



## Godrej Properties Limited

### Q1 FY2017 Earnings Conference Call Transcript

#### August 10, 2016

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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. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call please signal an operator by pressing \* then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. 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 Q1 FY2017 earnings conference call. We have with us Mr. Pirojsha Godrej – Managing Director and CEO of the Company, Mr. Mohit Malhotra – Executive Director and Mr. Rajendra Khetawat – CFO of the Company.
- We will begin the call with opening remarks from the management, following which we will have the forum open for a question-and-answer session. Before we begin this call, I would like to point out that some statements made in today's call maybe forward-looking in nature and a disclaimer to this effect has been included in the results presentation shared with you earlier.
- I would now like to invite Mr. Pirojsha Godrej to make his opening remarks.
- Pirojsha Godrej** Good afternoon, everyone. Thanks for joining us for GPL's first quarter financial year 2017 conference call. I will begin by discussing the highlights for the quarter and then look forward to taking your questions and suggestions.
- Our total revenue for the first quarter stood at Rs. 333 crore, a 45% increase over the corresponding period of the previous year. Our EBITDA grew by 9% to Rs. 71 crore, and our net profit increased by 9% to Rs. 43 crore.
- From the current quarter companies having a net worth of Rs. 500 crore or more are required to comply with Ind AS in the preparation of their financial statements. In accordance with this mandate, GPL has reported all its numbers under Ind AS and has also given a recast of the previous year's financial statements in order to enable a fair comparison. The business fundamentals and underlying cash flows continue to remain unchanged despite changes in reported financial statements. We have provided additional details on the impact of the new accounting framework in our investor presentation, and would be happy to answer any questions you may have on this topic.

From an operational perspective, there were several important milestones achieved in the first quarter. I am pleased to announce that during the quarter we received the occupation certificate for Godrej BKC. We have been able to complete and deliver this project ahead of schedule. We remain confident of monetizing the remaining inventory in the project by the end of this year, given the quality and completion status of the project and the recent improvement in the commercial real estate market.

We took a small step towards monetization with the transaction in the first quarter that was done at the highest price yet achieved in the project at Rs. 35,700 per square foot. Another critical milestone achieved in the first quarter was the construction start approval for both phases of our flagship project - The Trees. We sold about Rs. 100 crore inventory in the project in the first quarter and have now achieved sales of well over Rs. 1,300 crore in this project. It will be an important contributor to our P&L once it enters the revenue recognition. We also look forward to launching the next phase of this project within the financial year.

The response to our new project launched in Bangalore has been excellent. We sold 187 apartments or over 263,000 square feet with a booking value of Rs. 128 crore despite challenging market conditions. From a business development perspective, we added two new projects with saleable area of up to approximately 13 million square feet in the first quarter. Incidentally this is more area than we added to our portfolio in all of the previous financial year. After our entry into the Noida market, we have further extended our presence in NCR by entering the Greater Noida market. We have seen strong growth in the scale of our operations in NCR and this project addition fits well with our strategy of increasing the depth of our presence across the country's leading real estate markets. The project is spread over 100 acres and will offer approximately 4 million square feet of saleable area. GPL is entitled to 40% of the profits from this project. Our second project is in partnership with our Group company, Godrej Agrovet, to develop up to 9 million square feet at Sarjapur in Bangalore. This project will be developed under the development management model and GPL will receive 12% of revenue as a development management fee for the project. We have a strong pipeline of advanced stage business development deals in all of our target markets and believe that the current conditions where our own performance is strong while the market as a whole is struggling gives us an ideal opportunity to significantly step up business development and we are doing our best to ensure we capture this opportunity.

We continue to lay great emphasis on timely delivery of our projects across the country. We delivered approximately 2 million square feet in the first quarter, which includes 1.3 million square feet of commercial space at Godrej BKC and 0.7 million square feet of residential space across three cities where we delivered projects at Godrej Garden City in Ahmedabad and Godrej Gold County in Bangalore.

After an excellent financial year 2016, we have made a steady beginning in the first quarter of financial year 2017. We do expect to significantly ramp up our sales momentum in the coming quarters, given our exciting launch pipeline across the country. We are well positioned for continued growth with our differentiated and scalable business models and strong execution track record.

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

<b>Moderator</b>	Thank you very much, sir. Ladies and gentlemen, we will now begin with the question-and-answer session. Our first question is from the line of Puneet Gulati from HSBC. Please go ahead.
<b>Puneet Gulati</b>	First of all just wanted to get a broad color on the residential market. We get a lot of conflicting reports from various property consultants that probably the demand is picking up and some are saying it is not. What is your assessment of the market?
<b>Pirojsha Godrej</b>	I think the market as a whole continues to be quite subdued and that is probably true across most cities. At the same time, it does not mean that good projects in the right locations from well-regarded developers are struggling. Even last year we were very happy with the momentum and response received by our projects. So I think the market is not so bad that it is hard for us to sell projects, but certainly the overall market could and very likely will improve over the coming months. But I do not think we have seen any real initial signs of an improvement already happening.
<b>Puneet Gulati</b>	Secondly, what is your expectation of the deliveries in the current year for your projects, which all projects should we expect to be delivered?
<b>Pirojsha Godrej</b>	We can give you the exact details offline, because we have already had 2 million square feet of deliveries in the first quarter. We have a large number of deliveries planned this year including new phases in Ahmedabad, Godrej Prakriti - Kolkata, Godrej Platinum - Kolkata; the remaining phases of our project Godrej Horizon in Pune; and some projects in Bangalore. So I think quite a lot of deliveries this year. We had highest-ever deliveries last year and we are on track to perhaps have an even bigger year this year.
<b>Puneet Gulati</b>	Then, a couple of accounting related questions. First of all, thanks so much for sharing cash flows for the first time, it was really heartening to see that, but it invites a few questions. So first of all, just accounting type, you have categorized your cash flows in two parts, one is construction related cash flow and other is projects related cash flow. How are the two different here, if you can just give some more color?
<b>Rajendra Khetawat</b>	Basically it is all related to construction, but when you take construction, it is purely hard core building of the construction. And the other outflow is all statutory dues, tax payments and architect fees and others, so it is all combined and marketing related expenses also.
<b>Puneet Gulati</b>	If I were in future to track just the construction related cash flow that should give me an average construction cost, right?
<b>Rajendra Khetawat</b>	No, it will not be because it includes variety of projects which have different cost structures depending on the product specifications. So you may not get that cost of per square feet, you want to just divide by area on that. These are typically outflow, so what has been spent, cash outflow that has happened during that particular period.
<b>Puneet Gulati</b>	And what does this PE exit relate to? Rs. 249 crore?
<b>Pirojsha Godrej</b>	We had a private equity investor into our Godrej Prakriti project at Kolkata who was given an exit in the month of April, so it relates to that.
<b>Puneet Gulati</b>	Any other exits planned for the current year?

