



Godrej Properties

Q4 & FY2012 Earnings Conference Call Transcript May 07, 2012

Moderator

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

Anoop Poojari

Good afternoon everyone and thank you for joining us on Godrej Properties Q4 & FY2012 results conference call. We have with us Mr. Pirojsha Godrej – Managing Director and CEO of Godrej Properties, Mr. K. T. Jithendran – Executive Director, and Mr. Rajendra Khetawat – Vice President, Finance and Accounts of the Company.

We will begin the call with opening remarks from the management, following which we will have the forum open for an interactive question and answer session.

Before we begin this call, I would like to point out that some statements made in today's call may be forward looking in nature, and a disclaimer to this effect has been included in the conference call invite e-mailed to you earlier.

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

Pirojsha Godrej:

Good afternoon everyone. Welcome to Godrej Properties' Quarter 4 Financial Year 2012 conference call. I'll begin by discussing the highlights for the period under review followed by a discussion on the financial performance of the Company.

The quarter under review has been another eventful quarter for Godrej Properties and one where I think the Company has set itself up for long-term success. There were multiple important developments in Q4. Perhaps most important amongst these was that Godrej Properties successfully concluded India's first ever Institutional Placement Programme (or IPP) in March. Through this transaction, the Company was able to raise approximately Rs. 470 crores of equity in a capital scarce environment where even transactions from very reputable companies had run into difficulty. We are very pleased to note that we received strong demand from high quality long only investors and that this transaction helped reduce Godrej Properties' gearing levels from almost 2:1 at the end of Quarter 3 Financial Year 2012 to a comfortable 1:1 at the end of the financial year.

Another important development for the quarter was the sustained momentum witnessed in new business development deals. We successfully concluded our first deal in the redevelopment space with the addition of Sahakar Nagar, a 600,000 sq. ft. project in Chembur. We were also able to immediately recognize financial benefit from our Sahakar Nagar redevelopment project through a private equity deal with ASK Capital through which we were able to cash out a premium amount of Rs. 20 crore. We hope this will be the first of many deals for Godrej Properties in the lucrative Mumbai redevelopment space. Financial Year 2012 has been the best ever year for GPL from a new deal perspective and we have successfully added 10 deals with a total of 10.5 million sq. ft. of saleable area to our portfolio. Nine of the ten deals are in the residential space and seven of the ten deals are in our target markets of Mumbai, NCR, and Bangalore.

Of these 10 deals, by far the most important new deal for Godrej Properties has been the landmark deal we concluded in October with our Group Company, Godrej & Boyce, for all future development of their land in Vikhroli. We believe this deal will be hugely value accretive for Godrej Properties. The major benefit of this deal is that it gives Godrej Properties a very significant and totally risk free cash flow for a long period of time. The second tower in Godrej Platinum, which is our first residential project in Vikhroli, that was launched towards the end of March, has witnessed robust demand and the average price of the second tower that we are currently selling at is above Rs. 14,000 per sq. ft. as compared to an average price of approximately Rs. 12,000 per sq. ft. for the first tower. This implies a development manager fee to Godrej Properties of Rs 1,400 per square foot and the cost of this development being under Rs. 200 per square foot profits this results is Rs. 1,200 per square foot which even in absolute terms is a high number. We remain confident that the project will grow from strength to strength as Vikhroli's development picks up pace.

One other substantial development in our Vikhroli project in Quarter 4 came about from the LLP developing The Trees, a 60:40 profit sharing partnership with Godrej Industries, that is developing 34.2 acres in Vikhroli, purchasing the land from Godrej & Boyce for a total payment of Rs. 717 crore. The payment to Godrej & Boyce for the land had initially been structured as an annual lease with escalating lease payments. The payment amount now being made to Godrej & Boyce is a lump sum amount that will be paid over 5.5 years, and all these payments will be made from the development cash flows. The key reason for the change is that while it was initially expected that the LLP would lease most of the finished space in the mixed-use development, our strategy now will be to sell a significant amount of space. Both selling and leasing the finished space while leasing the land from Godrej & Boyce created numerous tax and legal complications. The long term lease model created challenges on land cost allowability, TDS implications, possible double taxation, ownership and marketability issues for the project, all of which the current structure has helped simplify and provide a solution to, without impacting the financial attractiveness of the project. The timing of the purchase of land was made to enable the LLP to simultaneously sell space in Godrej One, the first building at The Trees, to various Godrej Group companies for their use as headquarters space. The initial plan was to lease this space to other Group companies when the building was completed. The cash flow of approximately Rs. 512 crore from the sale of ~358,000 sq. ft. of space in Godrej One to our Group companies covers most of the land cost. Importantly, the cash flow from the sale of space in Godrej One will be received over the next 1.5 years as compared to the cash flow for the land which will be disbursed over the next 5.5 years. The land has been purchased at an attractive valuation, which is beneficial to the LLP. Furthermore, we estimate that with the recent changes in the Development Control Rules in Mumbai, the total potential saleable area will increase from an initially

estimated 2.8 million sq. ft. to approximately 3.5 million sq. ft., which will substantially improve the profitability of the project.

