



Godrej Properties Ltd.

Q2 & H1 FY2013 Earnings Conference Call Transcript

November 02, 2012

Moderator

Ladies and gentlemen good day and welcome to the Godrej Properties Limited's earnings conference call. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call, please signal an operator by pressing * and then 0 on your 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 Q2 & H1 FY2013 results conference call. We have with us Mr. Pirojsha Godrej, Managing Director & CEO; Mr. K T Jithendran, Executive Director, Mr. V. Srinivasan, Executive Director, & Mr. Rajendra Khetawat, Vice President – Finance & 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 2 financial year 2013 conference call. I will begin by quickly discussing the operating and financial highlights for the period under review.

We have ended the first half of the year on an encouraging note and have made substantial progress on several fronts. We have delivered strong growth in bookings, revenue, and profits in Quarter 2 and for the first half of Financial Year 2013.

We have added four new projects to our portfolio in the first half of the year including two projects in the second quarter. These projects will help ensure sustained growth going forward. In the second quarter, both the projects we added are in Mumbai, which is one of our priority markets. One is a

redevelopment project in Ghatkopar and the second is a joint venture project in Panvel. The Panvel project is a profit sharing arrangement with GPL receiving 35% of the profit from the development. Given the profit sharing structure and the fact that Panvel is one of the most exciting locations for real estate due to the current and upcoming infrastructure in the location, we are confident that this project would be a high-margin and high-velocity project for GPL once it is launched next financial year. There is also tremendous potential upside we believe if the FSI in this project increases. Currently, the FSI assumed is just 0.5 which gives out a 3.5 million square feet project, but there is a substantial possibility we feel of this increasing and therefore the project size and value substantially increasing. The new projects that we add to our portfolio, the focus has been entirely on residential projects in target cities and on favorable deal structures that enhance our margin profile. Given the kind of deal flow visibility we currently have, we expect further positive news on the business development front in the second half of the financial year.

The key operating highlights for the second Quarter was the hugely successful launch of our project, Godrej Summit in Gurgaon. In a single day, we were able to sell 695 apartments with a total area of just above 1 million square feet. This was despite the fact that we launched at very attractive prices that had been revised upwards numerous times in the lead-up to the launch and also midway through the first day of sales. Our average price realization on the first phase was nearly Rs. 6,000 per square foot. We sold almost all our inventory through direct sales, which is uncommon in the broker driven NCR market. We take a lot of confidence from this strong response and what is still relatively a new market for Godrej Properties and we look forward to launching the second phase of this project in a few days. With a strong base created in terms of volumes, cash flow and margins in the first phase, our focus on the second phase would be on further expanding the margins from the project. We also had soft launches of two projects in Bangalore in the second quarter. The first project is a villa project called Godrej Gold County. We were able to sell about 30,000 square feet or 37% of the launch during the soft launch in the second quarter. We also soft launched our project, Godrej E-City, on the last day of the second quarter. So the bookings only really began in Q3 from the first week in October and within the month of October. I am happy to report that we have been able to sell a quarter million square feet of space which is about 70% of the launched inventory. We also launched the third phase of our project, Godrej Platinum in Vikhroli on Dusehra last week and here again the response has been very encouraging. Our average price realization of Godrej Platinum for the third phase has currently been about 30-35% higher than it was at the same time last year when we launched the first phase. We have a substantial set of launches planned across 7 cities in the remainder of the financial year and we are confident that through these launches, we would sustain our current sales momentum.

From an overall perspective, despite a sluggish environment, we have witnessed good sales in most of our projects. The total area booked, inclusive of our joint venture partner's share in the second quarter was approximately 1.57 million square feet as compared to approximately 600,000 square feet booked in Q2 FY12. The total booking value in the second quarter is Rs. 963 crore which represents the 327% increase over the

Rs. 226 crore bookings we registered in Q2 FY12. For the first half of the financial year, our bookings growth in area terms is 100% and in value terms was 219%.

Although most of our existing residential projects continue to see good sales momentum in the quarter under review, one residential project where volumes have disappointed recently has been our project Godrej Garden City in Ahmedabad. This has been due to a combination of weak general market in Ahmedabad over the last few months and also due to the fact that we have sold more than 90% of our launched inventory. We are planning to launch a new phase in that project in the current quarter and we do expect to regain volume momentum in the project through this launch.

Sales in our commercial projects, has been another area of concern. Although we are successfully monetizing our project Godrej One in Vikhroli, we recognize that the traction in our commercial projects in Kolkata and Chandigarh has been extremely disappointing. We are very focused on exploring all available options to monetize these projects. The present commercial real estate market in these cities has made progress towards achieving this goal slower than we would have liked, though we do expect to see better traction in the second half of the financial year. We are also looking forward to launching our important project Godrej BKC in the current quarter. The contract of this project is in place and we plan to start both sales and construction in quarter three of this year.

I will now brief you on the financial performance for the period under review. Our financial growth for the quarter on a year-on-year basis has been strong with a 64% growth in total income to Rs. 233 crore. EBITDA for the quarter grew at 109% and stood at Rs. 72 crore. Net profits for the quarter increased by 68% to Rs. 33 crore in Q2 FY13. For the half year, our total income has increased by 68%. EBITDA has increased by 103% and net profit has increased by 69%.

Other positive developments include strong operating cash flow outcome for the quarter and an improvement in EBITDA margins to 31%. We recognize that the improvement in EBITDA margins is largely due to the set of projects contributing to revenue combined with a one-time upfront fee we received from the restructuring of our project with Godrej & Boyce in Hyderabad, but we are confident that the steps we are currently putting in place will yield both short term results and long term sustainability. Through our operational excellence initiative Project Pyramid, we have identified many improvements that will yield both superior performance and cash flows and margins on all our new projects.

Our net debt at the end of the first half of the financial year was Rs. 1,611 crore which represented a decline of Rs. 135 crore from the net debt at the end of the first quarter of the financial year. Our debt equity ratio declined from 1.2:1 to 1.08:1 over the quarter and it declines from 2:1 at the start of the current calendar year to just over 1:1 currently.

