



## Godrej Properties Limited

### Q4 FY2016 Earnings Conference Call Transcript

May 06, 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 Q4 FY2016 Earnings Conference Call. We have with us Mr. Pirojsha Godrej – Managing Director and CEO, Mr. Mohit Malhotra – Executive Director and Mr. Rajendra Khetawat – CFO of the Company.

We will begin this 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. Thank you for joining us on Godrej Properties' Fourth Quarter Financial Year 2016 Conference Call. I will begin as usual by discussing the highlights of the year and we then look forward to taking your questions and suggestions.

We have just completed the best ever financial year in GPL's history, we have achieved our highest ever revenue, adjusted EBITDA, EBITDA, net profit, cash flow, booking value and deliveries in this financial year. Our total revenue for the year stands at INR 2,728 crore, a 42% increase over the corresponding period of the previous year. Our adjusted EBITDA grew by 40% to INR 714 crore, a EBITDA increase by 30% to INR 445 crore and our net profit increased by 21% to INR 231 crore. Our cash collection for the year increased by 60% to over INR 3,200 crore. We delivered an 88% year-on-year growth in booking value to over INR 5,000 crore despite a decline in the overall market. As a result, we are likely to emerge as the largest publicly listed developer in India by sales value in FY16.

We have also had our best ever year for project deliveries. We delivered 6 million square feet this year, which includes 4.2 million square feet of residential and 1.8 million square feet of commercial space, and this was across seven cities. To put

that in perspective, this is greater than the area the Company delivered in the first 20 years of its existence. We have seen many examples of developers who have faltered in delivery after having scaled up their sales and are well aware of the disastrous consequences that that it can have. Executing our projects in the quickest possible time frame is a key focus area for our management team and on time delivery is one of the key metrics we use to evaluate the success of our project.

We achieved three very important strategic milestones in FY16. The sale of space in Godrej BKC for INR 1,479 crore allowed us to collect nearly INR 1,200 crore in this financial year, thereby strengthening our balance sheet and giving us the fire power we need to continue to scale our business. The deal also broke several records including the largest ever end user commercial real estate sale deal in India and the largest deal of any type by the Godrej Group. Combined with excellent site execution, the current financial year has transformed Godrej BKC from our company's biggest risk to our biggest in year contributor. We are just days away from delivering this project ahead of schedule and are confident of monetizing the entire project within the current financial year. We expect approximately INR 1,500 crore of positive net cash flow from this project in the quarters ahead.

Our second major milestone in financial year 2016 was the launch of The Trees which is the most successful launch in GPL's history. We sold 470 apartments across two phases registering a booking value of INR 1,224 crore. In addition to the strong financial benefits that will result from this launch as the project reaches revenue recognition, it is also a demonstration of our ability to create a product that enhances the overall positioning at Vikhroli. Vikhroli is our Group's biggest opportunity and by successfully launching the residential phases of The Trees and by moving into our new headquarters Godrej One, we have ensured that current financial year will go down as a key year in Vikhroli's development.

The most recent of the three major milestones for the year was our announcement in March of the creation of Godrej Fund Management. We raised a \$ 275 million pool of capital under Godrej Residential Investment Program II (GRIP II) where Dutch pension fund asset manager APG was once again the lead investor. GPL will hold a 20% stake in this program. This fund management arm demonstrates our Company's ability to attract long-term institutional capital to power our growth capital requirement and fits well into GPL's strategy of increasing the depth of its operations across the country's real-estate market while maintaining an asset light strategy. It also opens up a whole new set of opportunities for the Company and continues our track record of innovation in business development. Each of these three key strategic highlights have fundamentally bolstered GPL's long-term prospect.

While financial year 2016 has undoubtedly been our best ever year, the fourth quarter has been a mixed one for the Company. On the one hand we have seen a decline in our P&L numbers largely due to no new projects reaching revenue recognition, a onetime charge for delayed completion at our legacy project Godrej Genesis in Kolkata and lower development management fees for the quarter. This resulted in our total revenue declining to INR 533 crore and EBITDA declining to INR 67 crore and our net profit declining to INR 18 crore. That said, we believe these P&L results are a blip and that there have also been numerous important accomplishments registered in the fourth quarter including continued momentum in bookings and strongly positive operating cash flow.

One of the key highlights of the fourth quarter was the launch of Phase II of The Trees. We sold 105 apartments and over 160,000 square feet with a booking value

of INR 318 crore within three weeks of the launch. The average price achieved on Phase II at INR 20,600 per square feet, was 9% higher than in Phase I which had been launched just three months before Phase II. In addition to the excellent sales we have witnessed in the project, we have also achieved important milestones in terms of the project progress. We have received the commencement certificate for both phases of The Trees and have appointed Larsen & Toubro as the contractor. We will do our best to do bring this critical project into revenue recognition as soon as possible.

We had another important launch during the quarter with the launch of our project Godrej Avenues in Bangalore where we were able to sell 365,000 square feet on a total booking value of INR 170 crore in the fourth quarter. This momentum of successful launches across our key focus markets of Mumbai, NCR, Bangalore and Pune holds us in good stead in year ahead where we have a large number of launches planned across the country.

The fourth quarter was also critical from a business development perspective as we entered the Noida and Thane market. We expect to launch both these projects in the current financial year and expect a robust response. Our deal pipeline for new projects across the country's leading real-estate market looks very exciting and we hope to have a lot of positive announcements from this front in months ahead. The availability of funds through our second residential Investment Program and tough market conditions give us an outstanding opportunity to disproportionately scale our business development by making 2017 GPL's best ever year for new projects.

Our results in financial year 2016 have demonstrated our ability to maintain growth in adverse market conditions. We strongly believe our focus on building presence in high return markets with a deep focus on execution across our project portfolio will allow us to remain on a high growth trajectory in the years ahead.