While Financial Year 2012 as a whole has been disappointing from a new launches perspective, I'm pleased to share that in Q4, we were able to launch several projects including our projects in Chennai, Mangalore, and Nagpur as well as new phases in our Vikhroli, Ahmedabad, and Kolkata residential projects. The year has also seen a substantial pick-up in commercial sales at GPL. In FY2012, we have sold 674,000 sq. ft. of commercial space as compared to just 90,000 sq. ft. of commercial space sold in FY 2011. GPL's intent is to monetize these commercial projects and unlock the capital, thereby reducing the capital employed in these projects. This will remain challenging in the current environment, but we are encouraged with the improved momentum we witnessed.

On the execution front, there has been a substantial pick-up in pace in Financial Year 2012. Our Ahmedabad project for instance currently has 44 towers under construction and we expect to hand over the first phase to customers well before the date we have committed to them. Similarly, Godrej One, our commercial project in Vikhroli is on track to be delivered as per our aggressive construction schedule of completing the building in early 2013. Ensuring we are able to meet the substantial increase in development area to be delivered is one of the key focus areas for our management team.

Given our strategic focus on building our brand equity and differentiating ourselves through customer focus, I am pleased to note that GPL has received twelve awards in FY2012, including two awards in Q4 FY2012. This is a pleasant recognition of the strides the company has made in these important areas.

I will now brief you on the financial performance for the period under review. I am pleased to share that Godrej Properties had a 12% growth in its total income from Rs. 333.5 crore in Q4 FY2011 to Rs. 373 crore in Q4 FY2012. Total income in Q4 was 120% higher than the total income recorded in Q3 FY2012.

EBITDA for the quarter at Rs. 102 crore was flat compared to EBITDA in Q4 FY2011 but grew by 118% compared to EBITDA in Q3 FY2012. Net Profit for the quarter reduced from Rs. 60 crore in Q4 FY2011 to Rs 40 crore in Q4 FY2012. In what has been another difficult quarter for the real estate sector, GPL's booking value increased by 42% to 767 crore from Rs. 540 crore in Q4 FY2011.

For the financial year 2012, our total income has grown by 47%, the value of our sales bookings has grown by 46%, and our profit from operations before other income and interest has grown by 52%. This shows that Godrej Properties has managed to maintain strong operational growth despite a difficult real estate environment. Due to a lower amount of private equity deals in FY2012 and the increased impact of minority interest from previously concluded private equity deals, our EBITDA for FY2012 reduced by 2% from Rs. 212 crore in FY2011 to Rs. 208 crore in FY2012 and our net profit reduced from Rs. 131 crore in FY2011 to Rs. 98 crore in FY2012.

Having just taken over as Managing Director of Godrej Properties, I'd like to make a couple of points about how I see the business unfolding over the next few years. I think the current period is a challenging one for the real estate sector. Economic sentiment is weak, input costs are high, and the sector is facing numerous challenges. Such periods always throw up both difficulties and opportunities and at Godrej Properties I'd like to see us ensure we manage our business prudently

while also capturing the available opportunities. On our existing portfolio, we will have to be focused on improving margins and cash flows by demonstrating superior operational performance. There are clear challenges with margins under pressure due to a tremendous increase in input costs and weak demand sentiment that we will have to appropriately manage. We have seen traction in our goal of maintaining a strong balance sheet with the successful launch of our IPP as well as the momentum in monetizing our commercial portfolio. We will have to build on this success through superior launch, sales and collections in our current portfolio. We have plans to launch a large number of projects in the current financial year. For new projects that we add to our portfolio, we will ensure we focus entirely on residential projects. We will also focus primarily on adding projects in our target markets and in deal structures that offer us attractive margins. Despite the continued macroeconomic headwinds currently facing the sector, given our plans for new launches, and new business development deals, we expect strong annual growth in FY2013. Already, in the first month of FY2013, we have added two new residential projects to our portfolio. With the redevelopment and development management models, we have the ability to increase the number of opportunities available to us while ensuring that we stick within our capital efficient land sourcing strategy. We have consistently delivered growth in varied market conditions over the past several years and expect to continue to do so in the future.

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

- Moderator:** Thank you very much Sir. Ladies and gentleman, we will now begin the question and answer session. The first question is from Aashiesh Agarwaal from Edelweiss Securities, please go ahead.
- Aashiesh Agarwaal:** Couple of questions. First on the Vikhroli land parcel, the 34 acre land that you are having at about 2.8 million square feet, which will go to 3.5 million square feet, so what is the cost per square feet in terms of saleable area that you are looking as right now?
- Pirojsha Godrej:** As you know, we have two projects currently underway in Vikhroli, one is The Trees which you mentioned on which we are doing our commercial project Godrej One.
- Aashiesh Agarwaal:** That's the one I was inquiring about.
- Pirojsha Godrej:** And the other one is Godrej Platinum which is the residential project. In both those projects, the current sale price that we have recorded most recently is about Rs. 14,000 per square feet.
- Aashiesh Agarwaal:** I was looking at the cost of land in terms of per square feet FSI?
- Pirojsha Godrej:** Yes, as we mentioned, we paid about Rs. 717 crore for the land over a period of 5 and half years.
- Aashiesh Agarwaal:** Rs. 2,500 sq ft would be a good number roughly?
- Pirojsha Godrej:** Actually there is also increase in saleable area, we think that is now about 3.5 million square feet, so even lower than that.