We believe the recent reform momentum, the new finance minister has brought in at the central government level is very positive for the Indian

economy and consumer sentiment and we hope that the government is able to both successfully implement the measures already announced and maintain the reform momentum they have created through the introduction of new reforms. We are also optimistic that the interest rates over the next 12 months would be meaningfully reduced. The combination of better GDP growth, low interest rates, and improved consumer sentiment could lead to a hugely improved outlook for the real estate sector. We believe that our national presence, strong brand equity and a large number of new projects leaves us in a good position to fully capitalize on this opportunity.

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

- Moderator** Thank you very much sir. Ladies and gentlemen we will now begin the question and answer session. Our first question is from Aashiesh Agarwaal of Edelweiss Securities. Please go ahead.
- Aashiesh** Could you give us the land bank break up, I think that is missing in this presentation?
- Pirojsha Godrej** That is available on the presentation. We moved that information to slide #4, where all the cities we are in is given along with square footage and number of projects. We have just consolidated those two slides and as always the annexure has a breakdown of each project in the sharing ratio and so on.
- Aashiesh** And could you give an update on the residential developmental platform. And the plan for Jet BKC, you said that sales would be starting; so what kind of project you are thinking over there. Some details on that?
- Pirojsha Godrej** For the residential development platform we are at a stage where we are currently evaluating opportunities. We do have a few opportunities we are currently looking at, just as for any of our business development project. It really does not make sense to talk about these until they are at a finalized stage where we can confirm when they will happen. I think things are very much on track and as I mentioned we are looking at several deals across the target markets that we have identified.
- For our BKC project, again things are on track. While we haven't yet been able to find a suitable private equity investment opportunity there are some discussions still underway on that front. We hope to have some positive development there. But as we have also indicated we will be going ahead with the launch of that project and we expect that to happen this quarter. As I also mentioned that the contractor for that project is in place, we will be working with Larsen & Toubro for the project. The designs are all finalized; we are waiting for final regulatory approval and we expect to have marketing and construction launch of the project this quarter.
- Aashiesh** And what kind of product are you planning over here?
- Pirojsha Godrej** This would be a very high end commercial development.

Aashiesh And this would be for sales?

Pirojsha Godrej For sale of commercial development. Aashiesh, the total project is about 1.25 million square feet, a little over 0.2 million of that will be used by Jet for their own corporate office, so we have about a million square feet. I think certainly during the first phase, which would be over the next year or two, we will look entirely towards sales and look to manage the project to unlock cash flows. We may then lease some portion of the building as it gets closer to being ready and then sell it once that asset is leased. But the exact determination on how to handle that we will decide on as the project unfolds.

Aashiesh In terms of the product over here, are we planning smaller units of 1000-2000 square feet each or are we planning 10-15,000 square feet kind of unit sizes, if you have some thoughts on that?

Pirojsha Godrej We would like to have some flexibility in sizes. I think the smallest unit will start somewhere in between the two numbers you used. We haven't frozen on exactly what the smallest unit we would like to offer. Having small units, does obviously increase the number of clients that we can reach out to, so we will bare that in mind. But I don't think we have taken a final decision on that as yet.

Aashiesh You said there has been a one time fee which helped the margins. Could you just say what that number would have been?

Pirojsha Godrej Rs. 15 crore.

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

Abhishek Bhandari You know basically there were some media reports sometime back, in which they were saying that the BMC or the MMRDA have cancelled the Jet deal in the BKC area. So could you just clarify if it is the same land parcel or different land parcel?

Pirojsha Godrej That is not our land parcel. Jet has actually initially looked at two separate land parcels. The first one is the one we are doing the project on, which is not at all affected by that news report. They have a second parcel of land on which they have paid a small deposit and I think the article that you are referring to talked about that piece of land and Godrej properties has nothing to do with that.

Abhishek Bhandari Secondly, do you think that the commercial market right now in Mumbai is good enough for us to go ahead with the launch especially in the BKC? The other launches which have happened have not had great responses so far. So are you thinking of potentially changing the project from a commercial into residential?

Pirojsha Godrej The frank answer to that is that we share some concerns on the strength of the commercial market, currently it is clear that it has been weak. At the same time, I think the way the project is structured it does not make sense for us to just delay the launch because there are consequences. We do have

a lot more capital deployed which we would like to try and unlock. Perhaps the good news is that because of everyone's outlook on commercial real estate today, we think that there is a very substantial possibility that the later phases of this project benefits from a very strong commercial real estate market. We expect to now totally complete construction within three years of starting. By then what would have happened is that because of the lack of investment coming into commercial real estate currently and because certainly over that time period, we would expect economic conditions to improve and demand to come back. We think that there quite a strong case to be made; right now might actually be counter intuitively the best time to start the commercial project. But certainly ensuring that we priced the project in a manner where we are able to achieve sales, where we are able to unlock some capital is something that we will pay a lot of attention to.

Abhishek Bhandari And how much more money do we need to spend on this project in terms of getting additional TDRs or getting more approvals before we finally launch the project.

Pirojsha Godrej We can launch the project without any further investment, the TDR payments have to be made on a staggered basis to MMRDA. We have already made one of the five tranches of those payments. The construction cost will be spent along as the project proceeds and of course we will start getting in cash flows from customer receipts. So our goal is to avoid having much incremental cash investment into the project and hopefully we can unlock some cash on the project. Certainly if we are able to do a private equity deal we would expect to be able to unlock some cash.

Moderator Thank you very much. Our next question is from Anand Agarwal of Jefferies. Please go ahead.

Anand Agarwal Just continuing on the BKC project itself, what is the kind of construction cost that you are looking to incur here?

Pirojsha Godrej The overall construction cost Anand, would be in the range of Rs. 500 crore. The exact amount will be decided, the civil contract is much less than that. A rough construction cost estimated between Rs. 4-4,500 per square foot is what we should assume.

Anand Agarwal On The Trees, Vikhroli, when do you expect to start off with the second phase and have you thought about in what form that will be in?

