



## Godrej Properties Limited

### Q2 & H1 FY2018 Earnings Conference Call Transcript

#### November 03, 2017

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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 evening, everyone and thank you for joining us on Godrej Properties Q2 FY2018 earnings conference call. We have with us Mr. Pirojsha Godrej – Executive Chairman, Mr. Mohit Malhotra – Managing Director and CEO and Mr. Rajendra Khetawat – CFO of the company. We will initiate the call with opening remarks from the management, following which we will have the forum open for Question-and-Answer Session.
- Before we begin, 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 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 for Godrej Properties' second quarter financial year 2018 conference call. I will begin by discussing the highlights of the quarter and we then look forward to taking your questions and suggestions.
- I'm happy to note that we registered another strong operating quarter. For the first time in its history, GPL delivered sales of more than INR 1,300 crore for two consecutive quarters. The total sales for the quarter stood at INR 1,335 crore which represents a YoY growth of 122%. We had excellent launches in Bangalore and Noida combined with strong sustenance sales across our existing projects. At Godrej Air in Bangalore, we sold more than 500,000 sq. ft. with a booking value of INR 333 crore making it our best ever launch in the Bangalore market. Our Greater Noida project witnessed continued traction and total sales in that project have now reached 1.65 million sq. ft. worth INR 961 crore within 10 months of the project's launch. In addition to this, our sustenance sales witnessed strong traction and we sold 870,000 sq. ft. worth INR 883 crore from our existing inventory. Notable amongst this was Godrej Emerald at Thane where we sold 273 apartments worth INR 235 crore from our existing inventory. The first half of the year has been exceptional from a bookings perspective where we have already achieved 40% more bookings than the total value of bookings in all of FY17. Given our exciting launch pipeline across the country, we hope to further build on this momentum in the second half of the year.

We have taken another step towards monetizing our commercial portfolio. We sold 75,000 sq. ft. at Godrej BKC for INR 272 crore. Most of the cash due from this transaction is still to be received and will bolster our operating cash flow in the quarters ahead. We remain confident of monetizing a significant portion of our commercial inventory by the end of this financial year. This remains an important priority as it is a significant lever for us to unlock capital which can be redeployed more effectively in new residential projects.

The first half of the financial year has been the best ever half-year period for GPL business development in terms of the number of new projects we have secured. We added 8 new projects with a saleable area of close to 18 million sq. ft., which is approximately equal to the total area we added in the whole of FY17. In Q2 FY18 we added 4 new projects with a combined saleable area of 12.6 million sq. ft. The first project is a development management agreement for 2.1 million sq. ft. at Thane. The project is expected to be launched in this financial year itself. We further strengthened our Bangalore portfolio with the addition of two new projects. The first project is development management agreement for 4.7 million sq. ft. at Sarjapur and the second one, located at Devanahalli, will yield a saleable area of 1.34 million sq. ft. under a 55% profit sharing arrangement. We also added a project at Mamurdi in Pune which has a development potential of 4.5 million sq. ft. GPL will receive 11% of revenue as DM Fee and 26% of the profit from this project. There is currently an immense opportunity in business development as weak markets and the introduction of RERA has made many developers reconsider their plans.

Coming to the financial performance, our total income for the second quarter increased by 45% and stood at INR 532 crore. Our EBITDA increased by 86% to INR 115 crore and net profit increased by 89% to INR 44 crore. For H1 FY18 our total income increased by 25% and stood at INR 877 crore, EBITDA increased by 45% to INR 193 crore and net profit stood at INR 67 crore.

As a group we have always championed the cause of sustainable development and I am extremely happy to share with you that this year GPL was ranked 2nd in Asia & 6th globally by the Global Real Estate Sustainability Benchmark, which is an industry-driven organization that assesses Environmental, Social, and Governance performance of real estate companies globally. GRESB is widely recognized as the global standard for portfolio-level sustainability and governance reporting and benchmarking in the real estate sector.

2017 has been a transformative year for the real estate sector as it moves to a new growth path with increased transparency and accountability. We are seeing a wave of consolidation in the sector triggered by a shift towards organized developers who have many important advantages in terms of their governance, customer reach, and access to capital. This will help us to accelerate our business development and further strengthen our development portfolio. The recent policy measures to recapitalize public sector banks and build infrastructure are expected to improve sentiment and create a supportive environment for growth. Our performance in the first half of FY18 has demonstrated our ability to grow rapidly despite a challenging industry environment. We strongly believe our focus on building presence in high return markets with a deep focus on execution across our project portfolio puts us in a strong position to benefit from what we expect will be a robust recovery in the sector in the years ahead.