<b>Pirojsha Godrej</b>	No.
<b>Puneet Gulati</b>	And your second phase of Vikhroli project, how do you assess, what is the response of the second phase, are you happy with it or?
<b>Pirojsha Godrej</b>	Yes, extremely happy with it. Overall in the project now we have sold over 85% of the launched inventory. When you launch Phase-II within three months of Phase-I and with an increase of about 10%, we fully expected a slightly more time to sell the full inventory. But I think the project has been an outstanding success and far surpassed our expectations. And even on Phase-II now we have sold over 70% of the inventory. I am pleased with the the overall volumes, which we have achieved in this time frame. So, yes, extremely happy with how that is gone.
<b>Moderator</b>	Thank you. Our next question is from the line of Saurabh Kumar from JP Morgan. Please proceed.
<b>Saurabh Kumar</b>	Sir, my first question is on the cash flow. So what does is this Rs. 200 crore adjustment on account of Ind AS on your cash flows?
<b>Pirojsha Godrej</b>	Saurabh, this is just to give you a sense how the cash flow tallies with the debt numbers, because the debt numbers what you see into the presentation are as per the Ind AS. So now we spoke about PE exit which we gave in the month of April. Under Ind AS the put option which we had gets classified as a liability and your earlier numbers get re-casted. So, just for everybody's understanding, we have re-casted some cash flow to the debt numbers, we will reconcile that.
<b>Saurabh Kumar</b>	And this Rs. 200 crore is a present value, so this is the same value you will pay to that private equity guy, right?
<b>Pirojsha Godrej</b>	We have paid around Rs. 250 odd crore, and plus there were certain other Ind AS adjustments, so we have clubbed all those and the net impact was Rs. 200 crore.
<b>Saurabh Kumar</b>	So there is another Rs. 200 crore to be paid out to a private equity?
<b>Pirojsha Godrej</b>	No, there is no Rs. 200 crore to be paid out. The private equity liability has been settled in the month of April. It is just a reconciliation of cash flow to debt.
<b>Saurabh Kumar</b>	And the second is on your operating cash flow, so our net operating cash flow this quarter has been like Rs. 46 crore. So I am guessing at least your BKC is substantially done?
<b>Pirojsha Godrej</b>	Yes, actually we did get some BKC cash flows in Q1 on final payments from various customers. But this quarter we will see more cash flow from BKC because we expect final payment which is a little less than Rs. 300 crore less a few other payments. So there should be substantial cash inflow from BKC this quarter irrespective of new sales and new sales could add to that.
<b>Saurabh Kumar</b>	So, what I am trying to get here Pirojsha is, basically on this Note A, the net operating cash flow, that should substantially be closer to your EBITDA on a full-year basis. Will that assumption be correct or no?
<b>Pirojsha Godrej</b>	Yes, the goal would be for the operating cash flow to grow, the key short-term driver is BKC because that project alone has about Rs.1,400 crore of net cash flow possible. That is an important focus and also being able to sell the remaining inventory within the timeline we expect. And I think The Trees with over Rs. 1,300

crore already sold and continued interest from sales there will be another important cash flow generator, but certainly across the portfolio, our key focus will be to drive operating cash flow that is the key deliverable for us.

**Saurabh Kumar** And how should we think about your debt? So, you have this existing inventory from BKC and some commercial projects, and you also have this platform tied up with the APG to essentially fund your new acquisitions. So, can we expect this debt to probably go down and not increase from here now henceforth?

**Pirojsha Godrej** Yes, I think that is certainly the goal and again in the short-term at it could be fairly sensitive to kind of how quickly we are able to do BKC, because, if that happens quickly that is almost half our debt that can be unlocked from that.

**Saurabh Kumar** And what is your expectation, when does Vikhroli hit the P&L?

**Pirojsha Godrej** We trying to seek and we can get it in within this year, I think it will be in probably Q4 of this year or Q1 of next financial year.

**Moderator** Thank you. Our next question is from the line of Abhinav Sinha from CLSA. Please proceed.

**Abhinav Sinha** Firstly on the gearing front which has now gone up from 1.1 to 1.6 post IndAS, so are you looking to revise the gearing level? Are comfortable with or it does not really matter for any of your covenants, etc?

**Pirojsha Godrej** No, it is something we are broadly comfortable with. Our borrowing cost is extremely competitive and the lowest in the industry. So there is no concern as such. At the same time, we have, guided that the range we would like to stay between is 1 to 1.5. So, with this IndAS change, we are slightly above that and we feel there is pretty clear visibility of that being brought back into that range quickly as the commercial portfolio gets monetized.

**Abhinav Sinha** Sir secondly, again I am going back to Ind AS. So, there is actually on the FY 2016 reconciliation, for the full year basis Rs. 70 crore impact on PAT. Can you break it down into what exactly is the major component here?

**Pirojsha Godrej** So Abhinav, in this presentation we have given the reconciliation and explained the reason. The major thing is because of the Ind AS we had to relook at our capitalization of certain costs, so we have relooked at the policy and certain costs which were earlier capitalized and expensed through cost of sales on those projects hitting the revenue recognition are now considered as a period cost. And it hits the P&L as and when it is incurred. So that is the difference. However, the overall project margin profile does not change, it remains the same. It is only a timing difference which has kicked in because of this Ind AS adjustment.

