinary has been done in this quarter, it is follows a regular process. As Pirojsha highlighted, most of our launches for the last 4 to 5 years have been seen very successful launches across markets and this quarter has again shown a similar trend.

**Abhishek Bhandari** And my last question is around your progress, on your capex progress. I am not asking about the Hero commercial project which was signed very recently, but some of your other Godrej 2 and the hotel, has there been any progress in finalizing the total outlay and how are you going to finance it?

<b>Pirojsha Godrej</b>	I think Godrej 2 as you may know, we have entered into a partnership with the Godrej Fund Management where we have sold our 50% stake in the project. So, the accruals of that will largely fund most of GPL's equity commitment to the project and we will get a construction loan to fund the rest. So, I think that is quite clear and the building is half way completed from a construction perspective. On the hotel, we are yet to finalize. We have finished the design for the project, we are in the regulatory approval phase. The exact way that it will be financed whether it will be kept on GPL balance sheet or not is something we have not yet decided.
<b>Abhishek Bhandari</b>	Okay. Pirojsha, if I can ask one last question. Are you guys really happy with your EBITDA margin, excluding your other income? The reason I'm asking is some of our projects have reached a mature phase and are probably selling at higher than the launch prices. So ideally speaking, your EBITDA margin should be trending upwards over last few quarters, but there has been a lot of volatility on this line item.
<b>Pirojsha Godrej</b>	Honestly, I think there will continue to be quite a lot of volatility. I think the adjusted EBITDA margin we reported last quarter is 30%, but I think in all fairness there will continue to be volatility. We have I think some accounting standards that frankly do not give a very accurate reflection of underlying operations for quarters. For example, where bookings are very high, by their nature high marketing cost that will be expensed out in that quarter whereas really what you are accounting for from a revenue perspective, these projects may have been launched 3-4 years ago that are coming up for completion. So I am not sure how accurate a gauge of margin direction one can get by following the one quarter to the next. Obviously, over broader timeframe, there should be evidence of things improving. Certainly, as we look at things, internally we do see the structures we are working with improving and certainly I think some of our major projects like, The Trees, set for revenue recognition. Next year I think there will of course be good trends in margin as a result of that as well.
<b>Moderator</b>	Thank you. The next question is from Tanuj Makhija from Bank of America. Please go ahead.
<b>Tanuj Makhija</b>	My first question is at the broader company level, at the sector level. Are you seeing liquidity crisis for Tier-II developers resulting in pricing pressures in the micro markets where you currently are present?
<b>Pirojsha Godrej</b>	Nothing very significant as of now Tanuj. I think we have obviously seen over the last couple of years, markets like NCR show price reductions. I think price enhancement in almost every market has not really happened in the last 2-3 years, but I think if you are asking has this NBFC issue resulted in big price cuts in the market, at least as of now we have not come across anything like that and certainly in all our own projects, there is no price reduction and no even deviations from what some of the newer projects who are underwritten at. But clearly, there is stress in the market. I think there are lot of developers that were reliant on NBFC funding are very much now being forced to look at other options to monetize their projects. All of which we think is quite beneficial for us.
<b>Tanuj Makhija</b>	If I look at your project wise sales, are you seeing more number of projects offering discount schemes now as compared to maybe a year back?
<b>Pirojsha Godrej</b>	You are saying Godrej Properties projects or you are saying industry wise?
<b>Tanuj Makhija</b>	This is specifically for Godrej Properties projects?
<b>Pirojsha Godrej</b>	No, we are not seeing any price reductions in our portfolio.



**Tanuj Makhija** And, lastly how should I look at the sustainable EBITDA margins at a project level for Godrej Properties? I understand the accounting standards make a difficult to gauge the EBITDA margins, but if you could elaborate at your current project EBITDA level margins?

**Pirojsha Godrej** Again it depends on lot, Tanuj, on the structure of the project whether we are talking about profit sharing project, whether we are talking about the margin as compared to the booking value or our accounting revenue. So I think it will probably be easier to do this in a little bit more detailed manner, maybe Rajendra can meet you offline to discuss.

**Moderator** Thank you. The next question is from Puneet Gulati from HSBC. Please go ahead.

**Puneet Gulati** Just trying to understand what is really the bottleneck in closing the deals which you've been talking about on the business development front?