- Aashiesh Agarwaal:** Thank you and then the cost of construction for the Godrej One would be roughly max about Rs. 4,500 would that be a good number?
- Pirojsha Godrej:** Well it could be a little bit higher than that actually. Costs have increased quite a bit and it is a very high end product that we are creating which is what I think is getting us the higher valuation.
- Aashiesh Agarwaal:** Sure Sir, but Rs. 5,000 would be a good number to assume I would think?
- Pirojsha Godrej:** I wouldn't like to give exact construction cost but yes it is a higher number.
- Aashiesh Agarwaal:** So even if I take a Rs. 5,000 square feet that will mean about Rs. 7,500 of cost and about Rs. 14,400 of selling price for the area that we have sold on an average in the Godrej One. So that should imply about 45% EBITDA margin for this particular project, is my estimate right Sir?
- Rajendra Khetawat:** It should be around 40% Aashiesh.
- Aashiesh Agarwaal:** 40%, okay Sir. Then if I have to take this little further, my total revenue for the quarter excluding other income is about Rs.350 crore on which I have an EBITDA margin of 23%, which roughly works out to Rs. 80 crore. And Godrej One, I understand about Rs. 210 crore of revenues we have booked on a 40% margin that's about 84 crore, so about Rs. 3.5 crore, so I am getting a negative numbers on the other projects. So is my understanding correct on this?
- Rajendra Khetawat:** So in the negative there are other fixed costs, and if you completely allocate those fixed cost across then you are right it will be a negative number. We have to understand that there is an existing commercial portfolio which we are selling just below the breakeven cost, so those negative effects are coming into the quarter four.
- Aashiesh Agarwaal:** The other projects should have been contributing and that should have like more than offset?
- Rajendra Khetawat:** They are contributing. The other projects were under completion, so if you look at this overall on an annual basis, you will see a quite a difference. On an annual basis from the other projects, the PAT is around Rs. 47 crore before minority interest. So overall on a yearly basis, they are contributing. On the quarter basis, because of this negative impact of the commercial portfolio and cost escalation, they are negative.
- Aashiesh Agarwaal:** Got it, so basically there is a slight bit of negligible profit margin on the balance projects?
- Rajendra Khetawat:** For the Q4 yes.
- Aashiesh Agarwaal:** Second on the Godrej Garden City Project, I was looking at the presentation, under Q3 presentation in the sheet where you have given the saleable area and the POCM done on each of those project, the total saleable area adds to about 3.96 million square feet wherein in the Q4 presentation that you have given it adds up to about 2.55 million square feet. So has there been some kind of a reclassification? I also noticed is that the percentage of completion that you have shown in Q3 versus Q4, the Q4 numbers are very high compared to Q3. At one particular phase I see about 20% increase in POCM in one quarter. So how would I look at this really?

- Pirojsha Godrej:** On your first question, we have reclassified it; we got a lot of comments that we should have a consistent reporting across projects. We have reclassified this as Godrej Properties share which is why the area has reduced. Rajendra will clear this.
- Rajendra Khetawat:** What we have done is instead of getting total area under construction, we have used GPL saleable area under construction, on which the profitability is being calculated. Okay so this will differ only in case of area sharing, for revenue sharing, anyway the total saleable area is being mentioned. From the area sharing, we have given GPL share of area.
- Aashiesh Agarwaal:** So basically if I say 2.55 divided by 3.9, that is how I should be looking at?
- Rajendra Khetawat:** Correct.
- Aashiesh Agarwaal:** In terms of the very sharp ramp up in work which looks a little difficult to understand?
- Rajendra Khetawat:** Can you specify which project?
- Aashiesh Agarwaal:** Sure, if I look at GGC phase IIIB, so in quarter three, that was 33% complete. In quarter four, it is showing 55% complete.
- Rajendra Khetawat:** Correct it's a small phase.
- K T Jithendran:** And structure has come up, previously it was below foundation that's why it was taking time. Now with the structure coming up, it has really progressed much faster.
- Aashiesh Agarwaal:** 22% in a quarter appears to be very high because if one just simply extrapolates like that, we finished the project in one year which obvious does not happen.
- K T Jithendran:** See what happens is sometime we get certain formwork released from some building so that all gets concentrated into one building, so you may have some of these aberrations once in a while. But on an average if you see it's a very consistent performance.
- Aashiesh Agarwaal:** Even if you look at GGC II and GGC III, there also I have seen 11% and 14% kind of increase in a single quarter, which again appears a little high, because typically even if you look at your own sheets for the past, on an average, we do about 6-7% a quarter, which will is pretty much saying if I have a three to four year delivery, so you typically do on an average 5-7% of execution in a single quarter, give or take a few percentage points. But then these kind of numbers appear high, so which is what I was trying to understand.
- K T Jithendran:** What you should take notice is that now we are at advance stages of progress in GGC and therefore we are also expected to deliver the project much faster than on schedule because there has been tremendous progress.
- Pirojsha Godrej:** Actually for our first phase we committed to customers delivery in September 2013, we actually expect to deliver in March. But as we said, there are some quarter to quarter variations in percentage completion based on when formwork is utilized, based on how much finishing happens in a particular quarter. It also depending on

how the contractors are paid or what bills will come due in a particular quarter, so it's not that every quarter will have absolutely consistent progress.

K T Jithendran: Aashiesh when the structure comes up, multiple level work starts like you have windows happening, flooring happening, finishing happening, structure happening all in parallel. So therefore progress gallops compared to the earlier stage.

Aashiesh Agarwal: Ok, I will comeback or take that offline. What is your closing debt for the quarter Sir?