Pirojsha Godrej Here again we expect to hopefully launch the next phase which we would like to be a residential phase in the next financial year. The exact timing of it will be related to when we can complete Godrej One and move the people into Godrej One, clear the land and of course there are some approvals involved with it, but we would expect to launch the project next financial year.

Anand Agarwal And do you think you will be able to launch another phase of the G&B project in Vikhroli and Trees project at the same time in next year or they will be one project at a time?

- Pirojsha Godrej** No, I think we will have multiple projects running at Vikhroli. As the project picks up pace and as the area starts developing more and more, we think it is going to be a very large development which will of course have different phases operating concurrently. I will also just take the opportunity to comment on how happy we are with the way Godrej Platinum has unfolded so far. As I mentioned earlier, prices today already 30-35% higher than they were at the same time last year, we have seen good demand at those prices. Frankly, our marketing efforts for Vikhroli are really at a very premature stage and we think once we really start talking about the potential of the location and hopefully before we launch the residential component of The Trees, we will have more work done on an overall master plan for Vikhroli. We expect a huge amount of excitement for the project and think that this will become sort of a key destination in Mumbai real estate and volumes we think will be possibly substantially higher than are currently visible.
- Anand Agarwal** On the residential platform that you are talking about, how will you decide which opportunities go to the residential platform and which do you take up independently of that?
- Pirojsha Godrej** I think that is fairly straight forward. We have identified target cities for the development platform; we have identified the types of projects that will go to it. So essentially any land purchase opportunity where we intend to build residential real estate in either Mumbai, NCR, Bangalore, Pune, or Chennai will first be offered to the platform and only then if for any reason the platform doesn't want to do it would Godrej Properties consider alternative means. So that is quite unlikely as in any case our strategy is not to buy land directly through the Company. Also any joint venture opportunity in residential real estate in the cities I mentioned where there is a large upfront advance which we have defined as an advance of over Rs.80 crore, those kind of projects will also be offered to the partnership. We are very excited with the kind of opportunities this partnership will bring us. We are looking at as I mentioned several opportunities for suitable projects, but at the same time it is quite clear that this partnership was intended and is intended as an addition to our existing business not in any way as a replacement to our existing business.
- Anand Agarwal** The new launches that you have done in the last two quarters, when do you expect that to start coming into revenue recognition, from the Q4 of this fiscal year?
- Rajendra Khetawat** Probably Q4 of this fiscal year.
- Moderator** Thank you. Our next question is from Puneet Jain of Goldman Sachs. Please go ahead.
- Puneet Jain** What are the customer advances that you would be having at the end of Q2?
- Rajendra Khetawat** Customer advances would be around Rs. 300 crore.
- Puneet Jain** So there has been a sharp jump in customer advances primarily because of the Gurgaon project?

- Rajendra Khetawat** Yes, for the project which has not reached the revenue recognition threshold, the money which is received, gets classified as a customer advance. So we have done a lot of launches including Summit and all those are classified as customer advances.
- Puneet Jain** If I look at your margins in this quarter, your overall construction costs showed a large dip of around Rs. 35 crore on a Q-on-Q basis, while if I look at your revenue recognition it remains flattish, even the breakup of projects that went into revenue recognition is more or less same. So what could possibly explain this sharp decline?
- Rajendra Khetawat** Like Pirojsha mentioned in his opening remarks, there was a one-time fee which we have received from our Hyderabad Moosapet project, for which there is no corresponding cost. If you see the total operating income which is Rs. 25 crore, the operating cost is very less as compared to the operating income. That has resulted into increase in the operating margin. Secondly in Q1, there were a lot of commercial projects which gave a negative margin which is not there in Q2 so that has also helped improve the margin in Q2.
- Puneet Jain** And also what will be your margin from the Godrej One project?
- Rajendra Khetawat** EBITDA margin of around 40%.
- Puneet Jain** Okay, but I am still not able to look at the difference in terms of construction cost of sales Q-on-Q because there is a sharp reduction while if you look at the revenue booking, it is actually very similar except for this commercial project.
- Rajendra Khetawat** Puneet, if you recollect in the last call we have said there were certain cost increases which we have taken. Those cost increase got classified because the entire cost increase has come in Q1. Going forward that kind of cost increase would not be there. That is another reason because of which the cost of sales is less compared to Q1.
- Puneet Jain** Also there has been a sharp jump in the employee expense.
- Rajendra Khetawat** Yes, there are certain provisions of bonuses which we have made in the current quarter.
- Moderator** Thank you. Our next question is from Gunjan Prithyani of JP Morgan. Please go ahead.
- Gunjan Prithyani** Firstly on your cash flows for this quarter. Your debt reduced by about Rs.135 crore in this quarter. Is this largely on account of the operational cash flows? Also if you could just run us through the breakup of the cash flows as in how much was the customer collection, the construction outflows if possible?
- Pirojsha Godrej** We won't give a project by project breakdown. There are a few factors that have led to the improved performance. Two important projects where we are unlocking cash is Godrej One, which is the commercial project where we are getting the cash flow corresponding to the sales made and that has been

quite substantial; as has been the cash flow from the launch of Godrej Summit. So those are two specific projects where we have seen that.

I would also say that as we mentioned on the last call, we have instituted an operational excellence initiative called Project Pyramid through which one of the big focus areas is on improving performance on cash flow, improving collections. We are looking at a whole slew of opportunities to improve our performance on this matrix both on collecting for sales that have already been done, looking at our policies to make sure that we are collecting effectively, and also looking at our new sales policies and how much percent we take on an upfront basis. So all of that has helped this quarter.

Gunjan Prithyani Can I get the aggregate number how much would have been the customer collection for this quarter and the construction outflow, is that possible?

Rajendra Khetawat Gunjan I can come back to you offline. I don't have it present here right now.

Gunjan Prithyani And you mentioned that Godrej One has given decent amount of cash flows. Can I get aggregate, how much is the total sale we have done in Godrej One cash collected and the amount that we have paid for that parcel?