**Pirojsha Godrej** No, I do not think there are any huge bottlenecks which is why our commentary is remaining as bullish as it is. I think a couple of things that we have decided and one change that has happened over the last 12 months versus previously is that now we are in many cases waiting for certain what we call a typically conditional precedents to be completed before actually announcing the deal. So, there are some of that have actually been already signed and agreed to, but we feel we would like to see some movement on those CPs before we announce them. But if you are asking what the constraint to closure is or what are the challenges we are facing, again, I do not think we have a good answer to that. I think we acknowledged that so far the commentary and the actual announcements are not aligned. As I mentioned earlier in the call, we do hope over the next few months to fix that. We have not seen this kind of a momentum and this kind of deal availability ever in the company's history.

**Puneet Gulati** So can you give some more color on the conditional precedents?

**Pirojsha Godrej** So they are project-by-project approval related issues, getting the project to a stage where we feel very confident that there would not be long delays in regulatory approvals. Essentially, which regulatory approval it is typically varies project by project.

**Puneet Gulati** Okay. So will it be fair to assume that when you announce the deal, the time to announce and the time to launch will be much shorter than what we saw previously?

**Pirojsha Godrej** I hope that is the case. I think a lot of these projects, things like design work etc., is at reasonably good stage. So yes, I think directionally that will be the case. Obviously, there can still be an exception where unexpected delays in regulatory approvals and so forth happen, but yes I think this extra time that we are taking before announcement is not time where operations are at a standstill, these projects are being worked on in a way that should reduce the time taken for planning post announcement.

**Puneet Gulati** Okay. There is also a talk of lot of stressed assets coming into the market. Would you be open to looking at that from portfolio perspective or not really?

**Pirojsha Godrej** What do you mean by stressed assets?

**Puneet Gulati** Stressed developers, maybe something like an Amrapali hypothetically.

**Pirojsha Godrej** Without getting into any individual case, I think hypothetically we are open to it. Of course, historically it has been a sector where M&A as such has been very limited if at all because of the difficulty of kind of understanding fully what is coming with the company. So I think most of the M&A has been kind of project level and certainly there we are very active. I think though we are very open to opportunities to do bigger platform kind of structures or even entity level acquisitions, but I think we would be reasonably cautious about the other risks that might come along with it.

**Puneet Gulati** Lastly, while there was an exceedingly good sales, it didn't quite show up on the cash flow front. If you can comment a bit there?

**Mohit Malhotra** Puneet, this is Mohit here. So because most of these launches actually happened later in the quarter, two of them happened in November and most of them happened in December. So the cash flow will start impacting Q4 onwards.

**Puneet Gulati** So basically, you announced this, then the customer books by paying a booking number or full 10% or 30% or whatever?

**Mohit Malhotra** Typically, we follow a norm that customer has to pay 5% of the amount on booking, only then we announce it as a sale.

**Puneet Gulati** So the balance 30% for example, in case of the Mumbai, which you will need for registration. Could come in...

**Mohit Malhotra** That is 10% now

**Puneet Gulati** Lastly, Rajendra I couldn't quite understand on the net other income part. You said there is an interest income that you earn from the JV projects. So, the other income is a net number or a gross number?

**Rajendra Khetawat** It is a gross number. The expense part what we borrow to fund that is sitting into financing.

**Puneet Gulati** Which is expensed out in various projects?

**Rajendra Khetawat** Correct.

**Moderator** Thank you. The next question is from Sameer Baisiwala from Morgan Stanley. Please go ahead.

**Sameer Baisiwala** Pirojsha, just wanted to check what is your current cost of construction and I asked this especially in lights of couple of ASPs for the new launches. I think Ahmedabad was 3,200, Reserve Bangalore if I am not wrong is Rs. 3500 per square feet. So just to understand the margin profile in these projects?

**Pirojsha Godrej** Of course, it varies quite a lot Sameer, but I think the important thing to keep in mind for Reserve in Bangalore is that it is a plotted development project. There is no construction other than the basic infrastructure and club house. So the construction cost there will be exceptionally low which is why it is selling low in an absolute sense. But if you compare it to market, it is actually about 50% above market.

**Sameer Baisiwala** And for Ahmedabad?

**Pirojsha Godrej** Ahmedabad has always been a kind of low price, low construction cost market and if you recall, we restructured that project. We actually do not now have exposure to

the construction cost on that one, but the construction cost in Ahmedabad is considerably lower than other cities.