Rajendra Khetawat: Net debt is around Rs. 1,554 crore.

Aashiesh Agarwal: Gross debt would be?

Rajendra Khetawat: Rs. 2,087 crore.

Moderator: Thank you. The next question is from Anand Agarwal from Jefferies India, please go ahead.

Anand Agarwal: My first question pertains to the guidance note on the accounting policy change, so will the Company be adopting that and would it have any impact on the new projects that will be launched in terms of the timing of revenue recognition?

Rajendra Khetawat: Guidance note is compulsory and the Company will be adopting that. The only significant change is that the threshold has been specified. So we had a revenue recognition threshold of 20% and now we have to follow 25% of the revenue recognition threshold. So whatever old projects have been recognized, those will continue. The new projects have to compulsorily fall into the revised guidance note.

Anand Agarwal: I understand that but in comparison, would it mean a slight pushing forward of revenue recognition because we also need to collect 25% of the money?

Rajendra Khetawat: No we need to collect only 10%. So what you need to do is that 25% of the area has to be sold.

Anand Agarwal: So would it mean that the revenue recognition, will be pushed a little further into the future, so from what it was being done earlier?

Pirojsha Godrej: It will vary a little bit project from project. We don't expect any major change and also our overall project will be broken down into phases. Yes, of course there will be an additional requirement, but we don't expect any meaningful change due to this.

Anand Agarwal: Okay second question on the Godrej One commercial sale that you have done. Firstly, was any money received from the group companies in this quarter and was any payment made to Godrej & Boyce out of the money that needs to be paid over 5 and a half year and is the minority interest of Rs. 22.7 crore entirely pertaining to this project?

Rajendra Khetawat: Coming to your first question, yes we have collected money. The total amount to be collected was Rs. 205 crore of which we collected around Rs. 97 odd crore up to 31st March 2012. Balance we collected on 3rd of April, so we collected full Rs. 205 crore as we speak on the call. Secondly, we have not made any payment to

G&B in the last quarter, but in the month of April, we have made around Rs. 125 crore of payment towards the land cost, which is the first installment. On your minority interest query, we have Rs. 21.82 crore which is around Rs. 22 crore on account of Vikhroli minority.

Anand Agarwal: Okay and just very last question, basically you collected Rs.97 crore on the Godrej One and you got Rs. 20 crore on the stake sale that you did on the private equity side, despite that, the net debt has only come down by the amount of raised through the IPP route, so does it mean the rest of the businesses have been negative cash flow to that extent?

Rajendra Khetawat: If you compare gross debt versus net debt, there is a decrease of Rs. 532 odd crore and what we raised from IPP is Rs.470 crore. So there is a decrease of Rs. 532 crore from the overall gross debt. There are small costs associated with the IPP around Rs. 10-12 crore which was reduced. To that extent Rs. 520 odd crore is the cash which is sitting on the balance sheet, which we have reduced from the gross debt.

Moderator: Thank you. The next question is from Arunabh Chaudhari from Morgan Stanley, please go ahead.

Arunabh Chaudhari: A follow up on one of the previous question, apart from Vikhroli Godrej One, the operating margins from the quarter seems to be close to 0, so if I remove some of the commercial projects recognized, the important one that's left behind is Ahmedabad, so what is the construction cost per square feet for Ahmedabad as of today?

K T Jithendran: For the latest phase the construction cost is in the region of about Rs. 1,500 per square feet.

Arunabh Chaudhari: Okay and one of the other projects Frontier, I noticed that there has been no progress in work in this particular quarter versus December, why is that the case?

Rajendra Khetawat: There was a cost escalation because of which the progress has come down. Because we follow up POCM, so if there is a cost escalation, the progress gets adjusted to that extent.

Arunabh Chaudhari: Okay, can you enumerate that cost escalation?

Rajendra Khetawat: I don't have the exact number right now. I will come back offline.

Arunabh Chaudhari: I had a couple of questions on the balance sheet, now the inventory has moved up from September last available from Rs. 11.5 to 27 billion. I understand that this will have probably about Rs. 7 odd billion from Jet consolidation, what is the balance? And correspondingly current liabilities have gone up from Rs. 2.6 to Rs. 22 billion, this may have about Rs. 10 billion because of the new format from short term borrowing, what's the balance?

Rajendra Khetawat: So the balance, we have tied up this to Godrej & Boyce land, you must be aware we made announcement. So Rs. 741 odd crore is sitting including the stamp duty, Rs. 717 crore plus the stamp duty, which is sitting into our WIP and the corresponding effect is sitting in payable. Since we have not paid, and it is payable over a period of five years it is sitting into payable.