**Abhinav Sinha** So, essentially the capitalization has got up-fronted because of it, is that correct?

**Pirojsha Godrej** Yes.

**Abhinav Sinha** And what is the impact of that ESOP related items that you have mentioned?

**Pirojsha Godrej** Earlier the ESOP was not being consolidated because of the Old Accounting Standard. Under the New Accounting Standard you can consolidate as a branch and whatever the income and expense is related to that operation of trust, it has to

be passed through P&L, whatever the small expenses, it has to go through P&L, that is what the adjustment is.

**Abhinav Sinha**

And how much of that will be, say, a recurring item, if at all?

**Pirojsha Godrej**

It is hardly, it is Rs. 3 lakhs, Rs. 4 lakhs annually.

**Abhinav Sinha**

And similarly, on the previous item of interest cost, for example, earlier the capitalization level or what was not seen on P&L was pretty high, so is that lower by now 10%-15% on an ongoing basis, I mean, how should we look at it?

**Pirojsha Godrej**

Interest capitalization policy remains the same because old and new standard does not distinguish. So the only change which has happened is on our JV project which was earlier consolidated now since it is going under compulsory equity method of accounting, the related funding which the parent does to the JV project, the interest on that is grossed up. So you will see the interest income coming into my other income and the corresponding interest expense hitting my finance cost. So you will see the finance cost component going up.

**Abhinav Sinha**

How much is that debt on those JVs as a percentage of total?

**Pirojsha Godrej**

Right now I do not have, I can provide you that detail offline.

**Abhinav Sinha**

Okay. Sir, secondly on the revenue front, now you have four or five type of projects, right. So the one where you have revenue share agreement they seem to be protected, but where you have a profit share agreement they are possibly impacted by Ind AS. Is that correct?

**Pirojsha Godrej**

So it is only for the accounting purpose. From an overall project administration purpose, it is not impacting. The way accounting is being done, it is because earlier it was line-by-line consolidation and the JV partner share used to get knocked up to minority. Now it is only our share of profit coming into our P&L.

**Abhinav Sinha**

So which are the major projects which fall under this?

**Rajendra Khetawat**

So, most of the profit sharing projects and projects where we have a private equity investment, those projects will go under this JV rule. BKC is excluded from that.

**Pirojsha Godrej**

Because The Trees is now 100% owned by GPL, the two biggest contributors at least for the short term are not affected.

**Abhinav Sinha**

Sir, one question on the launch pipeline that you have given. You are looking at couple of big launches in the NCR market. Can we, have a slightly more idea on the timeline and what response you are looking at given that the market is still quite weak?

**Pirojsha Godrej**

I cannot give much color on the timeline, it is linked to when we get approvals in place. Our hope is to do that by, Q3 at least one of the Noida projects. But, again, it will depend on how quickly approvals happen. We remain extremely optimistic on our ability to execute big launches successfully. We wouldn't be adding these kind of projects if we were not confident about that. And our track record in NCR over the last couple of years where market condition has been terrible in that period, hopefully kind of the launches we have done there that have been successful should give some comfort that this will work. And I think certainly entering a new market like Noida typically there is a good amount of buildup. We can do a good

amount of pent-up demand, particularly in a market like Noida which doesn't really have too many national developers present there.

- Moderator** Thank you very much. Our next question is from the line of Ritwik Sheth from Span Capital. Please proceed.
- Ritwik Sheth** I had a couple of questions. Sir, firstly a data point, what is the inventory left in the Kolkata commercial, Chandigarh and BKC?
- Pirojsha Godrej** So overall, let me get the exact numbers, we have about 4 lakh square feet in each of Chandigarh and Kolkata and 280,000 approximately left in BKC.
- Ritwik Sheth** So we have left around, say...?
- Pirojsha Godrej** 1 million square feet.
- Ritwik Sheth** Rs. 1,300 crore or Rs. 1,400 crore of commercial yet, right?
- Pirojsha Godrej** Of course it depends on pricing and there are some inflows expected on sales that are already in place, so there are some adjustments to be made if you are looking at kind of the cash inflow that can happen.
- Ritwik Sheth** More or less Rs. 1,500 crore, is that understanding right?
- Pirojsha Godrej** Yes, it is in that range, but I mean it should be a little bit more than that. BKC alone as I said is about Rs. 1,400 crore.
- Ritwik Sheth** And on the BKC we have received the OC, so do you need to spend anything on that or we are done with it? Like, all our expenses are incurred and now we just have to receive the cash flow?
- Pirojsha Godrej** It is almost done, but there will always be some closing accounts with various contractors and things.
- Ritwik Sheth** So, nothing significant?
- Pirojsha Godrej** Since it is small, we are done with all the land payments and things.
- Ritwik Sheth** And have you received the money from the Abbott deal, some Rs. 300 crore?
- Pirojsha Godrej** Large part of the payment which is 20% of the overall deal value is expected this quarter.
- Ritwik Sheth** Sir, going on to the debt, if I see that after the BKC deal we had mentioned that we will be looking to reduce the debt, but from post H1 FY 2016 we have gone from around Rs. 2,500 crore to Rs. 2,600 crore to almost Rs. 3,100 crore. So is it that we are deploying the money received in there into the residential or there is a cash flow inside, if you can through some light on that, please?
- Pirojsha Godrej** I think some of the short-term movements are not the most relevant to look at, so we did have the final installment payment for BKC that has to be made, getting The Trees up and running there were some approval expenses, some of which will shift to Ind AS also contributed slightly. But certainly I do not think it has changed the

overall status which is as soon as we are able to unlock from our commercial portfolio, we do think there is a significant reduction in that.

**Ritwik Sheth** You still maintain the guidance that whatever commercial cash flow we will receive will be mostly repaying debt

**Pirojsha Godrej** Yes, a combination of repaying debt and securing new BD opportunities.

**Ritwik Sheth** And one final question. Sir, if I look at the presentation, from the last presentation to this presentation, we have gone like from 100 million square feet, 105 million square feet to almost 125 million square feet, so that is a massive developable area to be done over maybe next seven - eight years or that range. And given our deliveries also ranging, last year was the highest 6 million square feet. So do you think that now we will be consolidating all our projects and focusing on execution, because even if we take around ballpark figure of, say, 10 million square feet a year of delivery, it is like 12-13 years of inventory that we have. So that is a massive, so basically I wanted to have your view on it.