A couple of significant external factors will impact us and the real-estate sector in the current financial year. Firstly, the Real Estate Bill is a landmark reform for the real-estate sector which has the potential to address many serious concerns for stakeholders. While there will undoubtedly be significant short-term challenges as a result of this Bill, it is equally clear that this would over the long-term create a stronger sector and benefit organized developers like GPL.

We are also transitioning to the new IndAS accounting standards in the current financial year which will have a significant impact on the accounting treatment for our business. We look forward to working with each of you to ensure alignment on the new standards.

One point which I would like to briefly comment on before closing my remarks is the decision our board took yesterday on our dividend distribution for financial year 2016. We have decided for the first time to not issue a dividend. Our logic for this is quite straight forward, we strongly believe that conserving and investing the Company's capital in many high return investment opportunities currently available rather than by distributing it as a dividend will maximize shareholder value creation. The Promoters themselves would be the recipients of 75% of the dividend and are very confident that this money is best left invested in the Company. We arrived at this decision after much deliberation by the Board including keeping in mind the interest of our minority retail investors. While we have been leaning towards non-issuing of dividend for many months, the recent changes to the tax treatment for dividend was a further incentive in support of this decision. We hope all of you agree that this is in the interest of the shareholder value creation and we will very much welcome any feedback you may have on this point.

On that note I conclude my remarks and 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.

- Moderator** Thank you very much, sir. Ladies and Gentlemen, we will now begin the question and answer session. We will take the first question from the line of Puneet Gulati of HSBC. Please go ahead.
- Puneet Gulati** Congratulations on the fantastic launch of the second phase as well which was better than our expectations. Just jumping on to the contours, if you can help us understand the contours of the new residential platform and how do you arrive at your share of investment up to 20%, what are the thoughts behind it if you can help us understand?
- Pirojsha Godrej** This was a major achievement for the quarter. The logic behind 20% is not the fact that 20% or 25% would have necessarily made a huge difference; our first platform was 25%. Actually we have always said that we are comfortable putting up to 20% of the land value typically in our investments into joint ventures and had slightly increased that to 25% in the first program because our investors at that point wanted us to have that level of commitment. Given the performance of this they are comfortable now with 20% which we had always held as our Company level preference, so for this second program we have got it to 20%. The logic also is that absolute profit in a project should be broadly similar with our profit sharing projects which we think with the 20% plus our fee income plus promote we can earn if the projects do well.
- Puneet Gulati** So what kind of promotes would you get in this and what size of projects will essentially flow into this versus the others?
- Pirojsha Godrej** Yes Puneet, we will not be disclosing the details of the terms. But over certain benchmark kind of return rate which are not very high in this case, we will start earning promote. We also have a very health fee income for our role in managing the project. The project sizes can vary, we have some sense from our first platform, projects which tend to range from about 1 million square feet to 2.5 million so that continues to probably be the sweet spot in terms of size. But depending on the pricing and things it could be either below or above that in terms of size.
- Moderator** Thank you. Our next question is from the line of Abhishek Anand from JM Financial. Please go ahead.
- Abhishek Anand** With the Real-estate Bill now being notified, certain section of it, so as per your understanding any tentative timelines you are looking forward for this Bill to be notified officially by the state governments. Any visibility that you have on this aspect? And a related question will be on the development manager business model, because there were certain specific mentions in the Bill regarding development managers being equally responsible for the project, so do we have any rethinking on that side of business model?
- Pirojsha Godrej** On your first question, in terms of timelines, frankly we did not have any kind of insight beyond what we are all seeing in the media, so most estimates are suggesting at least six months before it gets implemented in the states. The government has officially said that within 12 months it has to be done. So we are expecting anywhere from second half of this financial year to some point next financial year. I am sure with the way these things go some states would probably delay even beyond that, but that remains to be seen.

On the development management fee model and impact from this Bill, frankly it's not much. There is legal consequence to what we felt was always our business consequence in any case which is that once we attach our name to a project whether by law we are legally responsible for the project or not, we all know that we are responsible for the project. So our development management agreements have always captured that and are always entered into with the understanding that it's our neck on the line for the success for not only sales but also execution in customer management and delivery of these projects. So I do not think the Bill will lead to a rethink in that model, we will continue to be very tight with the criteria that we insist upon before entering such partnership.

**Abhishek Anand**

Secondly, I observed some cancellation in Gurgaon Summit project, could you give us some details on that, INR12 crore worth of cancellation.

**Pirojsha Godrej**

Yes, Abhishek it's actually the other way around which is that the cancellations had happened earlier in the year and we sold quite a bit in the current quarter. So we had a few cancellations and that is why the quarter sales are greater than the full year sales, but actually this quarter we had very good sales in the project. Now the reason largely for some of the cancellations earlier were actually terminations done by us because people were not paying, it's a relatively small amount and frankly these are all post customers having paid us 20%. So there is no financial loss to the Company from these cancellations in any case, but that is really the explanation. We did have a concerted push on sales in the project in the fourth quarter and I am actually very pleased given that NCR market currently and given the kind of impact, it was not a new launch but an existing project that has been in the market for quite some time. The fact that we have 84,000 square feet in the project is actually something I am very happy about.

**Abhishek Anand**

And have we taken any price cut, because I can see fourth quarter realization had roughly INR 6,400 whereas last year second quarter was at INR 7,500, so is it just mix change or have we taken some discounts?

**Pirojsha Godrej**

It is a combination of things that are different, at different stages we have different payment plans. I don't think the net impact is huge. But yes with new inventory some of these old projects in Gurgaon, they are not at higher price than they were a year or two ago. Most of these as I said are the payment plans inventory and floor rises and all of that

**Moderator**

Thank you. Our next question is from the line of Ritwik Sheth of Span Capital. Please go ahead.