Pirojsha Godrej Again we don't have that exact figure. All the cash flow that is due has been received for Godrej One.

Gunjan Prithyani And there was no payment for the land this quarter?

Rajendra Khetawat In this financial year, we have paid around Rs. 126 crore for the payment of lands, all in Q1.

Pirojsha Godrej At Godrej and Boyce we had a onetime sort of payment in Q1 of this financial year and from next financial year onwards, there will be regular cash flows required each quarter for about 4 years.

Gunjan Prithyani Lastly in terms of your launches, the bigger ones coming in the second half would be one the second phase of Gurgaon and the additional phase in Garden City, so what is the kind of size that we are looking in Gurgaon and Ahmedabad? Also is Hyderabad project going to be launched in second half?

Pirojsha Godrej In Gurgaon the focus frankly will be shifting more from as I mentioned from volumes to margins, so we don't plan to launch a huge second phase. We are yet to determine the exact size, but it would probably more like 2 lakh or 3 lakh square feet at most.

In Ahmedabad, we are again yet to determine the exact size, but it is likely to be about 4-5 lakh square feet. We are also looking at the opportunity of some additional products in Ahmedabad, things like launching retail phase, which as part of the township affordable housing is mandated; we are potentially considering that as well this quarter. We have a few exciting things on the horizon in Ahmedabad.

We do expect to launch the Hyderabad project not in this quarter, but towards the end of next quarter. We do also have other launches that you did not mention that I would say are very significant ones including our launch in Chembur through our redevelopment project at Sahakar Nagar. We expect that to be quite exciting launch for the Company. And the other one where we expect to see good volumes, as I said Vikhroli has done quite well. We have another redevelopment launch planned in Byculla which would be a much more high end project which will create good visibility. So we feel pretty good about the way things stand from a launch calendar point of view.

- Gunjan Prithyani** Any number in terms of million square feet that you are looking to launch in second half because these were about 3-4 million square feet?
- Pirojsha Godrej** As you know, we have avoided giving a specific number in millions of square feet. The real reason is that we don't decide on the exact amount to launch until just before the launch based on our expectation on volumes and so we prefer not to do that. But clearly all of these project launches are on track and we expect as always has been in the past, the second half of the year to be a more robust period for launches and bookings than the first half.
- Moderator** Thank you. Our next question is from Sameer Baisiwala of Morgan Stanley. Please go ahead.
- Sameer Baisiwala** A quick question on Panvel. Where do you think the FSI can go from 0.5 and what would be driving this?
- Pirojsha Godrej** You know there has been some discussion at the Maharashtra Government level of what the township policy would be, what the FSI could be. It could stay at 0.5 which is of course from a conservative basis what we are assuming, but I think the two jumps that could happen are either an FSI of 1 or an FSI of 2. These would make the project either 7 million square feet or 14 million square feet. I think there is a greater likelihood of 1 then 2, we will keep an eye on this, but for now we should all assume this 3.5 million square feet.
- Sameer Baisiwala** And what could be the timelines by the time which you will be launching this project?
- Pirojsha Godrej** Our current target is to launch it about a year from now.
- Sameer Baisiwala** And just to clarify on Vikhroli Trees, do you necessarily have to complete the commercial phase and then the office moves over there, you break it down and then you can launch the next phase?
- Pirojsha Godrej** Yes.
- Sameer Baisiwala** You expect that to happen by next year?
- Pirojsha Godrej** Yes.
- Sameer Baisiwala** What would take you to drive the sales for Chandigarh and Kolkata commercial projects that we have?

Pirojsha Godrej I think clearly the commercial market in these two cities has been weak. We continue to vigorously look at opportunities. Particularly in Chandigarh, we are a little bit less concerned. In Kolkata, the market itself is quite poor, it is not that we are seeing a lot of opportunities that we have not been able to capture, the opportunities in the market just have been quite bad; the political situation hasn't helped much. That said, one project is basically complete, the other is nearing completion. On the finished stock we are optimistic that if we can't find at least some individuals there will be investors out there who are open to it. At this point we are studying a variety of options and we hope to have some traction there, we understand this has obviously underperformed our own expectations as well as yours.

Sameer Baisiwala And on the cost inflation as far as the construction and other activities are concerned, how has been the trend and do you think now wage inflation etc. are they all subsiding or do you think this is going to continue even into the next year?

Pirojsha Godrej I think some amount of cost inflation has to be build into our expectations, what that exact level is, is something which could be debated but certainly for all our new projects for example we look at a cost inflation at a base level of about 7-8 %, at the base case cost inflation numbers, when we do some scenarios around that. In a country like India which is growing quite quickly, it is reasonable to expect cost inflation, we also expect selling price inflation.

What had not been expected and what I think was unusual and unlikely to be repeated, was the kind of cost inflation we saw in the period of two years, until about 6 months ago, where it was 20% year on year, almost 80% over a total two year project horizon and that is as we know badly impacted the sector, impacted our Company's margin as well. Things like labor in India will continue to get more expensive, but the rate of commodity inflation particularly in a subdued economic environment we think is not likely to be as high as it has been during that two year period. And what we have seen over the last 6 months is that the construction cost has remained pretty consistent so that has been a good sign whereas selling prices in most of our projects have seen a good improvement.

Moderator Thank you. Our next question is from Abhishek Singh of B&K Securities. Please go ahead.

Abhishek Singh The buyer profile in Godrej One, the amount what you have sold out here, whom have you sold these units to? Are they normal corporates or is it a group entity which is involved in this?

Pirojsha Godrej As we indicated last quarter, the strategy now is to sell the entire building to our own group companies. We do not want to sell externally because it is our headquarters building, as a group we would like to retain entire control of the asset. The reason for Godrej Properties to sell it is to unlock capital that we have tied up in the project and we can invest that in other projects. But we will not look at any non group sales, because as I mentioned we want to retain the entire asset. For any part that the group does not use for its own purposes, the group companies will then lease it out once the building is completed.

Abhishek Singh And the next phase is that you are targeting to launch will be a residential one and not a commercial one right?