**Pirojsha Godrej** It is an interesting question, and we are keeping an eye on what the right size for us is, but I think one has to keep in mind that we do not see execution as a key constraint, we have been able to quickly scale to this level and do believe we can scale further. Certainly we will not look to just add projects unless we can monetize them simultaneously with our existing portfolio. But that does not mean that in cities where we have a presence we cannot supplement that with new locations, new projects that are in different kind of price points and things like that.

So if you look at that we feel we still have a huge opportunity. Six months ago we had, for example, no presence in a market like Noida which is a huge real-estate market. There are still many parts of Pune, Bangalore, Mumbai, NCR where we have no presence, for example, the western side of Mumbai we have no residential projects currently. So, those are all the opportunities where we feel we could add projects and monetize them without affecting the pace of delivery and execution at our current projects. And it could add value to the Company. We are certainly keen on continuing business development, but we are paying strong attention to ensuring that the business development we do is complementary to our existing portfolio.

**Ritwik Sheth** No, the only reason that I am asking is that even if we take our average realization of Rs. 5,000 - Rs. 5,500 per square feet, then it is a massive \$10 billion of sales to be done. So, that is where I was getting at with this.

**Pirojsha Godrej** Yes, but I would argue that from a sales perspective, a new location does not, it is not based on artificial cap on the amount we do sell, it is constrained by the quality of what we are offering and the locations in which we can offer to our customers of a project. So, for example, there we sold Rs. 5,000 crore last year. I don't think that if we had, say, three more projects in new locations then we could not have also launched those and sold much more than what we did. So, I do not think at current scale we are anywhere near the point where sales itself is the constraint. So I think us or any other developer is not beyond 1%, 2% of the overall market share in Indian real-estate. Growing that share is not an insurmountable task if we one has the right project.

**Moderator** Thank you. Our next question is from the line of Sameer Baisiwala from Morgan Stanley. Please proceed.



**Sameer Baisiwala** I was just curious because if you had received OC in the previous quarter Q1 for BKC, should you not have got all the pending payments from the older customers including Abbott in that quarter?

**Pirojsha Godrej** Yes, I think Sameer, along with OC, there are a lot of final check conditions etc that have to be fulfilled, so we got the OC in the middle of the quarter. So there is no issue, but it is a little bit of a process, some of the contracts have certain OC plus some inspections and things. And clearly for Abbott, given the size of the space and things, a detail list of things they're going to do. So their inspections and things are underway. But as I said, I expect all the money from existing sales to be received by this quarter, some of it was received last quarter as well.

**Sameer Baisiwala** And if I heard you correctly, you said Rs. 1,400 crore is the pending cash inflows and this does not include the money that you need to receive from Jet, right? That's over and above that?

**Pirojsha Godrej** No, Rs. 1,400 crore is the net cash flow, and we will do some assumptions on sales price etc and we will see what happens with that. But if the net cash flow we assume from the project including our partner's building.

**Sameer Baisiwala** I thought Jet has to pay about, Rs. 300 crore, maybe Rs. 400 crore from the older customer and Rs. 1,000 crore from the unsold. So that should have pushed it out to Rs. 1,700 crore?

**Pirojsha Godrej** I cannot give you the exact details, I think it is about Rs. 1,000 crore of future bookings, about Rs. 300 crore each from the partner and from existing sales. And then a little bit for closing out contracts and things will have to be subtracted from that.

**Sameer Baisiwala** And then how much is debt sitting in BKC and how much of that have you included in your Rs. 3,072 crore net debt that you have disclosed for June?

**Pirojsha Godrej** So the total capital employed is around Rs. 1,300 crore over there. The external debt is around Rs. 500 crore and the balance is funded by Godrej Properties.

**Sameer Baisiwala** Sorry, I missed that. So how much is the debt in BKC?

**Pirojsha Godrej** Rs. 1,300 crore is the capital employed, so which comprises of debt from an external as well as funding by parent, Godrej Properties.

**Sameer Baisiwala** And in your Rs. 3,072 crore net debt, how much of this is coming from BKC portion?

**Rajendra Khetawat** 100% of that I think Rs. 1,100 to Rs. 1,300 crore is sitting into my entire Rs. 3,200 crore of debt book.

**Sameer Baisiwala** Because would you then not be required to do only your portion additionally over here?

**Rajendra Khetawat** Because it gets consolidated 100% and we are responsible for the entire project, arranging the funding.

**Pirojsha Godrej** We have throughout consolidated debt of the project. But you are right, it is the correct way to think of it, the business only accounted for 50% of the profit

accountable for 50% of the debt, so the inflow that we do get with Rs. 1,400 crore of net cash flow from customers will go all of that being a reduction in debt.

**Sameer Baisiwala**

And, Pirojsha, that kind of ties up with the fact that if you have pending sales of Rs. 1,000 crore and you did about Rs. 100 crore in the quarter and I think you said in your opening remarks, you will knock off the entire in the current fiscal. Is it realistic or do you think you will take a much longer time, maybe two years, to really sell down the total inventory?

**Pirojsha Godrej**

Sameer, I think if you ask that question in different quarters it would feel very differently. If you ask that in Q4 there is a zero sale so you will never sell it. If you ask that in Q2 of last year, we said we sold Rs. 1,500 crore in a quarter. So it is going to be a little bit lumpy sales. It is a high value commercial project. One floor which is one customer, not even that big a customer, is a multi-hundred crore deal on the project. So my expectation is that it will be completed this financial year. Our internal target is to complete it this financial year. But is there is a chance that it goes beyond this financial year, certainly.

**Sameer Baisiwala**

Are you in active discussions with the potential buyers that give that confidence?

**Pirojsha Godrej**

Yes, but again, I would not say that means a great deal, because active conversations happen all the time and obviously till something is concluded, it is not done. But, yes, I think I am making this statement not just based on kind of hope or blind expectation, but based on reasonable visibility that we have given the levels of demands and conversations underway. But, again, till it happens we cannot be certain.