**Sameer Baisiwala** Fair enough. Just on Panvel, I was looking at these selling prices. I remember when you initially launched in fiscal 15, if I am not wrong, it was around Rs. 5700 per square foot and now we have launched the latest phase at Rs. 6100. So 4 years down, practically no inflation in this market, right?

**Pirojsha Godrej** Sameer, I think you could probably say that about almost any real estate market, prices are about 10% higher. I guess, the good thing is we are very happy with regaining momentum in that project, selling over 400 units at admittedly not that much higher price, but certainly higher. But yes, I think if you look at the market, almost most micro markets would not be more than 10% above their price 3 years ago and I think that is the reflective of the general sluggishness the sector has seen, as you know. I think prices have been flat in most markets and some markets like NCR, you have actually seen prices go down 25%-30%. So I think our strategy is always to price at the best price where we can successfully launch good number of volumes. So obviously as the market probably picks up which we think it will with commitment of new airport and the new bridge, I think hopefully there can be room for upward movement in prices there.

**Sameer Baisiwala** And just on the Gurgaon, the latest commercial project of 1 million square feet. I guess Hero for 40% stake brings in the land and then how will this be funded? Second, would this be on the rental or on the sale model?

**Pirojsha Godrej** Godrej Properties has a 30% equity stake in this project. So its funding will be limited to that extent. Of course, a lot of the funding for construction, etc., will be through a construction loan. So, I think the total investment from GPL should be in the range of 200-300 crore, again which will also be in addition to its equity return earning a development management fee and this will be done on a lease model. So, there would not be any presales in this product.

**Sameer Baisiwala** And the balance 30% is with the platform if I am not wrong?

**Pirojsha Godrej** That is right.

**Sameer Baisiwala** Okay, my guess is that the capex here would be about 400 crore, about 4000 per square feet?

**Pirojsha Godrej** Construction might be even a little bit more than that, but in that range.

**Sameer Baisiwala** Okay, then in that case 200 or 300 commitment from GPL looks a little?

**Pirojsha Godrej** It is also getting and buying the equity stakes, any approval cost and construction cost.

**Sameer Baisiwala** Yes, sure, I will take it and just question on the sales channel pressure here. Over last 2 to 3 to 4 years, how has the sales channel changed for us, between direct walk-ins, broker-driven or online, anything that the company has to do extra to really get the sales done?

**Pirojsha Godrej** I think by and large lot of these are levers that we have been using for quite some time. It is fairly strong international capability which we built on over the years including through opening an office in the US last year. I think we had earlier been quite focused on I mean full internal sales strategy which we shifted overtime for



more balanced kind of position. We are working quite extensively with channel partners as well. So I think nothing that comes to mind as a major change structurally that I am observing.

- Moderator** Thank you. The next question is from the line of Abhinav Sinha from CLSA. Please go ahead.
- Abhinav Sinha** Sir firstly on the presales have been quite good, but Mumbai seems to be a bit weak this year so far, so some different trends here or is it just a launch pipeline which is acting up a bit?
- Pirojsha Godrej** No, I think we are very happy with it. We did one launch in Mumbai during the quarter and in Panvel, where we sold 400 units which I think was actually the highest booking value of any individual project during the quarter despite it being a second phase. We are fairly happy with that response. I think I probably agree that we would have ideally liked to have more launches in Mumbai this year than we have, but we are quite satisfied with the response. Of course, there was one launch in Thane where the performance was moderate, but other than that including the launch in the last quarter, I think we are very happy with the outcome.
- Abhinav Sinha** And the next phase of Trees or within that area, your Vikhroli land, when should we expect it now?
- Pirojsha Godrej** I think we will obviously take a look at that and see whether that can be, certainly the hope would be to do that in the next financial year and I think that is an important priority for us.
- Abhinav Sinha** Sir, second question is on your net debt trend, so we had a bit of an increase during the quarter of about 2.6 billion, now with the higher sort of BD activity that we are looking at in the near term, so where should we see this settling?
- Pirojsha Godrej** I think we have always said that our optimal levels of this is in the range of 1 to 1.5 to 1 and that really hasn't changed, despite the equity raise. I think the purpose of the equity raise was really to enable further investments for our growth and our sense is that counter-cyclical investment strategy is a very sensible one in a sector like real estate with kind of long cycle time and certainly we see the calendar year 2019 as a very important period for us to be looking at investments. I think it would actually be quite disappointing if our gearing level during the year stays at this level or reduce because I think that would indicate that we are not investing as much as we should be and certainly I would expect that to move into that range of 1 to 1.5 to 1
- Abhinav Sinha** And sir, last question, slide #20, the consolidated cash flows, so I just wanted to check now, in 9 months period we have seen that the construction outflow as percentage operation is about half of it and total margin we are looking at around 25%, is this a fair reflection of where the portfolio is right now in terms of margin?
- Rajendra Khetawat** We can't correlate the cash flow with the margins. So cash flow is basis, whatever the actual outflow happens on account of construction and the margin could be coming in stages, so this is for all the projects which are at various stages of construction.
- Moderator** Thank you. The next question is from Saurabh Kumar from JP Morgan. Please go ahead.