Pirojsha Godrej That is correct.

Abhishek Singh And on your standalone margin profile, excluding the other operating income which mostly comprises the G&B Moosapet onetime fee, what you have received, the EBITDA margins are not looking that healthy on a QoQ basis, it has even been negligible. So any reason for that in specific?

Pirojsha Godrej Yes, we have talked quite extensively about this Abhishek, and we have been quite clear in admitting that the margin profile on some of our old projects which are under construction and are driving our revenue recognition hasn't been where it needs to be. As I mentioned in the last response, the main driver for that has been that construction costs have escalated tremendously over the period when those projects were launched; selling prices of course have also increased. So for example most of the revenue recognition is coming from projects like our projects in Gurgaon, Godrej Frontier, Godrej Garden City in Ahmedabad, Godrej Prakriti in Kolkata; now all of those projects would sell today if we had available stock at prices 30% or higher than the selling price we actually sold on. Unfortunately, we lost a large amount of those on low prices and had to bear the burden of those increased construction costs.

We have also talked quite extensively about how we would like to both in the short-term and on a more sustainable basis deal with this problem. And on a longer term basis the solution we have in mind are to first of all be a little bit more careful on the types of project structures we are entering, with a focus more on profit sharing joint ventures rather than revenue sharing so that the cost escalation is shared with the partner. A similar benefit is available through the residential investment platform we have created and the developmental management fee model which will also be a large part of our business - totally eliminates the risk of construction cost escalation. So those deal structures would be greatly helpful.

The work we are doing on Project Pyramid towards operational excellence, the way we are planning, the phasing of our project, the launching, the launch pricing, how much to sell, how much to collect, we think all of these measures will also help. So we feel pretty good about the measures we have put in place to ensure we don't repeat the same kind of mistakes and have the same kind of problem that we currently have, but we are happy that we are finding short-term solutions to these issues as well.

Abhishek Singh So do you feel selling most of the inventory right in the initial phases like the one we also did in the Godrej Summit is also kind of problem which might arise later on what we have currently seen in this Garden City and Prakriti projects. Are you seeing that strategy to change going forward, retaining a bit of inventory for the future and then doing substantial pre sales later on in the project life cycle?

Pirojsha Godrej Yes that clearly is one of the learning, is how to exactly phase the projects. Frankly though I don't think there is a one side fits all rule that we can put in

place that either you should sell 10% or 20% of 50% of a project, it will have to be a case by case decision. Now for a project like Ahmedabad for example it was absolutely critical for us to sell huge volumes upfront to establish momentum in the project, so I don't think frankly if we had to do it over again we would do anything very differently. For a project like Godrej Prakriti in Kolkata we have been selling quite gradually along the life of the project. Perhaps the project where did make a mistake in retrospective, Godrej Frontier, our first project in NCR, where you know we wanted to show momentum again in that market and show strong success with our first launch. But we perhaps over did it by selling too much at the initial stage of the project and leaving ourselves with almost no inventory in the project.

I think we have learned that lesson for Godrej Summit and our decision was to sell 50% of the inventory we could have quite easily sold more than that. Now to explain your question you could argue that perhaps it would have been better placed by selling 25% instead of that 50% of 30%. You know, these are all reasonable arguments and we as the management team will have to take a call on these on a project by project basis. Our feeling for Summit in particular was that we had gotten an extremely strong response. We were already getting prices, far beyond the prices we had underwritten the project at levels, where we feel margins are very well protected and we still have a million square feet to go. And our sense was particularly given the kind of excitement about the project and the excitement in the Gurgaon market, that it made sense to capture a lot of that opportunity and de-risk the project, get the cash flows from the project, lock in those base volumes and create some excitement about the project. We think that that launch has gone as flawlessly as possible and we certainly wouldn't redo any part of that. The kind of visibility and advantage that gives us in attracting new customers in Gurgaon and equally importantly in attracting joint venture partnerships in Gurgaon should also not be underestimated. So could we have squeezed a little bit more margin out of the projects by taking an even higher price hike? Yes, I am sure it would have been possible but we did not want to spoil a good thing and we thought we must first capture the opportunity on the table and then play for margins on the second half of the project, which is what we will do.

- Abhishek Singh** So it will not be wrong to assume a substantial hike in the price realization in Gurgaon going forward?
- Pirojsha Godrej** That is right.
- Moderator** Thank you. Our next question is from Sumeet Rohra of Silver Stallion. Please go ahead.
- Sumeet Rohra** Many congratulations on a great set of numbers. On page 13, there is a red tick on the Godrej Garden City in Ahmedabad, is that because of the fact that we are not getting approval or is that because of lower demand? What is the rate per square foot prevailing in Ahmedabad today? Sir now to come to the very exciting part is that we have done 1.6 million square foot for this quarter. So can we do like 6 million for this year and hopefully 10 million for next financial year, because ultimately we are Godrej brand. So when can we manage get the 10 million figure?

Pirojsha Godrej Yes, we are very aware of the red mark on the Ahmedabad launch, it will go away this quarter. It is a little bit of a combination of slight approval delay and us wanting to exhaust more of the inventory but we think we will see a good response to the launches in that project this quarter.

You should also know we don't give specific guidance on what we expect to end the year at. But as I did mention, the second half of the year has usually has been a stronger period for us than the first half of the year and we were quite optimistic about the second half of this year and clearly next year hopefully we can set ourselves for another strong year. Our business development has been firing on all cylinders and so we have got a good healthy set of projects. One of my most important focuses and KT, Srin and all of us are extremely focused on making sure we get our projects to the launch stage as quick as possible. I don't think we have done as good a job as we needed to on that in the past and I think hopefully we can demonstrate improved performance there.

Sumeet Rohra What is the price at GGC, Ahmedabad now?

Pirojsha Godrej About Rs. 3,200 a square feet.

Moderator Thank you. Our next question is from Deepak Rohra of Quest Investment Advisors. Please go ahead.