**Moderator**

Thank you very much. Our next question is from the line of Manish Jain from SageOne Investments. Please proceed.

**Manish Jain**

I just wanted to know should there be a change in the Mumbai DP plan and we get a better or higher FSI in The Trees project. And let's say this comes in after the construction is complete of phase one, phase two, and we have already completed Godrej One, will we be able to monetize this higher FSI?

**Pirojsha Godrej**

So, we do have some thoughts on this, it is a little preliminary because the new DP plan has not actually been frozen. But there is a clause that is going to get proposed where if a developer surrenders some land and actually builds the municipality some assets that they put the reservation for, that part of the amenity open space that is to be handed over to the government can actually then be developed privately. So if the DP as currently written gets passed, that is a way we could consume extra FSI. It would likely be consumed on the amenity open space, not on the portion that has been committed to other assets.

**Manish Jain**

And my second question was, how much deposits have we paid for the two BD deals that we have signed in the current quarter?

**Pirojsha Godrej**

None.

**Moderator**

Thank you. Our next question is from the line of Kunal Lakhan from Axis Capital. Please proceed.

**Kunal Lakhan**

My question was on the outlook for pre-sales. If you look at last year, we had done some Rs. 5,000 crore of pre-sales and if I remove the commercial part, there were about Rs. 3,500 crore of residential sales. Now, largely those sales were driven by, greenfield launches like Trees, the one in Chembur, I think couple of launches in

Gurgaon. But if I look at the launch pipeline for FY 2017, we do have some greenfield launches, mainly in Noida and Greater Noida. But these are not like value contributors, these are more like volume contributors. So my question is basically do we see that Rs. 3,500 crore of residential sales sustaining or can we meet that number or even beat that number this year?

- Pirojsha Godrej** I certainly do not want to give any guidance on that. It's been our policy not to do that. We certainly think, though, that there is a strong pipeline that could facilitate us doing big numbers again this year. So I think projects like Noida and Greater Noida have arrived at price points where volume will look more aggressive than value. At the same time those are the price points where you can rack up pretty serious volumes as well. So I would expect those to be meaningful contributors even from a value perspective. We do have projects that are new launches like the one we are planning hopefully soon in Thane, where price points will be higher because it is part of the Mumbai township than some places like Noida, so that could be a meaningful contributor. I think if we are able to do the launches we have planned in Vikhroli that again will be a meaningful contributor. These are projects that could contribute significantly. And from the commercial side as well, we will look to put good numbers.
- Moderator** Thank you. Our next question is from the line of Abhishek Anand from JM Financial. Please proceed.
- Abhishek Anand** So, Pirojsha just wanted to know on The Trees commercial, basically the hotel which we had planned. Any plans whether we are going to hold it, anything we have zeroed into what strategy we will have in that segment?
- Pirojsha Godrej** Abhishek, we are still evaluating that, but our preference would be to not be responsible for the investments required into that, but I think we are still very much at the evaluation stage.
- Abhishek Anand** And out of the Rs. 1,300 crore of sales in Trees, should we assume roughly 20% has been collected, or more than that has been collected till date?
- Pirojsha Godrej** I think almost 20% has been collected.
- Abhishek Anand** So, roughly Rs. 250 crore to Rs. 300 crore?
- Pirojsha Godrej** Something in that range, yes.
- Abhishek Anand** Lastly, as you mentioned that, especially for Noida, we did not have to give any JD deposits. So should we take that as a one-off case or incrementally this is how the sector is going to evolve, lower JD deposits? Basically just trying to understand that if that merits the kind of a change in the industry that we do not have to pay JD deposits or that was just a one-off case?
- Pirojsha Godrej** Yes I think, probably more of the latter. I don't think that that will necessarily be the case for all projects, so more of a one-off. But each deal is different and is structured differently as the joint venture partners have different priorities. So often we are structuring in response to those requirements while keeping our own requirements in mind. But, no I do not think that most profit-sharing deals would not require an advance, I think most will.
- Abhishek Anand** But are you seeing a decline in advance? Just trying to see whether we have seen desperation from the land owner or JV partner's side to partner with good developers or it remains as it was maybe one year back?

**Pirojsha Godrej** I will say that the volume of opportunities we are seeing is the highest it is ever been. A lot of those opportunities while we have always seen them partnered with other developers; I would say the proportion of new opportunities that are in partnership with other developers is much larger than it has ever been. But the distressed conditions also mean that people have a greater requirement for cash often. Whereas we have no problem giving advances as long as the returns we are generating on that are disproportionate and we can secure big and valuable project as a result of giving those advances. So, I am not seeing a huge change in landowners' expectations if that is what you mean. But we are definitely seeing a larger set of discussions than we have ever had.

**Abhishek Anand** And finally, just if you could help us out with the new launches. So we understand that Thane is right around the corner to be launched, any other projects where you have received all the approvals and you are in the final stage of launching in the coming couple of months?

**Pirojsha Godrej** I think the main one that we hope to launch this quarter is Thane, the others are all or at least the new project launches are all under approval. Because fairly for us, as soon as we get the approvals we do tend to this launch, so there is not much of a gap. None of the other new projects that we have indicated are ready to go.

**Moderator** Thank you. Our next question is from the line of Anand Krishnan from Infina Finance. Please proceed.

**Anand Krishnan** The question from my end is with respect to the Bombay High Court ban which was put on construction until the dumping ground issue was actually resolved. What is the current status on that and which are the projects of yours which are being delayed because of that?

**Pirojsha Godrej** So, the issue has yet been resolved, most of our upcoming projects will not be affected by it though. So we will have to see, but something like Thane is not affected because it is outside of Mumbai zone where this applies. The Trees is also, not going to be affected because we are going to consider the phases as part of the initial launches, hopefully that should not get impacted either. I will have to do a double check whether Bhandup is affected as and when that comes out. Panvel also would not be affected because it is outside of the Mumbai zone. So, it will eventually start affecting projects, but hopefully by the time any new projects are ready and at that stage this will have been sorted out.

**Anand Krishnan** How is that that The Trees is not affected by this, as in that comes under the BMC purview, right?

**Pirojsha Godrej** Yes, the rule is that if the projects that have achieved a certain level of approval milestones, this does not apply.