**Ritwik Sheth**

I had a couple of questions, firstly, if you can throw some light, our paid up share capital has gone up from INR 100 crore to INR 108 crore, so what is that relating to?

**Rajendra Khetawat**

We have merged this GVP LLP into Godrej Properties Limited, so the INR 8 crore incremental is on account of that share issued to GIL.

**Ritwik Sheth**

Okay that is Godrej Industries, in this quarter the transaction has been completed?

**Rajendra Khetawat**

Right.

**Pirojsha Godrej**

For that matter quite a positive development for the year, so we had indicated to everyone at the start of the year we are looking to merge that project into the Company, so that whole process is now complete. And as you know the residential

phases of The Trees get into revenue recognition 100% of that will reflect in GPL's book.

- Ritwik Sheth** Second question is on The Trees only, so first phase is completely sold out and what is the inventory left in the second phase?
- Pirojsha Godrej** We have a total of about 230 odd apartments in Phase II of which we sold 105 in the quarter.
- Ritwik Sheth** So 50% is already sold, right. And is there anything coming up with The Trees or these are only Phase-I and Phase-II apart from the hospitality?
- Pirojsha Godrej** Vikhroli, from a residential perspective, there is a lot coming up this year, first of all we have residual inventory in Phase II which is still from a value perspective quite significant, so we expect to see most of that sold in the first half of the year. We are also planning to launch the fourth tower of the Platinum project which is under the DM fee model and then the third phase of residential at The Trees. So this will be another very active year there. As part of The Trees, aside from residential there are also plans for a second office tower, the first one is our headquarter building is already complete, there will be a second office tower and a hospitality and small retail component, the exact plans for those are still being worked out.
- Ritwik Sheth** And thirdly, on the BKC front, the Abbott deal which we did two quarters back, have we received the entire amount from them?
- Pirojsha Godrej** No, we have received most of it, but we have about 20% which is still to be received on actual hand over of the project. But that project is actually going very well from an execution standpoint, so actually now we believe it's a final leg of occupation certificate, so hopefully it will be a matter of few weeks before that is in place. And then we will start handing over the building to buyers including to Abbott. So we will add just on that one sale about a little under INR 300 crore.
- Ritwik Sheth** So INR 300 crore to be received from Abbot and plus another 300,000 square feet of inventory left in BKC?
- Pirojsha Godrej** Yes, plus about INR 100 crore on other existing sales, plus some JV partner receivables plus, we will have to invest little bit on final construction payment, etc. So as I indicated in my remarks, all of that factored in we expect somewhere in the range of INR 1,500 crore of positive net cash flow.
- Ritwik Sheth** And lastly on the project pipeline, should we expect a similar trajectory in FY17 as well?
- Pirojsha Godrej** Well, we have given in our investor presentation kind of a launch tracker which we have been putting out each year. So we have five new projects and about 10 new Phases within projects. So certainly resolve will be to have another strong year from a sale perspective, we believe we have the right set of projects that have already been launched and new launches to contribute to that.
- Moderator** Thank you. Our next question is from the line of Sandipan Pal of Motilal Oswal. Please go ahead.
- Sandipan Pal** I have question regarding the launches, so given that we have a very successful launch in FY16 but when I look at the cities where we have done the launches

some of the Tier-II cities have been delayed. So is it a conscious decision on the demand front or its nothing like that, just an approval kind of delay?

**Pirojsha Godrej** It's a mixed bag, we are at few different things in different places. So for example Pune project we were waiting to get some of these inventories, existing towers that we launched a little bit more sold, so I expect those projects that are going to be launched this quarter. Godrej Platinum we decided to wait till both phases of The Tress were successfully launched so that there was no confusion in the market. And Nagpur, Chennai project had a little bit of approval related delay. So again, this is a little bit of mix bag but actually all of the phases that were not launched we expect will be launched this financial year.

**Sandipan Pal** And another thing on the regulatory bill, now that bill might create confusion in the short term as you mentioned. Can that lead to some amount of delay in the launches across industry?

**Pirojsha Godrej** Yes, I think so, it will once the bill is enforced, at the state level there is no question that launches will be delayed because the level of approval needed is more than what most of the developers are following. Of course people who are launching at very early stages will be very dramatically impacted. But even if you are waiting for your construction start approval, now there is another step of registering the project with the real estate authorities. So I do expect in the short-term some impact on launches, but that again is once the state notifies it still is at least six months realistically, probably more like 12 months.

**Sandipan Pal** A related thing is that will it lead to any kind of ease of doing kind of business development because many of the non-serious players might actually exit given the regulatory challenges they might face in the forthcoming days?

**Pirojsha Godrej** I do think so, already the percentage of our prospective partners who are now other developers have certainly risen over the last year quite significantly. Many developers are facing very significant challenges with being able to sell their project, being able to access capital at reasonable terms and that does give us a competitive advantage. I do feel the bill will make it harder and harder for some of the players to survive and do expect that it will create some amount of business opportunity for us.

**Moderator** Thank you. Our next question is from the line of Manish Gandhi, he is an Individual Investor. Please go ahead.

**Manish Gandhi** Congratulations for excellent launches in Vikhroli, and especially second phase we have launched at 9% price hike, this is really amazing considering the market in Mumbai. So you just touched upon overall positioning in Vikhroli and you always had faith in Vikhroli and of course we also had faith in Vikhroli, but after this successful launch do you feel after three, four years with a lot of infrastructure coming in our project we can expect every year INR 2,500 crore – INR 3,000 crore, of course it can be lumpy but overall sales, the prospects do you see much better after this launch.