- Arunabh Chaudhari:** So the same item is sitting in both places. Have we made any further expense beyond the initial Rs. 500 crore and Rs. 145 odd crore for the FSI premium?
- Rajendra Khetawat:** Yes small kind of interest payment, plus architecture payment and whatever is required to start the project.
- Arunabh Chaudhari:** What's the stage where we have reached right now in BKC in terms of construction and as of today are we at any advance level of negotiation with any private equity player?
- Pirojsha Godrej:** On construction we are still finalizing the design, of course in the project already excavation has been done which is an advantage, but we haven't started construction yet. I don't think it makes sense to comment on discussions which are underway, we are of course looking at various opportunities to partially monetize that, but till we have something finalized, it wouldn't make sense to comment on it.
- Arunabh Chaudhari:** And a final question on this 3.5 FSI on Trees, now is this something sure and will it happen or is it in dependent on certain approvals or some other factors?
- Pirojsha Godrej:** You know for any project, we have to actually get the building design approved etc, but it is virtually certain that under the new rules this is what saleable area expectation is. But again you know for any project it's an estimate at this stage till all final building approvals are finalized, but so was that 2.8 million per feet. So there is a clear formula and clear reasoning, because of the change in fungible FSI that we expect this increase.
- Arunabh Chaudhari:** And at this point 0.8 million square feet will be loaded in the commercial segment or in the impending residential launch?
- Pirojsha Godrej:** You know that is a good question. We would like to add as much of it is possible into the residential segment, but we haven't really fully re-done the master plan for the project yet, but largely we wouldn't expect any increase in the commercial areas of the project. We are expecting at least all of this area to go into residential. We may even further skew the project towards the residential, but that decision has not been taken.
- Moderator:** Thank you. The next question is from Mahesh Nandurkar from CLSA, please go ahead.
- Mahesh Nandurkar:** My question pertains to the cost escalation that you know we have been talking about. So what I wanted to know was what is the sort of cost escalation as well as price increase in escalation or assumptions do we build in. Is there standard norm or rule that we follow at the beginning of every project?
- K T Jithendran:** Yes, see what we usually do is that, we have a contingency factored into our budget. But sometime what happens is that may not be enough, for example, the input cost for cement and steel has adversely gone up in the last couple of quarters. So the usual rule is that we keep a certain amount of contingency, but sometimes that may not be enough.
- Mahesh Nandurkar:** So could you just share with us what norms do you normally follow? Do you sort of build in some specific escalation over and above the ruling prices or is there some lump sum amount that you set aside or how does it works?

- Pirojsha Godrej:** No it is different from contract-to-contract and it depends on how the contract is structured. But yes certainly escalation as a rule is build into all the contracts. What has happened over the past year is that the labor cost, steel and cement costs have gone up by larger than expected amount. We would usually expect a high single digit or low double-digit kind of growth. But we have seen a high double-digit growth in most of those costs, which is what is led to the increase.
- Mahesh Nandurkar:** And similarly you would make certain assumptions for price increases as well, I presume?
- Pirojsha Godrej:** When we are accounting for it we will account for the actual price we received. On the cost, we will have some contingency fund built in, so as price goes up that automatically happens. But rather uniquely at least since the time I have been working in the sector, there have been no price increases, although of course there are exceptions in certain markets and even in terms of our project. But prices have remained quite flat while input costs have gone up quite considerably.
- Mahesh Nandurkar:** Okay so in the future if the prices were to go up just for example say at your Ahmedabad project or some other project, would it mean that as you come towards the 4th quarter of the subsequent year, there is a possibility of like a revenue surprise or a profit surprise as the case has happened this time around in the cost surprise?
- Pirojsha Godrej:** We certainly would try to avoid it and we will have to take learning from this to look at how we are doing our contingencies and so on. But yes unfortunately there is no way to completely rule out the possibility of changes. Your selling price is generally known for a project obviously when you are accounting for it, but your cost is an estimate. So we have to do a better job making those estimates, but yes there could be some changes from this, but again it's obviously our job to minimize those.
- Mahesh Nandurkar:** Okay and my additional question was on the FSI increase at your Trees project to 3.5 million, so this incremental coming in at some additional cost?
- Pirojsha Godrej:** Yes, you do have to pay the premium.
- K T Jithendran:** So for example, if it is the commercial project then you have to pay 100% of the ready reckoner rates, with residential you have to pay about 60% of the ready reckoner rates for the additional area.
- Mahesh Nandurkar:** Okay so in case of our Trees project, it's not the commercial, would you be able to share with us what will be the incremental cost be like for this?
- K T Jithendran:** We have not done calculations as of now. We can share it later.
- Pirojsha Godrej:** I'll make a point on this; the additional FSI that we are getting on Trees is of course very beneficial for that project. But what is really is good to see is this implies that we will get extra area on all future development in Vikhroli so in sometime the total saleable area that we would expect in Vikhroli on any given piece of land has increased because of these new rules by about 20 to 25%.
- Moderator:** Thank you. The next question is from Gunjan Prithyani from JP Morgan, please go ahead.

Gunjan Prithyani:

I have couple of questions. Firstly on your debt, your debt currently post the IPP has come down, but from here on how do you see this given we have a significant outflow in FY2013 for the BKC project and in addition to that you also mentioned that you are looking at additional opportunities from a business development point of view. So if you could just tell us how do we see our debt level from here on?

Pirojsha Godrej:

You are right that we do continue to look at new project opportunities and we do have some outlays on current commercial projects. But as we have also said our expectation is that we are focused entirely on joint venture development management and redevelopment residential projects for our new projects. So we don't expect any major cash outflow expect for some amount in form of advance payment, but we don't think any of those will be sizable in nature.

On the Jet project it would be our continued aspiration to make sure we are able to monetize the project partially this year and use those funds to fund the further construction of the project. So certainly maintaining the strength of our balance sheet will be an important priority for the year.

Gunjan Prithyani:

Okay on the BKC Project, is it that we will not start the construction till we tie up the funding because it has been some time since we have acquired the project and you have also paid the premium to MMRDA, but the construction hasn't started? So is it there a reason that we are holding of the construction?