**Saurabh Kumar** Sir, I have just two questions. One is what explains the collection drop this quarter and secondly on your balance sheet, the other current liabilities, that 2000 odd crore number, how much of this will be for Vikhroli?

**Rajendra Khetawat** So, on the first question, I think Mohit has answered in the previous query. The collection drop is basically the launches which happened towards the end of the quarter, so what we have collected is a very small amount like 5%. So bulk of the collection deficiency would be made good into the coming quarter.

**Pirojsha Godrej** So just to add to that, also I think the previous quarter had quite a lot of BKC commercial related collection which wasn't there in this quarter. So I think that is also part of the reason.

**Rajendra Khetawat** To your second question, on the other liability advance from customer from Trees around 1550 crore. So like because of the change in accounting, now whatever the customer collection sits into as an advance in liability and will get squared off as and when the completion happens.

**Saurabh Kumar** Tree is 1,550?

**Rajendra Khetawat** Yes.

**Saurabh Kumar** And just one last question on slide 20. So just on the earlier question of project margin, the settlement on profit which you have to your JV partner that happens in this other project related outflow line right?

**Rajendra Khetawat** So it is a topline share. Whatever the topline share is happening in the part of an operating cash outflow.

**Saurabh Kumar** So other project related outflow right or is it part of the construction?

**Rajendra Khetawat** Yes, it is a part of other projects related outflow, you are right.

**Saurabh Kumar** And the land and approval related outflow, a part of it also relates to the under construction projects, right, it is not completely for new projects.

**Rajendra Khetawat** So if there are milestone payments which is related to the land and approval, it forms part of.

**Moderator** Thank you. The next question is from Manish Gandhi who is an individual investor. Please go ahead.

**Manish Gandhi** One would really appreciate the way the whole team has designed projects in the last one year whether it is Aqua, Air or Noida or Reserve, so I would come to you and understand every detail one to one, but I am really impressed with the design. So my first question is on Ahmedabad, are you guys happy with 76 crore of sales after launching after 4 years with pent-up demand and many innovative design like air circulation and 7000 trees. I would have expected more. I just want your answer on this.

**Mohit Malhotra** Thanks for the compliments, first. On Ahmedabad, actually we had a very limited time in Q3 because after 15<sup>th</sup> of December, frankly, speaking there were no sales because there was an inauspicious period which started which continued till 15<sup>th</sup> of January. Now, we are seeing the sales pickup and we are pretty confident that the number should improve.