**Pirojsha Godrej** Manish, I have been very confident from the beginning on this project, but certainly these launches going well has added to our confidence. As you know from our discussions for me this project is an absolutely unique and incredible opportunity. And I certainly think if we are able to execute it at the quality that we would like to; nothing is stopping us from reaching some of the numbers you mentioned. Of course it will be lumpy and it would not necessarily be an absolutely straight line to those kind of numbers, but there is no reason we cannot go even beyond that once

this project is established as a destination. It was very encouraging to see at this early stage, the level of interest that people had in the story that we are going to tell in Vikhroli and I am very confident that as that story gets more and more worked up, as we plan the whole piece, that level of interest will only grow. And the way we are looking at it is not as Vikhroli being a micro market that can attract people who are today living in the surrounding areas anything like that, but then we are going to position this as a totally different and a new platform opportunity and then eventually people living anywhere in Mumbai will be our target market. We have already seen in these first two phase launches a lot of people coming from areas that frankly surprises us at this early stage, but we certainly think that can pick up pace. So yes, extremely confident on Vikhroli and very happy to have gotten things off to a good start with these two phases.

**Manish Gandhi**

And one more question Pirojsha, in the new launches what you have mentioned in your presentation Bhandup, Okhla and Panvel Phase II. So as per my knowledge these three projects we had some regulatory permission delayed for that. Have we received permission on the final stages of it? And second, because of delayed regulatory permission do you see in these three projects a lot of pent up demand?

**Pirojsha Godrej**

Manish, good to see the level of detail you are keeping on the project. I do think that these projects still have regulatory hurdles to cross and our assumption is we will be able to get pass all of these and launch these projects this year. Frankly if our launch guidance had only projects without any regulatory hurdle then it would be a blank because as soon as we get approval we launch. So all projects have some type of approval or the other that is needed but these will be received. What is interesting is that we are also in discussion from a business development perspective on several new projects which we think if they succeed could be launched within the year. So that provides us some further upside and protection in case one or two of these don't end up happening in the year. And all of these projects, once we are able to launch demand will be good, these are all good locations, Bhandup, Okla, Panvel, all very established and high demand kind of locations. So we are not too worried about being able to deliver good launches there once approvals come through.

**Manish Gandhi**

And just final word on dividend, I congratulate you on this bold decision and of course you will have both kind of reviews on this, but given the history of the Group and a high dividend paying group but you took this decision. I feel that if we will be achieve with this additional capital anywhere north of 20% return on capital it will be justified.

**Pirojsha Godrej**

Many thanks Manish. I totally agree with you, certainly we would not have taken the decision, if we didn't think we could earn north of 20% on incremental investments. Just to share something very interesting we had at the Board level where everybody agreed that with the principle that this is definitely going to result in better shareholder value creation but there was a lot of debate on what will the perception be and will smaller investors not like this etc. And I am glad we were able to ultimately convince the Board that it's in the Company's long-term interest and all shareholders long-term interest and we strongly feel that doing that is always going to be ultimately appreciated by all shareholders.

**Moderator**

Thank you. Our next question is from the line of Bharat Sheth of Quest Investments. Please go ahead.

**Bharat Sheth**

Sir, just can you give some sense that how much we launched in FY16, I mean total new phase as well as expansion and how much incremental going ahead that we are going to look, I mean what kind of aspiration that we have?



<b>Pirojsha Godrej</b>	Bharat, the launch numbers are of course all given in the investor presentation, I would not get into those details.
<b>Bharat Sheth</b>	I mean number of second half wise if you can, let's say we have always aspiration to reach 10 million bookings over a three to four years.
<b>Pirojsha Godrej</b>	So our sales from launches percentage is very high, so our launch numbers will certainly not have been in the 10 million square foot range at all, probably closer to 5 million square feet. But what is more important is your question on the forward outlook for this, and what we feel very excited about is that this year we have had a good year for sales, but at the same time we think we are barely scratching the surface for what's possible in some of the markets we are in. We had a good year in Mumbai, we had recently good year in Gurgaon. But as we look to scale places like Gurgaon and NCR with launches in Delhi, launches in Noida we think just something like NCR could very soon be at the level where this whole Company was at until very recently. Similarly, we see big opportunities in Pune, Bangalore, Mumbai both Vikhroli and otherwise. So certainly if we can execute well on our business development strategy of acquiring large a number of projects in different micro markets within the top four cities, we do believe the brand and operational capabilities we have developed will allow us to very significantly scale sales from this level. That said, we are of course also very happy with the kind of sales we have achieved last year given the overall market.
<b>Bharat Sheth</b>	And second thing, you said that 2017 is going to be best ever year for new project launches so can you give some sense in what perspective.
<b>Pirojsha Godrej</b>	Perhaps you cut off at the end, you were asking about business development or I did not quite catch the end part.
<b>Bharat Sheth</b>	Business development as well as launches, launches you said that it will keep on increasing, correct, that is a sense that you directionally have?
<b>Pirojsha Godrej</b>	Yes, so look again all of this is one thing to talk about it, second thing is to obviously go out and deliver it. We do believe that the opportunity is clearly there, the market is struggling quite considerably, we do have a large number of potential partners talking to us for projects in the various markets we are looking for, so the opportunity is there. Obviously a lot of these discussions do not end up in successful deal conclusions but we at the same time are confident of doing a large number of new projects this year. In terms of launches, we will have to go out again and have another good year, but we do have good visibility on both the number of launches and hopefully our recent track record in terms of how those launches have fared does give us confidence that we can continue to see good results as and when we are launching these projects. So momentum is very much with the business but it is a business where each project is different, each deal is different, each launch is different. So the fact that we had a good year last year does not necessarily mean all that much for the year ahead, but certainly we are confident that every opportunity is there to make sure that the current financial year is even better one than last year.
<b>Bharat Sheth</b>	So sir on the business development side how this new regulatory bill can be an impact in the short-term
<b>Pirojsha Godrej</b>	Well, a little bit could be but I actually see it more as a positive because people will now be, particularly smaller developers will be more and more hesitant in this kind of an environment where customers really are not willing to buy from developers unless they have a strong track record where their cost of capital is incredibly high

and where the regulatory environment is so challenging. So I actually see the bill overall as a benefit for business development.