**Anand Krishnan** And, sir, what is the status with respect to your Panvel project, what status is it currently at?

**Pirojsha Godrej** We had actually done, we have received a of bit of setback because there is a lot of confusion on which authority was in charge for giving approvals in Panvel. Fortunately over the last few weeks there has been major progress. So, we are quite hopeful of starting construction on the first phase of that project shortly, which will then allow us to quickly launch the next phase of the project.

**Moderator** Thank you. Our next question is from the line of Himanshu Zaveri from Dhruv Gems. Please proceed.

**Himanshu Zaveri** I just wanted to ask, have you put a timeline for the second commercial building in The Trees project and the way you would like to go about it as you would also require huge investment, unlike the residential where you sell quite a bit at pre-launch. Here you would be selling closer to construction completion, right? And also any plans on the hotel when it would start constructing?

**Pirojsha Godrej** No plans for now on the hotel. On the commercial we have been going through the design stage, we are still working out the best way to structure it financially. But we are quite bullish on how the commercial projects will do because there are clients who are already expressing interest in the project. We have seen very high rentals now at Godrej One, which is adjacent to this proposed project. We believe that fundamentally there is a lot of value sitting in this project. How best to monetize it and at what stage to initiate sales and what proportion of sales versus leasing are all things we are debating currently.

**Himanshu Zaveri** And what about the Hyderabad project where we had asked for approval for a residential part, and that is also a huge parcel with a construction of up to 5 million square feet. Is it right?

**Pirojsha Godrej** Yes, even a little bigger than that I think. We have put that on pause for now. Our main focus is to grow our presence and build scale in the major markets in which we are already present. We have that land parcel, as and when we feel it is the right time to enter Hyderabad which will probably be only once we add a few more projects and maintain our scale while entering the market, but I would not expect any action there for the next couple of years at least.

**Himanshu Zaveri** And when do you think, Pirojsha, we can get on that 20% ROE, ROC type, maybe by next year when The Trees comes into revenue recognition? And also, should we expect Trees to come into revenue recognition by middle of next year by June or something?

**Pirojsha Godrej** Obviously we would like to get to the 20% return levels as soon as we can. I would not like to put any specific guidance to that. It depends on a lot of different factors, including how quickly we can unlock capital from commercial and when major projects enter revenue recognition and so on, but certainly that is the key focus for the team.

**Himanshu Zaveri** When do you expect Trees to come into recognizing revenue, by June next year?

**Pirojsha Godrej** We are trying to expedite it as much as possible. I think it will add up in Q4 of this year or Q1 of next year.

**Himanshu Zaveri** And Pirojsha, what is the deposit we paid for the Thane project, Godrej Aria, Icon and Godrej 101?

**Pirojsha Godrej** The Thane project is under the fund, it is a revenue sharing with the fund. I think the overall GPL advance would be about Rs. 20 crore, part of which has been paid and part will be paid as certain milestones are achieved. Godrej Icon, we launched a couple of years ago, so I do not remember our plan what the advance was, but I think for both Oasis and Icon combined it is about Rs. 50 crore.

**Pirojsha Godrej** Yes that is for two projects combined, Oasis and Icon. But we would have to check, those are a couple of year old projects.

**Himanshu Zaveri** Then the last question, in this quarter the booking value has gone down quite a bit, so you expect it pick up from the new launches which we are expecting? And if we

need to better our previous year, we have a lot of catch-up to do, right? And which are the projects from which you expect most of it, Thane, 101 and all that?

- Pirojsha Godrej** Yes, there are a large number of projects we expect to see good bookings from. First of all, in the commercial side, we think BKC itself can contribute about Rs. 1,000 crore once we monetize that fully. So that will be important. We have further phases we hope to launch in Vikhroli, so those could be quite significant as well. And then new projects in places like Thane, Noida, Greater Noida, we hope to launch new phase of Panvel. So I think there are a good number of projects. First thing will be to make sure we get approvals for all of these in place as quickly as possible.
- Himanshu Zaveri** And have we got the approval for the third phase of Trees?
- Pirojsha Godrej** Not good for launch approval, but it is at a good stage of approval.
- Moderator** Thank you. Our next question is from the line of Deep Master from Enam Holdings. Please proceed.
- Deep Master** I just wanted to know your thought process on the commercial part. Is it a built-to-sell model or are you going to be renting it out?
- Pirojsha Godrej** As I have indicated, I think that is something we are currently reviewing. Godrej One where we have already crossed Rs. 150 per square foot on rental, there is very good return possible on this project, but exactly how to phase it in terms of sales versus lease rentals is something we are still evaluating.
- Deep Master** And what is the saleable area of the commercial project?
- Pirojsha Godrej** About 1 million square feet.
- Moderator** Thank you. Our next question is from the line of Sandeep Baid from Quest Investments. Please proceed.
- Sandeep Baid** I think, Rajendra, you mentioned that for profit share projects and the private equity projects, JV accounting will apply and we will be booking only the profits. Does the same apply for area based and revenue based projects as well?
- Pirojsha Godrej** No, the area based and revenue based projects continue as it was under our old accounting method.
- Sandeep Baid** Okay. It comes in our top line?
- Rajendra Khetawat** Yes, our share of revenue comes into our top line and the development cost goes into our costs. So the accounting remains same as per the old method.
- Moderator** Thank you. Our next question is from the line of Samar Sarda from Kotak Securities. Please proceed.
- Samar Sarda** The first question was on the development pipeline. The business model has improved quite a bit, deposits are coming down and purchase going up. Lately we have started entering in large scale projects be it Noida, Greater Noida, your recent announcement again on Sarjapur Road property and you also have Devanahalli and Panvel. What are the timelines you have for the development of such large projects?

**Pirojsha Godrej** Samar, each project is different, both in terms of the scale and the timeline likely to take. We see all of the ones you mentioned probably at least eight year time frame projects, but certainly some of the larger ones could be even longer than that. But planning for that and making sure that that is planned in a way where we are still adding substantially to the NPV through these projects is something we pay a lot of attention to. And if you look at the additions we have added over the last five years, it has been a good mix both of large scale projects like this, but also quicker turnaround, more of city center projects, and we do feel that that mix is a good thing to have.