Deepak Rohra I have couple of things on The Trees project, what is the total launch in Phase I is it 750,000 square feet?

Pirojsha Godrej Yes, 7,58,000 square feet to be precise.

Deepak Rohra And we have sold about half a million as of now.

Pirojsha Godrej That is right.

Deepak Rohra And then the entire land parcel that is there under The Trees, in one of the interviews I think you mentioned that it is going to be about 3.7 million square feet total developable area or is there an increase now?

Pirojsha Godrej Yes, these are not totally exact numbers, what we have guided on a slightly conservative basis is 3.5 million square feet. I think you are correct, I did say 3.7 million square feet and we do think that there is a chance that it could be 3.7 million or more as well. But on a sort of conservative basis estimate of saleable area we said 3.5 million square feet for now.

Deepak Rohra Okay, on The Trees on the numbers part of it, since I think you mentioned that this project has got an EBITDA level of about 40%. Now looking at the income that has been booked of Rs. 219 crore for the H1, if I do a rough math, it looks like as if Rs. 85 crore of EBITDA has come from just this one project. If you look at your income breakup that has been given in the first half of 2013 that is till September, you have booked a project income of Rs. 219 crore, Rs. 218.7 to be precise.

Pirojsha Godrej Keep in mind that a lot of that is minority interest and it also goes to Godrej Industries, so our share in the profit is 60%.

Deepak Rohra Sir on this issue, now that you own the land as oppose to G&B owning the land, there is absolutely no change, because earlier the deal was that the Godrej Industries does a long term lease on a land that was owned by Godrej & Boyce. Now the owner is Godrej Properties, but there is absolutely no change in the terms.

V. Srinivasan The owner is not Godrej Properties. The owner is the LLP which is developing the project. That is a partnership between Godrej Industries and Godrej Properties a 40-60 profit sharing.

Deepak Rohra That is Godrej Industries and Godrej properties.

V. Srinivasan Yes that doesn't change.

Moderator Thank you. Our next question is from Hitesh Doshi. He is an individual investor. Please go ahead.

Hitesh Doshi Just one question in Panvel, in case the FSI of the project increases the terms of the profit sharing would remain same with the JV partner or will they be having a higher share of the profit in that case?

Pirojsha Godrej The terms remain the same; what we have agreed is that by the time project is launched we will have put in a Rs. 25 crore advance to the project of which about Rs. 5 crore is currently being paid. If the FSI increases, that advance will increase proportionately. So for example, if the FSI become 1, instead of Rs. 25 crore the advance would be Rs. 50 crore. Of course, the advance as a percentage of expected profit from the project is miniscule but we don't anticipate any problem with that.

Hitesh Doshi That advance will be set up against first batch of profit or how it would the advance be redeemed, it would be redeemed in initial stage of the project ?

Pirojsha Godrej The advance will be received through 50% of the joint venture partner share of profit until it is exhausted.

Hitesh Doshi Can I know the selling price for Godrej One in second quarter?

Pirojsha Godrej Little over Rs. 15,000 per square feet.

Hitesh Doshi And by when can we expect the booking for residential part of The Trees to start?

Pirojsha Godrej We expect to launch the project next financial year, exactly when we will do that we will have to determine as the project unfolds.

Hitesh Doshi You start to book for residential part of the project in the next financial year?

Pirojsha Godrej That is our current expectation, yes.

Hitesh Doshi You said your master plan for Vikhroli may be ready by then?

Pirojsha Godrej We also hope to have it ready by then.

Hitesh Doshi And you might be having the approval for the master plan as well?

Pirojsha Godrej We don't get approval for a master plan, we get approval for the specific project that we launch.

Hitesh Doshi You will give the master plan only after you have the major approval for the project right?

Pirojsha Godrej No, I think we already have the master plan in place for The Trees which is a 35 acre project, what I was mentioning was more an architectural master plan for a larger Vikhroli development.

Moderator Thank you. Our next is from Samar Sarda of Kotak Securities. Please go ahead.

Samar Sarda On the BKC project, assuming the private equity is little delayed and we have already appointed a contractor what is the mobilization advance to L&T and if the alternate funding is delayed, would we plan to raise more debt on this project?

Pirojsha Godrej The mobilization advance are very small figure compared to the kind of investments in the project. As I mentioned we also hope to open sales on the project. So certainly we would expect better sales collection than the mobilization advances required. One of the things that we have looked at under our Project Pyramid is trying to control these mobilization advances to the extent possible. So I don't think that is certainly not a major cash outflow for the project.

Samar Sarda And talking about sales and the agreement with Jet, what are the indicative prices that you are getting right now for under-construction or about-launch project for a commercial property. And according to your estimates by when will you start giving out some cash to Jet from these projects like making some positive operating cash flow on this project?

Pirojsha Godrej I will take your second question first. The agreement with Jet is that clearly all the cash flows to the project will stay with the project and therefore stay under Godrej Properties' control. At the very end of the project, once it is fully completed in every way there will be a determination of the accounts of the project and at that point we would pay Jet any residual profit. In a very negative case scenario it could be recovery from Jet also at that stage but of course we don't anticipate that.

Samar Sarda And the indicative pricing?

Pirojsha Godrej Well, you know we will decide exactly just before the launch but we want to price it in a manner that we think will be competitive and will allow us to achieve bookings; we see that being likely somewhere in the range of Rs. 25,000 per square foot.