Pirojsha Godrej:

No Gunjan not at all. Although it is a big project and of course everybody would like to see momentum on it including us, ultimately like any other project, it does have to go through a design phase, design approval phase and particularly for an important and high end project like this it is important to get those things right. I don't think there are too many projects in India that can be turned around in three to six months into a construction phase. So there is no hold up there, the project is going according to plan and we are not waiting to tie up the funding to move ahead with construction.

Gunjan Prithyani:

On our Ahmedabad project, I just want to get a sense on what is the per annum presales that we are looking to do because if I really look at this year, we have done about 0.7 million square feet. Which from a sales run rate point of view is quite low because it will take us number of years to monetize this parcel, so is there any internal target in terms of what we need to do per annum sales in Ahmedabad?

Pirojsha Godrej:

I think it's a good question and a fair one. We will have to somewhat calibrate that expectation to market condition. That said certainly what we sold this year, which if you include our joint venture partner share is just over 800,000 sq. ft. is a disappointing performance for a project of this size and clearly it's not a number we are satisfied with. That said we have looked at overall data for Ahmedabad and there has been a substantial decrease in volumes for the market as a whole. We think the share of the market that we maintained actually has not changed. Some of these factors are probably a little bit beyond any one individual developers control and it will depend on how market as a whole performed, but certainly anything below 1 million square feet a year in Ahmedabad to us will be disappointing.

We do think that at the projects start, we had a good surge in the project, at the initial stage, which we were very happy about. We always thought that the next big surge will come when we are able to deliver the project, when things like our main Central Boulevard are ready and all of those will be taking place towards the end of

this year. I think the point will be to make sure we maintain momentum and keep our market share in Ahmedabad which I think we have been able to do, but certainly we are not happy with the volumes for the project this year.

Gunjan Prithyani: Just one more question from you. On the recent change in this Godrej One transaction that we did, do we see this happening to the other MoU agreements as well that we have with Godrej & Boyce?

Pirojsha Godrej: No Gunjan not at all, and I must clarify that this change was brought in because Godrej Properties wanted to enter into a model that is different on the sales side and we wanted to sell the actual commercial space. What's being missed out, is that in this the deal that it has been looked at in a sort of neutral event from a cash flow perspective. What's actually happened is that with the cash flows from selling about 10% of the total saleable area, we have secured almost 100% of the land for the project. So it is actually a very good deal from Godrej Properties perspective.

I don't expect any changes to our further agreements with any group company and certainly any change that would be made if it is ever made in the future because of some reason, the key thing is that we look at is, are we certain that these benefits the Company where we have minority shareholders. From a governance point of view that's extremely important to us and as I said for these deal it is not that there was a requirement from our group company to change the model, but instead as a requirement we wanted to change the model.

Gunjan Prithyani: So the entire project is on sale model now?

Pirojsha Godrej: The Trees which is the mixed use 34-35 acre projects, here now all the land has been bought. Our remaining development with Godrej & Boyce as you know is a separate agreement under the development management fee model and that is not in any way affected by this. We continue to think, perhaps it has been more reinforced that we are quite happy with this development management structure because costs are hugely on the rise, funding pressures are there in the environment in general and we are seeing higher selling price from the project, so I think our total return from the project on our risk adjusted basis is absolutely fantastic.

Gunjan Prithyani: If I really look at sales, revenue recognized for this quarter, and I just adjust for these sales which has been done for Godrej One, these revenues actually have declined sequentially by about 15%, so it is that the execution on the other project has been slow or the pre sales on ongoing project is very low?

Rajendra Khetawat: There are couple of reasons, one is as you have very rightly said that the execution has to catch up pace. The second thing is you know there are certain commercial properties, which are selling below breakeven so those have been accounted for in Q4. Third reason is that launches have been delayed. We wanted to launch some new projects, which got delayed, got pushed into the quarter 1 of this financial year.

Moderator: Thank you. The next question is from Manish Gandhi an Individual Investor, please go ahead.

Manish Gandhi: I just had two questions. The first question is about the Chennai launch, which we did in quarter four. Can you just tell me how many square feet we have launched and what is the response in that?