- Manish Gandhi** Fair enough. And I just wanted to understand why would we do new JV for commercial when we have lots of opportunity and advantage and we have taken lot of pain in building of a competitive advantage to the level at what we are seeing in residential. So I just fail to understand why do this even if it is a great return?
- Pirojsha Godrej** Manish, thanks for the question. I think it is a fair one and a good one particularly given some of the past experience on too much capital deployment in commercial. Clearly, I can quickly explain our thinking behind it. I think two or three reasons made us think this was an interesting opportunity. First of all, if you look at it as a net GPL level, we are not actually committing additional capital to commercial. Through creating this platform with Godrej 2, which was the seed asset the fund we actually unlocked more capital from commercials, then we will be putting into this project. So I think if you look it on that basis and we of course do think that Vikhroli needs to have strong mixed use character and that is important to do that. I think from a combined investment perspective, there is actually no net investments to get this project. Secondly, I think this is a truly outstanding location and I think in addition to creating very good commercial building, we would like to put our own NCR team headquarters in that building. I think as a real estate developer, we do feel that it is a little hard to explain it numerically that there is a big advantage to be positioned in a building that you develop of a high quality. I think for all of us working on business development and other things, we have seen that being present in Godrej One in Vikhroli which people have appreciated as a good development is quite beneficial to the business. So I think with the small investment, we get kind of a longer term strategic advantage. And lastly, I think with the way the deal is structured it is only 30% equity investment from GPL, but also strong development management fees for our role in managing the project. We do think the commercial logic is quite strong with not very significant investments and quite strong upside potential both on the financial as well as the softer aspects.
- Manish Gandhi** And one last question on the market. Can you just please share your views on overall market scenario when two recent reports, Knight Frank and PropTiger, though they both say that decreasing inventory in last two years, it varies from 8 lakhs to 4.7 lakh So how should one look at the inventory? Even in Knight Frank report, if you see the affordability in most of the cities is under 5. In Pune, it is 2.6, so with one year, it is very difficult to see the price going up. So after 1 year the affordability even increases. Can we have your view on the market regarding this data?
- Pirojsha Godrej** No, I think the markets obviously been quiet weak, but I think if you look at the affordability, I am not sure I have seen the exact report you are referencing, but broadly speaking if you look at what has happened to the affordability in the sector of the last 5 years, you will see that interest rates have reduced by about 300 basis points over that period. I think if you assume an average Indian's income or an average property buyer's income would be increasing the range of 7 to 10% up year of over the 5 years you are starting to talk about 50% kind of higher income that the person has now as compared to 5 years ago and as we discussed earlier on the call, in most cases property prices over that period have barely appreciated, maybe a 10% kind of appreciation in some markets, and a reduction in places like NCR. So I think the combination of those three factors that is 300 basis points low interest rate, much higher income and flat prices is quite powerful on the affordability of real estate in the country. I think all the data we have seen suggests that affordability is now the best it has been since about 2002 to 2003 and I think that period between 2002 and 2008 was obviously one of the best periods the sector has gone through. It's very hard in this sector we think to predict the exact timing of the turnaround, but we think anyone believes that for say 5-10 years the sector is not going to do well, we would take really strong exception to that line of thinking It is a cyclical sector, there has been a prolonged downcycle and whether it happens this year or next year is hard to project, but certainly I think we think the strong turnaround is around the corner.

<b>Moderator</b>	Thank you. The next question is from Prakash Kapadia from Anived Portfolio Management. Please go ahead.
<b>Prakash Kapadia</b>	Most of the questions are answered. I just had one question. In the near term, how do you tackle the biggest deterrent of 12% GST for under construction flats, because for a buyer in today's time where product prices continue to remain muted that seems to be a big cost?
<b>Pirojsha Godrej</b>	Not much we can do at the individual level. We of course look forward to seeking out if anything the government does to relieve this burden. I would say that the taxation environment in this sector today to my mind is quite unreasonable, the combination of GST plus stamp duties plus various municipal charges add up to a pretty significant amount and are not conducive to really driving an affordable housing in the way that the government wants to do which I think is of course a very important priority for creation of affordable housing stock. There are shocking statistics like still in city like Mumbai having more than 50% of its residents living in slum, so I think it is a very important direct objective. But in addition to the direct objective, I think it is probably one of the most important levers the government has in its disposal to improve economic growth in the country given the kind of number of important ancillary industries like steel, cement, paints and so on, that really do depend on the growth of the real estate and construction sector. And largely and equally importantly I think real estate and construction jobs are often cited as the largest source of employment in the country behind agriculture. So I think it is again one of the best employment generation opportunities for the government. So I think they have to balance their requirement and mandate to increase revenues from the sector with this argument of really providing for better economic growth, better growth in this sector, employment generation which of course over the medium term will in fact also do a strong job of enhancing revenue. So I think the government should take a careful look at this.
<b>Moderator</b>	Thank you. The next question is from Ritwik Sheth from Deep Finance. Please go ahead.
<b>Ritwik Sheth</b>	Sir, first question is what is the inventory at Kolkata, Chandigarh and BKC in the commercial buildings?
<b>Mohit Malhotra</b>	At BKC, we have around 50,000 square feet of inventory left out to be sold and Chandigarh and Kolkata, all put together is around 6 lakh square feet.
<b>Ritwik Sheth</b>	Sir, just taking a step back, after demonetization, CY 2017 and 2018 has been phenomenal for us and others have been struggling we sold almost 10 million square feet in those two years, so we have been exceeding our own estimates I think. So when do we expect significant strong cash inflows from all the previous efforts that we have put in the sales as well?
<b>Pirojsha Godrej</b>	I think the operational cash flows have actually been very strong if you look at it over the last couple of years. I think in FY 18, I am not sure I am recalling the exact numbers, it was well over 1000 crore of operating cash flow generation. This year, year-to-date is 800 crore. So I think that is couple 1000 crore of operating cash flow generation in that period. Of course, a fair amount of that was capital was invested in BKC getting unlocked, but even on the residential side, I do think operating cash flows has been very strong, but look I think this is a capital-intensive sector, we are pursuing a growth strategy. I think there will be requirement for continued investment, so I don't envision us and I think it would be a bad sign frankly if it is becoming a business that will throwing up a lot of free cash beyond what we could invest in business development and frankly I don't see us getting to that stage for the next few years because we do believe that both the sector and us a company are at a very