**Samar Sarda** And the Devanahalli project in Bangalore, like if you could just update us with the proceedings there, anything likely in FY 2018 or it could be pushed a little more?

**Pirojsha Godrej** It is delayed from an approval standpoint but the area is progress, we are currently working out on that and we would be, very disappointed if it was not at least an FY 2018 launch.

**Samar Sarda** And a question related to this is, in your large scale projects, would you be planning some like retail outlets, but some commercial complexes to create any job opportunities otherwise?

**Pirojsha Godrej** Again, it would depend on the project, but not really. I think the focus is typically residential with some asset classes to support the residential like retail, etc. Some do have some minimum requirements for commercial in townships and so on, so we might fulfill those obligations, but I do not think we are planning any kind of major commercial component to these projects. We are looking to enter such projects as the kind of catchments from a commercial point of view if there is enough demand on the residential side supported by commercial activity in the vicinity.

**Samar Sarda** And my second question was on cash flows, like the cash flow statement given on slide 24. Now these income like collections and expenditure are total, right, so even for JV projects it is not only our share, but the total collections and expenditure for the project?

**Pirojsha Godrej** Yes.

**Moderator** Thank you. Our next question is from the line of Deepak Shah from DB Research. Please proceed.

**Deepak Shah** My first question is regarding, I was just going through the Annual Report of Godrej Industries wherein they have mentioned that the Company finds Godrej Properties as a very good investment opportunity, hence would like to pump in about Rs. 300 crore in that company. So the question is, since the promoters are already holding 75%, how can Godrej Industries deploy Rs. 300 crore in Godrej Properties? And if it is deploying, is it buying out of the promoters' stake, or how is it going to happen? If you can throw some light.

**Pirojsha Godrej** We look at specifically what you are referring to off line, but there is absolutely no plan for Godrej Industries to put any capital into Godrej Properties. I would have to again just check the details of what language was used and why. But there is no such kind of enabling resolution, but I need to come back to you on that. You can maybe ask Rajendra to follow up offline.

**Deepak Shah** My second question is regarding the Hyderabad project. Hyderabad project as you mentioned is 100% owned by your Company?

**Pirojsha Godrej** Yes.

**Deepak Shah** And it is about 5 million square feet. So what kind of revenue can we expect, I mean on 100% sales. If you can just give some idea on that.

**Pirojsha Godrej** No I think, again, obviously on a large format projects like that will depend on pricing, when exactly we launch. As I also mentioned in an earlier response that project currently is sort of on pause, so we are not actively focusing on launching that over either in this financial year or next financial year. But certainly it will be depend on pricing. Currently it would be in the Rs. 4,000 range, depending on what price appreciation you assume over a lifetime you can probably get a reasonable estimate yourself.

**Deepak Shah** About the Panvel project, also that is 100% owned, right?

**Pirojsha Godrej** No, that is a profit sharing project where we have a 35% share of profit.

**Deepak Shah** How is the Godrej Sky project doing?

**Pirojsha Godrej** Well, it is started construction, we have achieved a good level of sales. I think the project is doing better.

**Deepak Shah** My last question is regarding this Thane project. It is about 1 million square feet, so can we expect the revenue to be around Rs. 1,200 crore or Rs. 1,300 crore, and you being 64% partner in that, your share being about Rs. 800 crore or Rs. 900 crore?

**Pirojsha Godrej** Well, our share is actually lower, because that is a fund project as well as a revenue share, but our share will both include our equity share as well as development management fees and a possible upside from both. But the project is actually about 1.3 million square feet, the actual saleable area has gone up a bit since we closed the deal. So, your revenue numbers again will obviously depend on the pricing regime.

**Deepak Shah** One more last question, regarding The Trees project you mentioned that the total commercial area at Trees is about 1 million square feet and ongoing rental in Godrej One is about Rs. 150 per square feet per month. So, it translates into Rs. 180 crore of rental income if it is given on lease completely. What is the game plan, I mean, giving it on lease or selling it out?

**Pirojsha Godrej** I have already said, we are still evaluating that. That is something what needs to do, a sales versus lease rental is something we are currently evaluating. And 1 million square feet is a bigger area than the amount we have leased at Godrej One at that price. But certainly I think there is a big opportunity from this asset, so would be quite focused on it.

**Deepak Shah** But is my calculation right? I mean at Rs. 150 rupees per month per square feet, 1 million works out to about Rs. 180 crore, is that right?

**Pirojsha Godrej** Yes, I think the calculation sounds right, but again the assumption on pricing is just based on Godrej One, so we will have to see what that is on the new building.