- Pirojsha Godrej:** So far we have sold just under 1 lakh square feet in the project, but the reason is that and it has been mentioned clearly is that we earlier had pre-launched the project long time ago and because of the big delay in getting approval, we have to cancel most of those presales. The current status is that we sold about 1 lakh sq, ft in the project.
- Manish Gandhi:** Okay and how is the Chennai market looking for the next year?
- Pirojsha Godrej:** Actually last financial year it was doing quite well, where lot of the approval delays had dried up supply. We think the volume there has been a little bit disappointing in the current environment but we are optimistic that it will pick up this year.
- Manish Gandhi:** Actually I am very happy to see we are planning to launch so many projects this year, but I just want to ask what makes you confident about launching so many projects. Is it that on regulatory side you are seeing positive signs or is it the market you are seeing as very upbeat?
- Pirojsha Godrej:** No you know we don't typically speculate and hold on and delay launches. We think the market can absorb volume and we are seeing reasonable traction this year, so when our projects are ready from an approvals point of view, we would like to go ahead with the launch. Also from the approval side, we haven't seen any huge improvements or anything like that, but given where the stage of each of these projects is and particularly given that some of the projects that we are talking about should have ideally been launched in FY2012, we are reasonably confident that we will be able to launch all of these projects. But at the same time an approval delay has happened to us in the past and we have given an indication of launches that we think builds-in some contingency for approval delays, but if something is unduly delayed there may be some change to these launches.
- Moderator:** Thank you. The next question is from Puneet Jain from Goldman Sachs, please go ahead.
- Puneet Jain:** My first question is with respect to debt, you mentioned that a gross debt as a March 31st is Rs. 2,087 crore, but if I look at your balance sheet, your long term borrowing and short term borrowing in total amounts is around Rs. 1,930 crore, so is there some other item under which balance debt is cutting?
- Rajendra Khetawat:** Yes it is falling in the other current liabilities, under revised Schedule-6 whatever is repayable in next one year it gets classified into other current liabilities out of the long term loan.
- Puneet Jain:** Okay then you said that you have repaid around Rs. 530 crore of this?
- Rajendra Khetawat:** No we have not repaid, we said that there is cash in the balance sheet as on 31st of March 2012 because we raised IPP, it got released only on the last day of the financial year. So that is the cash sitting on to the balance sheet which is repaid, the loans are repaid into the subsequent month.
- Puneet Jain:** Okay so in that case your net debt will be in the reason of around Rs. 1,550 crore?
- Rajendra Khetawat:** Right, that's what we have mentioned.
- Puneet Jain:** Which means that your net debt came down by around Rs. 390 crore for the quarter?

- Rajendra Khetawat:** Net debt came down around Rs.532 odd crore Puneet. My gross debt was Rs. 2,087, net debt is Rs. 1,554 crore, so it is coming down to Rs. 539 crore. There were certain cash realizations, which we made from our sale of Godrej One so that is also going towards repayment of debt.
- Puneet Jain:** Okay and second question is about to Godrej One, now what proportion of actual construction has been completed in terms of construction work?
- Rajendra Khetawat:** It is around 48%.
- Puneet Jain:** What is this 48% comprise of in terms of land payments and what is the actual amount spent in terms of construction?
- Rajendra Khetawat:** So the actual amount spent is around Rs. 185 crore, balance is on account of land cost which is accounted into the books. The payment is to be made over a period of 5.5 years, just for the accounting of profit booked we have to take a land cost into consideration. So Rs. 185 crore is actual cost which has been incurred plus the land cost, which gives total of 48%.
- Moderator:** Thank you. The next question is from Prem Khurana from B&K Securities, please go ahead.
- Prem Khurana:** Could you please give us the rationale for having Rs. 500 crore of cash on the books? We could have easily gone ahead and repaid a part of our high cost debt?
- Rajendra Khetawat:** Like I mentioned in the previous query, we raised IPP money towards the end of this financial year. There are certain SEBI processes to be followed, so we got this money released on the last day. That is why cash was sitting and invested into Mutual fund. Subsequently in the month of April bulk of the cash had been deployed and reduced towards the debt.
- Prem Khurana:** My second question, if I were to look at your standalone numbers, you have booked top-line of around Rs.64 crore and against you booked around Rs. 60 crore of cost. So I believe standalone numbers which are largely coming from your Godrej Garden City project. So if I look at cost and top-line, you made around 6% kind of margin so since we are doing this project around Rs. 1,500 square feet kind of construction cost and selling it around Rs. 3,300 square feet and it's a JDA project, so why are the margins so low? Have you seen any kind of cost escalation in Godrej Garden City this quarter?
- Rajendra Khetawat:** Not very large may be around 1 or 2% cost escalation has happened on account of steel and cement price. So that is on account of Godrej Garden City. Like I mentioned there has been certain increase in our Frontier project where input cost has gone up. So that also falls into standalone accounts.
- Prem Khurana:** And Sir do you have any more land deals in pipeline, would you be able to put some number, how many million square feet do we intend to add during the year?
- Pirojsha Godrej:** We don't know, here again things are similar to private equity deals that may be under discussion. It doesn't really make sense to talk about deals until it is actually added. Of course we do have our own internal business development target, but that's not something that we would like to share externally.

Clearly we do see an opportunity in the current market condition for a company like us with the good brand to add strong new residential projects in the joint venture development management and redevelopment models. As we mentioned we have already got a good start to the year with a couple of new projects. We certainly hope to continue the strong momentum of last month and the last financial year, but I don't think we will be able to share in terms of how many new deals or what size. We will be focused as I said on the residential space and our main target will be three key markets of Mumbai, NCR, and Bangalore.

Moderator: Thank you. The next question is from Sumit Arora from Silver Stallion, please go ahead.

Sumit Arora: Pirojsha you know it's very heartening to see that our total booking values have actually gone to Rs. 1,563 crore in FY2012 versus Rs. 1072 crore in FY2011, which clearly demonstrates our ability of successfully selling. And also the matter of fact is that I have read that Godrej Properties is planning to launch close to 15 projects in FY2013 and effectively we should be having about 76-78 million square feet which we need to do by 2018. So basically then can we assume that we will see sharp pick up in execution going ahead now?

Pirojsha Godrej: Sumit clearly as we have maintained that we think the execution for all of our projects is well under control. Just to use two important projects to illustrate that, in Godrej Garden City, we currently have 44 towers under construction. Quite unusually for real estate project in India, we intent to deliver the first phase in the project several months ahead of this schedule than what we have committed to our customers. Similarly in Godrej One, in Vikhroli we have completed large amount of the development in the 12-13 months since the construction started. We expect to deliver that project in just over two years which is a very rapid pace of construction for any market. And similarly we are seeing good construction process in all of our projects, we certainly expect as new launches happen that construction progress will follow.