**Moderator** Thank you. Our next question is from the line of Manish Jain from Sage One Investments. Please go ahead.

**Manish Jain** Pirojsha, just wanted to know on the launch plan for FY17, in the light of Mumbai High Court decision not granting commencement certificate for projects after 1st March, 2016, specially the projects which you have highlighted in Mumbai. Can you highlight what gives you the confidence that you will be able to ahead and launch them?

**Pirojsha Godrej** Well, the ones that we have talked about in Mumbai are our Thane project which actually is not in Mumbai, it is under a different regulatory body, so it's not affected. Bhandup, where we feel approval stage is such that we should not be affected by this. Platinum in Vikhroli where again the approvals, we have already got the CC for the fourth tower. Panvel, which again is not in the Mumbai regulatory zone. So the only project in Mumbai that could be affected is mentioned probably here is the third phase residential at The Trees. But our expectation is that it won't last whole year, it's a very dramatic ruling that the government will have to find some solution over the next few months.

**Manish Jain** And on top of that I am just going back on the earlier statement that you had, that should you have additional business development deals which allow you to launch projects in FY17 itself that could add to these projects?

**Pirojsha Godrej** Correct.

**Moderator** Thank you. Our next question is from the line of Gunjan Prithyani of JP Morgan. Please go ahead.

**Gunjan Prithyani** I have two questions, firstly on your margin performance, so we have again seen margins being fairly weak in this quarter, so if you could just give some color on what led to this compression in margin this quarter and how should we look at it over the next two years, especially given large part of the sales in FY16 has come from Vikhroli which I assume is a relatively better margin project. So if you can just share your thoughts on that.

**Pirojsha Godrej** For the quarter the main impact on margins was the fact that no new project reached revenue recognition, our development management fee income this quarter was lower than it has been in the past, and obviously that is very margin accretive, higher the DM Fee in a particular quarter. And we also have one time about INR 15 crore charges for a penalty in one of our legacy project, Genesis in Kolkata. So all of those contributed to the margin situation.

Overall for the year one would think that you have contributed to margins and in the last couple of years has been the accounting treatment for BKC where unlike many other projects our partners share of profits in the profit sharing arrangement is treated at cost in this project. So actually the real margin in this project will be double of what is reflected in our P&L, so that is one of the reason. And also the BKC, at the EBITDA margin level cost of interest is not being excluded which is also having an impact, so that is why we have started talking about our adjusted EBITDA which for the full financial year came in at about 26%. So all of those were the explanation for this year and particularly for this quarter. Certainly we expect the margin profile over the next year or two to significantly increase. One as you rightly pointed out, the big driver of that will be The Trees reaching revenue

recognition that is the much higher margin project, also with significant revenues, also 100% consolidated for the company. So that will significantly boost margins, and also as more and more the profit sharing projects are in the P&L we do expect margins to consequently benefit.

**Gunjan Prithyani** Just to follow-up here, this INR 15 crore charge that you talked about, this is for your Kolkata residential project?

**Pirojsha Godrej** No, commercial project, Genesis.

**Gunjan Prithyani** So what does this pertain to, I mean what is this penalty regarding?

**Pirojsha Godrej** See the project started a long time ago, we in between sort of put construction on a pause because of a very weak market condition and we have significant delay in completion of the project which we have achieved this financial year which was good. And there is a call whether to have our existing customers exit the project or pay them a penalty for the delay; we thought the later was more appropriate that is what is reflected in this quarter.

**Gunjan Prithyani** And regarding The Trees, so when do you expect this hits the revenue recognition, in F17 or F18?

**Pirojsha Godrej** It is a little bit of a border line case, we will do everything we can to make that happen this financial year, but I would not like to go into that at this stage. We think it's possible but its touch and go between probably this financial year to right at the beginning of the next financial year.

**Gunjan Prithyani** And lastly on the commercial portfolio, so we have net cash flows of INR 1,500 crore from BKC and in addition to that what will be the net expectation out of the other commercial projects?

**Pirojsha Godrej** Much less, but it will be about INR 300 crore – INR 400 crore.

**Gunjan Prithyani** And on BKC is there any discussion going on or any visibility around the future sales?

**Pirojsha Godrej** Yes, we have had quite a few discussions going on, this is a totally different project with a totally different level of demand as compared to these older commercial projects in locations that currently were probably in the hindsight not the most suitable for commercial projects of this scale. So at least current visibility leaves us very confident that we will be able to achieve our guidance of fully monetizing the project this year. There are several specific conversations underway as well.

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

**Abhinav Sinha** So, sir first on the balance sheet where you are saying that you are looking for record addition of projects in the current year from new development, in light of that do you see gearing moving up, staying stable, any comments on the direction?

**Pirojsha Godrej** I don't see gearing moving up. The whole reason we feel for our success over the last few years has been the ability to have very strong business development in terms of value accretion to the Company, number of projects added with quite minimal upfront investment given the structures of development management fee, profit sharing, our platform investments. So the idea is not to very significantly ramp

up the amount of investment per project but just make sure that in this capital efficient strategy we are able to add a lot of projects and we feel good about being able to do that. So the goal for the year is certainly to see very strong business development but to also see our gearing come down largely on the back of monetization at BKC.

**Abhinav Sinha** Sir secondly on The Trees, when you are talking about possible launch of the commercial part as well, fair to assume that it is also going to be on sales basis?