- Samar Sarda** And also with regards to the Hyderabad market, the market has been quite weak for the last 2–2.5 years, now what are the prices going on in and around Moosapet where we are launching the project and given the condition of the market, what kind of a project are we looking to launch there, would it be an affordable housing project with smaller ticket sizes or what kind?
- Pirojsha Godrej** We have two projects in Hyderabad. Moosapet is actually in a quite well established location, we think prices there are in the range of Rs. 4,000 per square feet. Patancheru project is probably a bit lower may be sub Rs. 3,000 square feet kind of pricing. We will evaluate the exact type of project, but largely I would expect it to be in line with the kind of project we have with Godrej Prakriti and Godrej Garden City in Ahmedabad.
- Samar Sarda** With regards to the Panvel township project excluding the FSI going up to 1 whenever it happens, with regards to the other township approvals who is responsible for that, Godrej Properties or the joint venture partner?
- Pirojsha Godrej** The joint venture partner.
- Moderator** Our next question is from Bharat Sheth of Quest Investment Advisors. Please go ahead.
- Bharat Sheth** Sir in initial remark you said that whatever momentum we have shown in first half that kind of momentum we would look for. So based on whatever launch we have done on Q1, first half as well in second half, what kind of sustainable revenue booking growth that we expect? Of course in first half we have done around 64%, if you remove onetime income of Rs. 16 crore.
- Pirojsha Godrej** Yes I think we expect a strong second half of the year. I don't want to get into exact projections; we don't like to give guidance on financial numbers, almost all these launches that we talked about are on track. All the recent launches we have seen have done well. We will have a good amount of inventory available. Market condition in the second half will be better both because sentiment is likely to be a bit better and it is typically the better part of the year. Our second half of the last financial year was also better than the first half, so there will be a little bit of higher base effect, but we do expect to be able to deliver good growth for the rest of the year as well.
- Bharat Sheth** So you will be able to deliver a good growth over the second half of last year correct?
- Pirojsha Godrej** That is right.
- Bharat Sheth** And in margin profile, in Q2, if we really remove this Rs. 16 crore from income as well as our EBITDA, we have reported around 26% kind of EBITDA margin and the kind of project inventory we have and the kind of project that we launch and we are planning, so on a sustainable basis, what kind of EBITDA we look forward to for the Company in next one or two years.
- Pirojsha Godrej** Yes we have said that our targeted levels are at 30%. In the short-term we have underperformed that. The EBITDA margin in the first half of this financial year has been about 25% which is about the same as it was last

financial year. We do have a few projects that are putting pressure on those margins for reasons that I discussed in a lot of detail in terms of cost structure having gone up as well as the commercial markets being quite weak. We have been able to find some short term solutions that we think there will be more such opportunities in the coming quarter.

But on an on-going basis I think we are making quite determined efforts to make sure that fundamentally the margin profile of the Company changes and if you look at some of the new launches that will be quite evident. For example Godrej Platinum in Vikhroli is under the development management fee model where margins would be upward at 80%. Bangalore project Godrej E-City is another developmental management project and will have similar margins, perhaps even higher because some costs passed are on there. Godrej Summit in Gurgaon has been quite successful, so we will have higher than Company average margins and will push to further improvement in the next phases of the launch.

We will have good opportunities in some of our new projects in particular to further increase margins, but in the near term our goal will be to achieve this 30%. While we like to be as consistent possible; there will be some variation in this number depending on the projects that contribute in a particular quarter. For example if we are very successful in unlocking a project like Godrej Waterside, it will be a very positive development for the Company, but would actually have negative impact on margins. So I think we will have balance out some of these goals that we have.

- Bharat Sheth** I missed the number that short term, what kind of margin that are we talking?
- Pirojsha Godrej** I think the margin not in the short term but on an overall basis we would like to target which we said for sometime now is about 30%, we have been able to do that this quarter. We have not been able to do it for the half year. That will be the kind of level that we try to target, but as I said there will be some variation we feel on a quarter-to-quarter basis.
- Bharat Sheth** How much development fee have we booked in Q2?
- Rajendra Khetawat** Rs. 25 crore.
- Bharat Sheth** That Rs. 25 crore you said included a 16 crore onetime
- Pirojsha Godrej** Yes, the remaining has been for some other projects.
- Bharat Sheth** So around Rs. 9 crore on recurring basis, correct?
- Pirojsha Godrej** Yes. Also the one time amount was Rs. 15 crore not Rs. 16 crore.
- Moderator** Thank you. Our next question is from Prem Khurana from B&K Securities Please go ahead.
- Prem Khurana** Congratulations on a good set of numbers. First on our project in Vikhroli, The Trees, given the fact that we have seen good response for our Platinum residential development, have we given any thoughts on converting or doing

more of residential development in The Trees? Your realization has improved about 35% on phase I, which would work out 14,000-15,000 kind of number and your residential development seems to be less capital intensive plus in terms of presales tend to be fast moving. So are we planning to change, it is a little skewed towards commercial development side, are we planning to convert it into residential?

Pirojsha Godrej

Yes, it is a great question. Let us put it this way, it is certainly something we have given a lot of thought to, I wouldn't say we have arrived at a decision. Our first priority will be to get residential sales started in the project; we do feel from an overall basis that there is value to having things like a hotel in Vikhroli having some more commercial; it will improve the overall values in the location and for the residential. We have to be cognizant of the fact that while it may be very hard on a single phase to justify doing anything other than residential, at some point we will have to have a mix of asset classes in the project, ideally of course most of the other asset classes could come in future phases where we don't bear the construction cost. So we would prefer to increase the scale of residential. We have already said that the new FSI that we have available from the project size has increased from an initial estimate of 2.8 million square feet to 3.5 million square feet which are quite likely to use all of that as residential. We are skewing towards residential but we have not had any final decision in place, but we certainly don't have any plan to launch additional commercial real estate in Vikhroli in the near future.

Prem Khurana

And if I were to believe that you would do residential development at that phase, so how would we manage competition between our project and the project which is taken by our promoter group companies. So how would we differentiate these two projects?

Pirojsha Godrej

I think there are plenty of ways we can differentiate real estate. We can differentiate it on the kind of apartment sizes, the kind of amenities being provided. For example, The Trees currently planned around a large central park and that is one of the major features, the mixed use aspect of the development would be something we talk about. Most large global destinations for real estates do have a variety of projects ongoing at one time. I think to use examples in India would be something like Gurgaon over a period of time how that developed and I am sure a Company like DLF would have had many different projects going on in Gurgaon at the same time, and we think that is the kind of way that Vikhroli is likely to unfold over time.