initial stage of what we believe will be a very rapid growth over the next decade and that growth will despite our best efforts to make sure our strategies are as capital efficient as possible, it will require investment to secure new growth opportunities.

**Ritwik Sheth**

And sir, you mentioned earlier in the call that you are expecting another launch from the Vikhroli land in FY20, so what is the kind of volume that we are looking at, area that we are looking at?

**Pirojsha Godrej**

We would like to come back with more details on that once we are ready. I think hopefully it will be reasonably sizable project, so I think we hold back comment on that for now.

**Moderator**

Thank you. The next question is from Manoj Dua who an individual investor is. Please go ahead.

**Manoj Dua**

In the last few years in the apartments, we have seen that much change has happened and people have created more open area and the recreational things. But if you have seen the last two years, you have created something new regarding what is required in the local area, for example, in Godrej Noida, you provided 5 Tier security, in Gurgaon in the Godrej Air you have promised a reduced pollution, in Bangalore you have done Godrej Aqua where you can drink the water from the tap directly. So I want to understand, can you throw some more color on it, what has been the experience, how you are able to create new things which has been totally untapped, I don't think there is much competition the way you are doing these things, can you throw some light on it?

**Pirojsha Godrej**

Mohit spoke a little bit of it earlier, maybe I will ask him to comment on it again, but I think we are just trying to make sure we are launching things in a very professional manner, make sure market research is a part of all our projects and I think Mohit in particular has been insisting on very clear and defined unique selling points for each project which I think I have been working well the results are there to see.

**Mohit Malhotra**

For any project when we sign, we do a consumer research and we do something called a pain point study for a micro market and basis the outcome of that study, we look at the project, the layout, the land shape and what can be done and basis that we come up with something called USP which is the key component which we are offering differentiated in the market. Basis that study we have arrived at like security was the major concern in Noida, so we came up with that positioning and then once the positioning is decided, and through design, through product development, we kind of achieve that objective for the consumer. So this is what has been the process, now the process is pretty strong and because of that we have some unique set of opportunities which are coming up in each micro market.

**Moderator**

Thank you. The next question is from Himanshu Jhaveri from Dhruv Securities. Please go ahead.

**Himanshu Jhaveri**

What is the progress on the precast factories? If we need to expand, we also have to deliver equally fast. Are we planning similar factories in Mumbai, Bangalore, etc. and if we expect to construct once we set up these precast factories there, the construction in 4 years what we are doing, should it go to 2.5 or something?

**Mohit Malhotra**

As you are aware, we have started our precast factory in Greater Noida in our own project and that was basically more like a test pilot to understand the technology. Now we have got confidence a) in both setting up the plant and also how it works out. We are actually evaluating across cities, the strategy on precast operations. It is still work in progress, but we should be able to come back on that soon.