**Pirojsha Godrej** I do not think we are currently looking at committing a large amount of investment capital into it. We are still evaluating what is the best way to do it is whether sell part of the project and then retain the remainder and make it self-funding through that or do it on a sales basis. But frankly it is a little premature to comment on that.

**Abhinav Sinha** The development platform cannot invest in that is it, the APG one?

**Pirojsha Godrej** No, that is a residential platform, at least this platform has nothing to do with it.

**Abhinav Sinha** Secondly on the side of presale, so two questions, one is that ex of BKC you have done about 35 billion this year and obviously Vikhroli and success at Chembur has been a big part. So do you see this 35 billion also growing strongly next year or flattish? That is one. Secondly, can you also comment on how you see the three main markets positioned right now, Mumbai, Bangalore and Gurgaon?

**Pirojsha Godrej** We are very careful about trying to stay away from guidance in this sector, we do not think it's a good idea either for the Company or for our investors because there is a huge amount of volatility depending on approvals and other things. Certainly though as a Company, we have been pursuing rapid growth and certainly our goal is to sustain that growth. We have had a good year but there is no reason that FY17 should not be an ever better year, we think we have good visibility but we have chosen to quite deliberately not issue any kind of sales guidance beyond indicating the project we hope to launch during the year. So we certainly would like to stick with that.

In terms of the markets, market conditions are weak across the board. Different cities are at different levels, something like NCR has been particularly bad which leaves us particularly happy where we again had a second consistent year with over 1 million square feet of sales in that market. We are very excited about now adding Noida to the mix in NCR and hopefully getting our Delhi project also launched. So in that market as challenging they have been given the good work the team has done, ongoing in a very positive direction, we hope to build on that this year. Mumbai, it's been a great year for us with Vikhroli, with BKC, with Panvel, also some smaller launches in Badlapur and Byculla. So we look forward to building on that this year, we do have some good projects in Thane and hopefully Bhandup coming in, Panvel getting the go ahead and further sales in The Trees and BKC. So if all things go according to plan it should be another huge year for us in Mumbai. Bangalore and Pune, we are extremely excited about both markets, frankly we think our overall performance to date in these markets isn't what it could be and what it should be, so we are looking at doubling our efforts this year to kind of a blockbuster year within these two cities. Certainly we would like to launch very strongly in these markets and also add new projects to ensure we can scale these and quickly bring them to the level with NCR over the next year or two. So market conditions in none of the markets are particularly favorable but they haven't been for the last couple of years and we are seeing good ability to have good launches despite that, so that will be the plan this year as well.

**Abhinav Sinha** Lastly if I may, any broad guidelines that you can give on how IndAS is going to impact the P&L right now or you will do a separate call etc. for that?

**Pirojsha Godrej** We are obviously still working through some of it, a lot of work has already happened. Broadly, it seems that revenues will be significantly impacted in our model because a lot of the joint venture model revenues will now be a single line profit item. So that needs to be the big impact, we are also looking at some of the treatment of various other things, but that is the big impact. Two most relevant metrics to track the Company are probably not captured anywhere in the P&L which is the booking value and the net cash flow, so those will be considered to be the kind of key metrics we track internally. As we get more clarity on some of the minor impacts of IndAS we will obviously discuss those in more detail on our next quarter call. But the big one will be that we are likely to see revenues drop and margins increase as a result of the treatment of consolidation of JV partner project. But I would just say that even the revenue decline will be muted because we still have a couple of big projects that would not have any impact including The Trees and BKC.

**Abhinav Sinha** So BKC will not be impacted by that?

**Pirojsha Godrej** BKC revenues will not be impacted.

**Rajendra Khetawat** So Abhinav it is more of a JV accounting which gets impacted, so maybe we can take it offline.

**Moderator** Thank you. Our next question is from the line of Krish Shanbhag of Pride Investment. Please go ahead.

**Krish Shanbhag** So in FY16 you had a booking value of about INR 5,038 crore of which the commercial value was about INR 1,480 crore. So net of that on the residential value of about INR 3,500 crore, can you tell me how much cash you have received? The actual commitment made by buyers in cash.

**Pirojsha Godrej** I do not have that exact breakdown, as I mentioned we collected for the year over INR 3,000 crore of cash in total. I would have to get the breakdown.

**Krish Shanbhag** But is there a percentage available with you, a ballpark percentage?

**Rajendra Khetawat** So we can give it to you offline, right now we don't have that residential versus commercial.

**Krish Shanbhag** Sir my second question is on the inventory between FY15 and FY16, the inventory has risen from around INR 4,700 crore to about INR 5,200 crore despite sales of INR 2,700 crore and you have already sold a lot of from BKC which is reflected in your sales. Can you tell me, does inventory in simple terms indicate unsold flats?

**Rajendra Khetawat** No, so it is not only the unsold flats. You have to understand BKC, since we have sold BKC but there is an additional 3 lakh inventory also to be sold, so to that extent the work is also happening, there are certain payments which we are making on account of BKC to complete the project, so that is also adding to the inventory. Along with that there are several new projects which we have added up and from which the work is happening. So till the time the project reaches the revenue recognition everything sits into inventory. So The Trees is the major thing for which we have paid several approvals related payments and all, so all those have added to increase in the inventory. So this will start getting expensed out and start coming down as and when they reach the revenue recognition.