Prem Khurana

And on your Godrej Garden City, somewhere in your opening remarks you said incremental booking at Garden City has kind of suffered as limited inventory is available for sale. So what is holding us back from doing any new launches in Ahmedabad? Are there any approval issues?

Pirojsha Godrej

No, nothing really holding us back as I said we expect to launch the project this quarter. In the phases the exact timing of the launches does tend to vary here and there a little bit. For example even these Bangalore projects we were only able to soft launch them in the first half, the official launch happened in October, similarly there is a slight delay in Ahmedabad, but I don't expect it to affect our expected outcome for the year for the project.

- Prem Khurana** And in case of Ahmadabad project we are supposed to deliver phase I in next 6-9 months, so do you see these units coming up for resale and kind of hurting our presales number because these were offered at some Rs. 2,300-2,400 per square feet kind of numbers when it was launched, your current going rate is around Rs. 3,300-3,400 per square feet. These were offered at a discount, I understand it has been three years and buyer would want to make some profit and even they can undercut you and push their volumes.
- Pirojsha Godrej** That is true in any project, but we don't anticipate that to be a major problem, the market for finished real estate is quite different generally from the market for under construction projects; it is usually a different set of buyers who are interested. We think on the flip side of that, actually the first delivery could be a very positive development for the project and our momentum in sale because people will see that we are delivering the project on time with the project is starting to take shape that people are starting to live there. We think the set of buyers who may not want to enter the first stage of this kind of a development, but once they see things happening on the ground and the people actually living there a new set of opportunities will open up. Most of the large township projects you do have the situation where there are finished stocks available, but I don't think that usually holds back project and you know again there are many examples in most Indian cities of township where volumes pick up as the activity levels in the township and the desirability of being in the township improves.
- Prem Khurana** And in case of Moosapet project, has there been any change in understanding with the group company as in it was suppose to be a JDA with 35-65 profit sharing ratio, but now it seems to be converted into development management project?
- Pirojsha Godrej** Yes, there has been a change in understanding and this is what we talked about earlier. It has as you rightly said been shifted to a development management fee project. That is the preferred model for us particularly for a project in Hyderabad where I don't think we would be very keen necessarily to make fresh investments. We prefer this model and from a governance perspective even the total profit expected from the project remains the same, we have received this upfront fees. Any way you look at it, I think it is a very positive development for Godrej Properties.
- Prem Khurana** And in case of Thane project do you intent to continue with JDA model or it could be converted as well?
- Pirojsha Godrej** It could be converted, that project is launched a little bit further away so we haven't taken a decision. Our preferred model for working with Godrej & Boyce in particular will be the development management fee model, so I would say that there is reasonable chance that would be converted as well.
- Prem Khurana** During H1 FY13 we have seen some Rs. 140 odd crore of decline in trade payable, does it have something to do with the payments that we have made to group company for Vikhroli land parcel. Also if you could explain the drop in trade receivable it has been Rs. 100 odd crore.

- Rajendra Khetawat** I will take your second question first. Trade receivable drop is on account faster collection, so the trade receivables are coming down. As far as the trade payables is concerned yes you are right, last time the G&B payments were all sitting in the trade payables of which Rs. 125 crore has been paid in first quarter so that is why the trade payables are decreasing.
- Moderator** Thank you. Our next question is from Aditya Bapat of GEPL Capital. Please go ahead.
- Aditya Bapat** Sir, having a look at your cash on your books for the past few quarters, there has been quite an erratic trend I would say that the cash has shown, so first of all what is leading to this and what kind of a trend can we assume going ahead?
- Pirojsha Godrej** I think the real estate business frankly by its nature is a little bit as you described erratic. There are one time inflows or outflows of a substantial nature. So for example in Q1, we had a large payment that was made for the Vikhroli land. There will be in the future also large sources of income and large sources of outflow which don't necessarily always totally match. What has happened though is that we are now much more focused on this and we are looking at how soon we can take all projects to a cash flow positive situation and keep them there. This is something which we are laying a lot of emphasis as a Company. But I don't think we could say that as a real estate company will be able to deliver totally steady cash flow performance on a quarter-on-quarter basis. As we enter into a new project we may have some investment to make in that project, if we exit some commercial real estate we could have a huge inflow on the other hand. I don't think it is even necessarily a worthwhile goal for the management to try and completely smooth that out. Of course we don't want wild swings happening; we do want as much predictability possible. But there is some amount of inherent fluctuation that is inherent to the sector.
- Moderator** Thank you. Our next question is from Sameer Baisiwala of Morgan Stanley. Please go ahead.
- Sameer Baisiwala** Just a question on the business model or any thoughts how do you think about it and going forward buying land directly from the farmers, is it something that the Company is thinking about?
- Pirojsha Godrej** No I don't think that is ideally within our model. We think of course there are good returns that can be made in such a model but it is much more time consuming model, it is much more risk capital kind of model and I don't think it suits either our strategy or capabilities ideally. So that won't be an important priority for us. We do look at opportunities of partnering with people who are acquiring land or who have acquired land, but there is no particular interest in trying to directly acquire agricultural land ourselves.
- Sameer Baisiwala** And capital constraint is the key reason for this or?
- Pirojsha Godrej** I wouldn't say capital constraint is the key reason, we just think that our capital is better deployed by doing the kind of models we are currently doing. There is huge returns possible on the model you described as well, but there

is a lot of risk, there is a lot of complexity which we feel we are not ideally suited to handle, most of that is dependent on a developers skill of getting approvals and so on which is not the really the core part of our business. We think we can get similarly exponential returns from focusing on models like profit sharing and development management fee project on purchasing land through our partnership model on redevelopment projects. We are quite happy with the set of opportunities we see ourselves, there has been much more traction on that over the last couple of years than before and we require confident of being able to sustain that.

Moderator Thank you very much. Ladies and gentlemen due to time constraints that was the last question. I would now like to hand the conference 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 like any additional information, please don't hesitate to reach out to any of us. Thank you again for taking the time and for all your support. All the best.

Moderator Thank you very much members of the management. On behalf of Godrej Properties Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

- ENDS -

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