<b>Himanshu Jhaveri</b>	But the timeline should come down around 4 years to 2.5 years, once you are through with it?
<b>Mohit Malhotra</b>	Yes, absolutely.
<b>Himanshu Jhaveri</b>	And what are the construction cost for projects in Bangalore like Air, Reflections and the other ones in Gurgaon, is it closer to Rs. 2000 a square feet?
<b>Mohit Malhotra</b>	The construction cost is the function of the products which we are offering. It is very difficult to generalize the construction cost for a real estate project. Every project depending on the design specification, it changes, it is very difficult to say on a thumb rule basis the construction cost.
<b>Himanshu Jhaveri</b>	One more thing, if you take out the Trees, which is coming up for every revenue recognition next year, but I wanted to know what is the long term EBITDA we are looking at. Because for a project like Trees, I know obviously the EBITDA is very high but generally now we have signed quite a bit of deals, 25 million square feet in the last 3 years, so can we now say safely that we will go to the 10 to 15% net profit margin in the next couple of years or 3 years or something?
<b>Pirojsha Godrej</b>	Obviously, I think the structures we have adopted - the outright purchases partnership with fund management arm, the profit sharing structures, DM model all have different characters, different margin, but clearly all margin enhancing as compared to some of the oldest structures of revenue share. We hesitate to put out any guidance on this for a couple of reasons. One again, there is a lot of difference from project to project and two, I think exactly how we are looking at margins in the new accounting standards is also something that needs to be clearly understood. We had a while ago talked about having adjusted EBITDA margins of 30% which we have been typically at it or close to necessarily is the best guideline in these new structures which could actually create higher margins, but lower revenue depending on the project structure.
<b>Himanshu Jhaveri</b>	And last question, was the news on that Godrej fund which we have like, are we going to launch another fund and if we launch it, shouldn't we have like higher share like 50% with some advantages as now we are confident of selling the projects very well.
<b>Pirojsha Godrej</b>	No, I think we will obviously come back as and when we have anything to announce on that, but yes, I think directionally as you see the company's focus now is on taking larger shares in projects to higher deposit profit shares and so forth. I think what you said is reasonable, but obviously we will come back as and when anything is finalized.
<b>Himanshu Jhaveri</b>	And the Godrej project Alive, is there any good response or still it's a little slow?
<b>Pirojsha Godrej</b>	It has a decent response, we sold around 170 crore.
<b>Moderator</b>	Thank you. The next question is from Nikhil Vaishnav from VD Investments. Please go ahead.
<b>Nikhil Vaishnav</b>	I needed one data, can you give me a project wise income for Q3 FY19 in the last quarter?
<b>Rajendra Khetawat</b>	I can give you broad number, so for this quarter, the project wise income has come from 3 major projects, which is Godrej Prakriti around 150 odd crore, Godrej Summit



around 105 crore, commercial projects stood at around 50 crore and obviously there are several small projects and DM which contributed to the total of 340 crore.

- Nikhil Vaishnav** And for the last quarter?
- Rajendra Khetawat** So the last quarter, major was on account of BKC which 170 odd crore was around and there were several small projects which contributed up to 267 odd crore. So this was for the last quarter – Q3 FY18
- Nikhil Vaishnav** Just I need some clarification, in Q3 FY18, last year, we reported revenue of 670 crore and after this Indian accounting standards, we restated to 267 crore. So what about remaining amount, have we adjusted or can you give some clarification in detail?
- Rajendra Khetawat** When you do readjustment under IndAS 115, so whatever OC has been received during that reporting period gets accounted as the revenue and cost. What remains for which the OC is not there will get reported as and when the OC comes. So subsequently if you see Q1, Q2, Q3, there has been incremental revenue and cost which has booked on account of reversal which has happened in the scenario 115.
- Nikhil Vaishnav** My next question is related to Kolkata market, are we facing some slowdown in terms of sales because in some projects, we are getting revenue but timeframe in between is around 6 quarters, so what is your thoughts on this?
- Pirojsha Godrej** I think revenue is related to the completion of the project under the new accounting standards.
- Rajendra Khetawat** Not much is left in Kolkata in terms of sales. So as and when we launch further, the revenues will get reported as and when we complete.
- Nikhil Vaishnav** And lastly, can you give me tax rate what we follow?
- Rajendra Khetawat** The tax rate is maximum marginal rate which is 34%, so that is the standard tax rate. Obviously, there are certain adjustments on account of DTA and other stuff.
- Moderator** Thank you very much. We will take that as the last question. I would now like to hand the conference back to the management team for closing comments.
- Pirojsha Godrej** I hope we have been able to answer all of your questions. If you have anything further you would like to ask us or if you need any additional information, we will be happy to be your assistance. On behalf of all of us, I once again thank you for taking your time to join us today.
- Moderator** Thank you very much. On behalf of Godrej Properties Limited, that concludes this conference. Thank you for joining us. Ladies and gentlemen, you may now disconnect your lines.

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