<b>Krish Shanbhag</b>	So if there is a project where you are paid TDR cost that would get added in the inventory?
<b>Rajendra Khetawat</b>	Yes, so everything for us, everything from land cost till whatever we spend on development is a part of WIP, Work in progress.
<b>Pirojsha Godrej</b>	Yes, it has almost nothing to do with unsold inventory, there is some confusion in the media but the inventory and accounting standard has nothing do with.
<b>Rajendra Khetawat</b>	So it's only finished goods inventory or unfinished, it is a work in progress. So once it is finished then it gets classified as a finished good into the balance sheet. The head which it gets classified is inventory, so inventory is classified as finished and unfinished. So the media gets reported is just the inventory, they do not go into classification of finished and unfinished.
<b>Krish Shanbhag</b>	And sir in one of the previous question you mentioned that once you get the cash flow of INR 1,500 crore for BKC project during FY17 your gearing would come down. So is it fair to assume that your net debt will fall in FY17?
<b>Pirojsha Godrej</b>	That is certainly our goal, obviously again we will have to deliver on that. We also are looking at some investments in the new projects and things, but yes our goal for the year is certainly to see a reduction in net debt.
<b>Moderator</b>	Thank you. Our next question is from the line of Pavan Ahluwalia of Laburnum Capital. Please go ahead.
<b>Pavan Ahluwalia</b>	I had a question about quality control, we are obviously signing a lot of agreements with other developers and the capital light model is great and makes a lot of sense for us, but we have had some issues, I am from Delhi so maybe I am over analyzing what has happened in this micro market, but Summit has been delayed by several years because of a land acquisition problem that arguably could remain anticipated..
<b>Pirojsha Godrej</b>	Pavan, let me stop you right there. Summit is not at all delayed, it is ahead of schedule and we will deliver very much on time, so I do not know where you got that information.
<b>Pavan Ahluwalia</b>	Sir, but as I understand there is a land acquisition road block that needed to be cleared for Summit that has not yet been cleared, right?
<b>Pirojsha Godrej</b>	I do not know where you got that, I do not know whether you are talking just about the Dwarka Expressway overall.
<b>Pavan Ahluwalia</b>	No, it's my understanding, please correct me if I am wrong, was that there is a road that links maybe from the expressway to Summit where land has to be acquired and it has not been acquired because farmers are not giving it up?
<b>Pirojsha Godrej</b>	Well, you are talking about roads outside of our site, frankly those are government responsibilities. Our project is absolutely on track, ahead of track in fact and there is absolutely no execution delay there.
<b>Pavan Ahluwalia</b>	So let me move to the broader issue, as developers seek to partner with us and we have the opportunity to partner with them, what kind of systems are we putting in place to make sure that we put our brand which is easily one of the strongest brands in this country and inspires blind faith in many ways in the eyes of Indian

consumers. How are we ensuring quality control to make sure that we are not simply stamping our brand on some mediocre developer because the truth is we can probably do it, the brand is strong enough, we can get away with it for one, two, three, four years but overtime it will just diminish the value of the brand which is probably one of the strongest assets we have. How do you think about that and what kinds of quality control procedures do you have in place to make sure you do that properly?

**Pirojsha Godrej**

It's an excellent and very important question. Look, we are first of all extremely clear that as you rightly pointed out our biggest asset is our brand and much more important than any financial or other deliverable is making sure that we are adding to the long-term value of the brand, which in turn we think will be great for the business. We are not in any way shape or form willing to enter into any kind of licensing agreement for our brand with any other developer, so it's important to understand that every project that we do is managed, operated entirely by Godrej Properties. So as you rightly said it would be very easy in the short-term for one or two years to get a lot of profit by doing some form of licensing and lose control over the brand, but that is certainly not something we would ever consider. We are very clear that any project that has our brand must be managed and operated by us including all our development management fee projects which while we do not invest financially in, we certainly retain full operational control of.

At the project level we do everything we can to insist on high quality both in terms of the actual quality and construction, also in the quality of timeliness in terms of completion which is why I quickly jumped on your comment of Summit being kind of delayed. And on obviously the experience we are able to offer our customers through their journey because in a business like us where a customer really is typically buying at the start of a project, there is a large service element to this. So I would not claim that we are at any kind of end stage in any of these areas, we constantly need to improve our practices and get better at what we are doing. But certainly we do have a stronger amount of capability already, that's evident for example in the ways that our deliveries are scaling commensurate with the scale up we have seen in sales. So for this year, while we had a great year for sales we had arguably an even better year for delivery with 6 million square feet delivered, 71% more than we did last year. So in terms of almost all of those were on-time delivery, there are still projects that have faced some delays and frankly we are taking extremely serious view of those, because we do think that those can cause damage to the brand. We have obviously developed strong internal capabilities which we are happy to walk through in more detail offline in terms of the construction management and how we protect quality as we are constructing a project. We also have our customer centricity team which acts as an internal quality auditor of the construction team and the interface between customers, further ensures quality, we have built a lot of capabilities we believe on the design side to ensure that the projects are planned in the appropriate manner, offer customers differentiated experiences even through the design. Again, there is plenty of detail behind each of this, we would be happy to get into offline. But certainly we agree that there is both strong ability and great foolishness attached with looking at this business from a short-term perspective and not keeping in mind at the top of our mind the importance of doing right by the brand.

**Moderator**

Thank you. Our next question is from the line of Samar Sarda of Kotak Securities. Please go ahead.

**Samar Sarda**

Just a couple of questions on BKC and the completed residential projects. On BKC, Pirojsha you mentioned INR 1,500 crore of positive cash flow will accrue this year, now what will be this number net of any liabilities like debt towards the project?

**Rajendra Khetawat** So around INR 1,200 crore is the present capital employed so basically that would go towards repayment. But what we are saying is on the project INR 1,500 crore will be released so even out of consolidated the debt would come down.

**Pirojsha Godrej** That is all actual cash flow that will reduce debt, I mean assuming this INR 1,500 crore happens and its fully allocated towards repayment of debt that would have an identical impact on the debt.