**Moderator** Thank you. Our next question is from the line of Param Desai from IDFC Securities. Please proceed.



<b>Param Desai</b>	Pirojsha, for this year I guess the theme would be around our monetization of the commercial assets as well as adding these new residential projects. As you look a couple of years out, as the development pipeline for us builds through, do you see some sort of change in terms of the way business will go for us when you look beyond FY 2017 or you see that the broad drivers for the business or the way the strategic imperatives of the business will remain pretty much the same as it has been as we speak now?
<b>Pirojsha Godrej</b>	No, we will have to keep shifting tactics and adding our learnings to what we are doing, but broadly speaking, we feel we're in a very good space. We are very optimistic on overall prospects of the sector, especially the residential component of the sector. Very happy with the business models we have developed over the years and with the markets we are already in. As we have indicated we want to now disproportionately focus our energies on the top four markets in the country which we defined as Mumbai, NCR, Bangalore and Pune. So, I do not see much change those key tenets to our strategy changing over the near term, but certainly we will continue to replicate things that are going well and try to fix any areas where we are concerned of.
<b>Pirojsha Godrej</b>	Pirojsha, although you had alluded to that question a little earlier in the call, but I guess what we have seen in the past is, across the board most companies have sort of struggled with execution as they have hit certain scale whether they have been going through an outsourcing model or they have been relying on in-house construction. how much of a concern is that for us, although we have talked about a very strong project management skills and the way we have gone about managing scale, but, is there a level of scale at which you believe where the capabilities would be constrained or I mean, how do you look at that whole scale business, execution business from here on?
<b>Pirojsha Godrej</b>	So, I am a firm believer that scale just in and on itself does not make execution more complicated. I would say with great confidence that our execution ability today, despite a much greater scale, is far better than it was 10 years ago where we may only have been doing two or three projects. Because, as that scale has developed we have made the necessary changes to the organization structure, the level of empowerment at various levels and the capabilities within the company. So certainly, if we want to get to 10x say of this scale, we will have to make sure that that capability building is happening alongside and even before the scale increases. But I do not think the scale certainly at the level we are currently at is insurmountable constraint or could become one any time soon. And if you look at either other industries where I do not think any of the bigger companies carry the same feeling that as scale increases they are at a huge execution disadvantage. And even within our industry, if you look at the China, the big developers there are doing 20 to 30 times the volumes we are currently doing. If you look at other Indian examples, just from a scale perspective of project management even if you look at a company like L&T, now not as a real-estate developer, but as a construction company is handling a much, greater scale. So I think certainly it is something we are concerned about and we understand that others have faltered and that we must make sure that we do not face the same issues, but at the same time, we do not think that it is something that cannot be addressed.
<b>Moderator</b>	Thank you. Our next question is from the line of Anand Tulsiram from Contrarian Hedge. Please proceed.
<b>Anand Tulsiram</b>	Our inventory as of June 2016 at the balance sheet is around Rs. 4,000 crore, can you give me a broad breakup between residential and commercial properties?

**Rajendra Khetawat** So for the broad breakup, the commercial like we just announced, let's say, it is around Rs. 1,700 crore odd is on account of commercial all put together and the rest would be from all residential.

**Anand Tulsiram** So then we have around Rs. 2,300 crore of residential property, and in current liabilities the advances is around a little less than Rs. 1,000 crore. So am I correct to say that the balance Rs. 1,300 crore represent the projects on which construction expenditure had been incurred but they could not be sold as of now, is the understanding right?

**Rajendra Khetawat** So there are several, the way the accounting happens, you do not recognize with the time to reach that 25% threshold and like nowadays lot of approval costs and other things you have to incur, architecture costs, other pre-construction costs you are doing. So all those form part of an inventory and they will start getting recognized and expensed out once the recognition begins.

**Anand Tulsiram** So, do you envisage Rs. 2,300 crore majority amount is because of the approval and other things and not the project.

**Rajendra Khetawat** There are land costs also like we have Trees which is 100% owned, so we are paying land costs on account of The Trees, so that entire Rs. 700 crore of land cost is sitting into the WIP. Then we have certain other projects which are 100% into our books, so those land costs are also sitting into WIP.

**Anand Tulsiram** Then my last is, in the call you indicated that the capitalization of the inventory has been changed and you have given the number for the current year. Can you give this from the opening inventory what has been debited to reserve directly for the earlier years?

**Rajendra Khetawat** All the adjustment after the Ind AS requirement has to be done in the opening balance sheet, so as on 01/04/2015 the requisite adjustment has been made in those numbers.

**Anand Tulsiram** No, actually why I am asking is because the inventory as per Annual Report was Rs. 5,000 crore and as per the new accounting standard it has been reduced to Rs. 4,000 crore.

**Rajendra Khetawat** Yes, that is because of the JV adjustment, so earlier JV used to get consolidated, so the line-by-line consolidation there, WIP also used to get consolidated. Now once the JV has moved to equity method of accounting, so the entire line-by-line including the balance sheet has moved up.

**Anand Tulsiram** So there is no possibility to give any approximate number which has been debited?

**Rajendra Khetawat** I can give it to you offline on that.

**Moderator** Thank you. Our next question is a follow-up question from the line of Sameer Baisiwala from Morgan Stanley. Please proceed.

**Sameer Baisiwala** To begin with, Pirojsha, how do you see the impact of RERA and when do you expect it to come especially in the major markets?

**Pirojsha Godrej** I think in the short-term it is likely to create a little confusion as the agencies all figure out how things are working, set up all these new authorities at the state level etc. So I do not think once it is finalized, it will create a little bit of short-term delay.

In the medium term it would be very positive for the industry and they will increase buyer confidence, it will probably just eliminate a lot of the weaker hands in the industry. Overall depending on the time frame, we will be quite positive, but I think in the near term it is going to create few headaches. I do not have any insight beyond what is in the media on timeline for implementation. They have set dates like do it within the next few months, but these things do tend to get a little bit delayed. So I would say at some point next in financial year would be my guess, but no one has any real insight on that.

**Sameer Baisiwala** And do you think that material number of your projects will get impacted because of 70% escrow and therefore it can actually push up your net debt as and when this happens?

**Pirojsha Godrej** So I think, again, we also have to see what exactly the interpretation is, but at 70%, it is not often that will be needed to fund the project. Maybe some of the higher-value projects will become a little bit more inefficient. But I do not see any huge impact on us because of that. The biggest impact to my mind not only for us but the industry as a whole which will affect everyone either directly or indirectly is launching only after all approvals, because while that will slightly delay launches for everyone, it puts into basic question the business model of most developers in the country. It will be interesting to see how that plays out.

**Sameer Baisiwala** And just one final, on slide number 37, 38. Thanks for stretching out the numbers as in the percentage of construction done, Rajendra this has been put for only those projects which have crossed such threshold, isn't it?

**Rajendra Khetawat** Yes.

**Sameer Baisiwala** So, if you can include those which are under below the threshold level, it will also be very helpful, so if we know which one would be the new contributors in the fiscal year.

**Rajendra Khetawat** We have taken a note of that and we will definitely think about that.

**Moderator** Thank you. Ladies and gentlemen, that was our last question. I now hand the conference over to the management for closing comments.

**Pirojsha Godrej** I hope we have been able to answer all your questions. Of course, if you do have anything further, please do let us know and we would be happy to give assistance. On behalf of all of us thank you for taking the time to join us today. All the best.

**Moderator** Thank you very much, members of the management. Ladies and gentlemen, on behalf of Godrej Properties, that concludes today's conference call. Thank you all for joining us and you may now disconnect your lines.

- ENDS -

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