You know our own endeavor has been to build strong regional teams that can lead and drive this execution. So we are quite confident that the execution scale up will happen. We understand that that is an area of concern for analysts and investors. We understand that it is a large increase that we are talking about over our historical performance. But at the same time, we are very confident that we have set up the processes, we do have the projects and we do have the partners that can help us deliver this. The major concern continues to be approvals and how those delay projects. Again we expect that we will have a very robust launch pipeline this year and that construction progress will follow. Already in the past financial year, we have constructed a much larger area than in the previous year, the number of projects under construction has dramatically increased and as I mentioned almost all our projects are being constructed on time. There may be delay of a few months here and there, but I don't think there is any construction delay that is giving us a major concern at this moment.

Sumit Arora: Excellent. I would like to conclude by wishing you all the best for the future and of course many congratulations on the successful IPP fund raising.

Moderator: Thank you. The next question is from Aashiesh Agarwaal from Edelweiss Securities, please go ahead.

Aashiesh Agarwaal: Just wanted to come back on the question on the debt which has been asked by the earlier analyst. I was looking at the IPP document, which said that the gross

debt number was about Rs. 2,000 crore and if I reduce the cash about Rs. 68 crore that's about Rs. 1,930 crore as of December and if I subtract from that Rs. 470 crore towards the IPP, so it should have been Rs. 1,460 crore of net debt post IPP. Now from earlier discussion on the call today I remember you had said a net debt is Rs. 1,554 crore, which is higher than Rs. 1,460 crore as we can derive from here. So it appears that the net debt has gone up by about Rs. 80 crore excluding IPP. Is this understanding correct?

Rajendra Khetawat: Yes because there has been progress happening across projects plus there has been a new deal which has been signed, the Sahakar Nagar deal, for which there was a deposit of Rs. 12.5 crore which was paid to the JV partner. There has been simultaneous progress happening on all commercial as well as residential projects. Commercial projects are slow moving so the inventory is being build up over there because of which our net debt has gone up.

Aashiesh Agarwaal: So about Rs. 80 crore would have been increased in net debt excluding IPP.

Rajendra Khetawat: Yes of course because of various projects and the new project which we have signed and also some costs associated with the IPP.

Aashiesh Agarwaal: I also wanted to understand the Godrej Garden City area restatement, so I was looking at Q4 versus Q3, actually this is a ratio of Q4 versus Q3. I am getting different numbers across different phases, so Godrej Garden City the restated area is 76% of Q3, IIIA it is 51% of Q3. So it is varying across project, so is that something like different revenue shares for different phases?

Rajendra Khetawat: See we have previously said that on the phase one, we have a differential sharing ratio. Phase one of a sharing ratio is higher as compared to other phases.

Aashiesh Agarwaal: That number was about 85-89% and here I can see 76%.

Rajendra Khetawat: So you are taking only our saleable area right?

Aashiesh Agarwaal: Yes, the number that you have reported in Q4.

Rajendra Khetawat: Like as we said it is GPL saleable area. You need to add the JV partner's share.

Aashiesh Agarwaal: On the margin outlook I understand you do not give forecast, but since we have seen some bit of cost over run and this quarter has been a very low or a negligible margin quarter. So how do you see this changing going forward because of bulk of the margin for the quarter came from Godrej One which was a lumpy one. Do we see the margins like staying low? How do we see the margins panning out for the next say one year?

Pirojsha Godrej: I think it's a good question. As we have mentioned in our remarks. There is no question that margins are under pressure due to the big run-in in input cost. Of course it's our job to sort of make sure that we do a good job in maintaining margins. We will be very focused on that this year by looking at both superior execution and adding new projects that are high margin. But yet in our several projects where margins are under pressure given input cost we would expect market conditions to not remain suppressed forever. While the current conditions last we will have to be very focused on improving operational performance and also as I said adding new deals that are high margin to balance the overall portfolio.

Moderator: Thank you. The next question is from Anand Agarwal from Jefferies, please go ahead.

Anand Agarwal: Could you give me the actual cash interest outgo for the quarter and the average cost of debt as of today?

Rajendra Khetawat: Yes so the actual interest outgo is around Rs. 61 odd crores and average cost of debt is around 11.54%.

Anand Agarwal: Okay can you give me the amount of DM Fees received on Godrej Platinum project and any other project in Q4?

Rajendra Khetawat: Sure, in the Godrej Platinum what we received was around Rs. 4 crore and Anandam which is Nagpur, we received around Rs. 15 crore

Anand Agarwal: In Q4?

K T Jithendran: I gave you the number for the year. For Q4 it is around Rs. 0.74 odd crore in Vikhroli and is around Rs. 3.75 odd crore in Godrej Nagpur.

Moderator: Thank you. Ladies and gentleman that was the last question. I would like to hand over the floor back to the management for closing comments.

Pirojsha Godrej: I hope we have been able to answer all your questions. If you have any further questions or would like to know more about the Company, we would be happy to be of assistance. We hope to have your valuable support on a continued basis as we move ahead. On behalf of the management, I once again thank you for taking the time to join us on this call.

Moderator: Thank you very much. Ladies and gentleman on behalf of Godrej Properties that concludes this conference call.

- ENDS -

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