**Samar Sarda** And secondly, out of the residential projects which are completed already, how much would be the unsold areas in these like say Chennai, Ahmadabad, Nagpur, Pune, projects which are already completed?

**Pirojsha Godrej** Relatively small, but we can get into the details offline.

**Moderator** Thank you. Our next question is from the line of Himanshu Jhaveri of Dhruv Gems. Please go ahead.

**Himanshu Jhaveri** Just ask you Pirojsha, while our borrowing cost has been coming down steadily but our debt has been almost the same as last year if I am not mistaken, so while we have received quite a lot of money from BKC project and all, so can I just know that the money which we have received has gone into that new platform or something in that Kolkata project where you have taken a stake, etc just to know. And will the debt actually come down slowly?

**Pirojsha Godrej** Yes, there has been a lot of investments this year as well. First of all the debt has come down by a couple of INR 100 crore even on an absolute basis. While there has been a lot of collections from a project like BKC, there has also been a huge amount of investment in BKC, this year has been considerable investment in approvals for things like The Trees, other construction we delivered 6 million square feet this year. So certainly while we did have a lot of inflow, we also had quite a bit of investment into projects. Some of the difference in FY17 could be particularly on commercial side where the investment is almost done, so this time last year we will have made a huge amount of investment into BKC, we will have to complete the Kolkata project, the Chandigarh project, all of that by and large is behind us except for some small completion investments into BKC. So that would be the key difference. On the residential side, we expect another year with a lot of cash inflow but also quite a bit of investment.

**Himanshu Jhaveri** And Pirojsha, what is the scenario on the new projects being signed, from what I know a lot of developers are in huge problems completing their project and all that, so this year can we expect that by signing these new projects at attractive valuations that will be very useful for the long-term of our Company and can we expect from these projects to get into that 20% - 25% ROE, ROC kind of things for the Company?

**Pirojsha Godrej** Yes certainly, the opportunity is there and it's up to us to execute. Probably my number one biggest priority for the year is making sure that we are fire on business development even more strongly than we have in the last few years. We have been doing very well, but the opportunity is there and we must grab it to do even better this year. So certainly we would not leave any stone unturned but it's hard to comment on this, the results will obviously have to see how it goes during the year.

**Himanshu Jhaveri** And just one last question, any clarity on our Panvel project, when we are starting it actually and the FSI increase and that proposed BMC hike which they are just talking about, will it have an effect on this project as well?



<b>Pirojsha Godrej</b>	The BMC FSI has nothing to do with this project, it is out of city limits. Panvel FSI is still a bit of a tangle, so there is not much clarity there. We are obviously quite disappointed that the project isn't already up and running at full speed after having launched it. We think that hopefully around the corner but frankly better to now get it done and the talk about it because it has been delayed well beyond our expectation.
<b>Himanshu Jhaveri</b>	And this proposed BMC hike does not have an advantage in Vikhroli or something
<b>Pirojsha Godrej</b>	So again, we have not seen what the actual details are, we have heard of the overall hike but the details would be critical. But Vikhroli certainly will be impacted by the change, we hope positively but again the details are awaited. But some of the areas like Panvel, Thane, etc., are not affected.
<b>Himanshu Jhaveri</b>	Vikhroli you will have an advantage right if it's done?
<b>Pirojsha Godrej</b>	Yes, depending on what it says yes we would, if there is extra FSI we would have an advantage in Vikhroli.
<b>Moderator</b>	Thank you. Our next question is from the line of Manoj Dua, he is an Individual Investor. Please go ahead.
<b>Manoj Dua</b>	Sir, Godrej is a great brand and we try to follow a better capital exchange model and as a shareholder I see from the last two, three years the Company has done all the right things. If you see from the next financial year the major reasons which were affecting the profitability ratios like commercial projects and whatever mistake or learning curves from there, but last year it was done really quite good, so from the next financial year I do not see any this affecting profitability ratio. I am not asking for any guidance but what kind of ROEs we should look for this type of structure that the whichever follows?
<b>Pirojsha Godrej</b>	<p>So you are right, there are several things like The Trees that will help. Of course if we are able to monetize the full commercial portfolio will be excellent for reducing the capital employed, generating cash, improving medium term return on capitals, it would have a short-term impact on margins which we are quite happy to absorb. We certainly feel that this model should allow us to generate over 20% return on capital employed if executed well. There has been a couple of reasons we have been quite far from that in the last couple of years, one is too much capital employed in some of these commercial projects which as we said we are hopefully now at a stage where we can move past that problem.</p> <p>The second thing is that we are very fast growing company so our sales has grown 88% this year, something like The Trees within the year there is no impact on the P&amp;L or calculated return on capital employed but certainly the activity is there, the profit we think is pretty much locked on. So the fact that we are fast growing company will also keep the return on capital a little bit subdued but with the base increasing and more and more profit sharing project now entering revenue recognition that impact will also dwindle over the next few years. So we are quite optimistic on return on capital metrics improving and certainly that is our key task for the next few years.</p>
<b>Manoj Dua</b>	Sir one more question, I have joined the concall late, if this has been answered I will listen to the concall again, if not kindly respond. How this Real-Estate Bill will affect our joint venture model? Thank you.

**Pirojsha Godrej** It was asked and what we said was that it should benefit us because it benefits a model because a lot of smaller developers will have a challenging time we think continuing to operate with this kind of a environment. So we do think it should increase the amount of opportunities we see.

**Moderator** Thank you. Ladies and Gentlemen, that was our last question. I now hand the floor back to the management for closing comments.

**Pirojsha Godrej** I hope we have been able to answer all your questions. Thanks again for joining us on the call. if you do have any further questions or comments, please do reach out to us. Thank you.

**Moderator** Thank you very much. Ladies and gentlemen on behalf of Godrej Properties Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.

- ENDS -

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