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

- Moderator:** Thank you. Ladies and gentlemen, we will now begin with the Question-and-Answer Session. The first question is from the line of Abhishek Anand from JM Financial. Please go ahead.
- Abhishek Anand:** You have exited your DM agreement with G&B during the quarter. But we still have some 4.8 million square feet in Hyderabad. Do we have any visibility on that, clearly that is not a focus area, so what is the strategy in that market now?
- Pirojsha Godrej:** Thank you for the question. As you rightly pointed out, we do have one very old project in Hyderabad still on the balance sheet. This is a piece of land we acquired I think more than 10-years ago. I think there are two options – one is monetize the balance through selling it. I don't think we are saying that now we don't want to be in a market like Hyderabad. I think our best guess is that a few years down the road once we feel we have taken a great crack at expanding within these four markets, a city like Hyderabad is a pretty logical choice to look at entering. But I think we have not made any judgment between those two options, we may just let the land sit there and come to developing it when we enter or we could look at monetizing it.
- Abhishek Anand:** Same is the case for the other non-focus markets?
- Pirojsha Godrej:** Actually, it is a little bit different. In Hyderabad project, we have not launched anything, we have no active kind of work, going on there, whereas in Nagpur, we do have an active project and Kolkata similarly is a city while we are not as focused on growing that market as we have done for the top four markets. It is not the city that we have any plans to exit, we have an existing presence and team there and we do see growth opportunities including one new project that we are planning to launch.
- Abhishek Anand:** We have seen quite a few DM projects added to our portfolio. What I would like to understand here is how is the risk mitigated because as we understand you are the marketing manager of that project, but in terms of execution, what are the checks in place and how much time do we invest? How much manpower do we invest in these projects and whether 10 or 11% justifies the involvement of GPL?
- Mohit Malhotra:** I think we have been very stringent in our DM arrangements. We look at the partner profile very strongly. The other thing which we have done is make the contracts water tight. So from an operations perspective, it will be very difficult for anyone to distinguish between a DM project and a regular profit sharing project because we take full operational control of the project. Even before RERA came in, we used to have a very stringent escrow mechanism in place. Recently, we have introduced one more structure within the DM structure where we are controlling the SPV by taking some shareholding in the SPV at a minority level. So every time we have been innovating to mitigate our risk and we are very cognizant of the risk involved. Also, when we are evaluating projects, we make sure that the financial risk is covered and in case even if we have to step in financially and complete the project, there is enough buffer in the project. So there are a lot of checks and balances internally before a DM project actually goes through.
- Abhishek Anand:** Since you are involved at operational level as well as on execution level, would it make more sense to go for a profit share in these projects because anyways you are completely involved in it and I understand the capital allocation angle but given the risk involved, given DM partner is equally responsible and your brand name is at

stake. I am just trying to understand basically the decision-making point of profit share versus DM for a particular project?

- Pirojsha Godrej:** It is a good question and a fair question. I think the honest answer is probably we do prefer profit share between the two options but I think it is important to keep in mind that we are not operating in a vacuum, I think the joint venture partners who are partnering with also tend to have very strong opinions on which of the models they want to work under, and there are a large number of partners who would not do profit sharing agreement who are open to DM project and similarly there lot of partners who would not do DM project and do the profit share. These things are on balance, both models take a lot of sense for us, they have slightly different advantages which is why we do not want to actually get to a situation where we have 100% under only one of the model. But I think while the DM model clearly the disadvantage is the one you highlighted which is the absolute return is smaller than it might be for other projects, I think you actually look at some of the DM project for example that we closed last quarter you see these are multiple hundreds of crore profit to GPL kind of project and not extremely long-term project or something like that. I think they are highly value accretive obviously great boost to our return metric and allow us to do much more development than we could if we were investing in land for all the projects. So we entirely agree with you that the development management fee model isn't the model that we should use for all our projects for the reasons you cover but at the same time we think it is a very valuable part of an overall portfolio of structure that we can use and please always keep in mind what the joint venture partner would like because that is ultimately important for us to be able to maximize the business development opportunity.
- Abhishek Anand:** Sir, my last question is did we delay demand letters during the quarter because of GST and RERA related adjustments in the contracts?
- Rajendra Khetawat:** We did not delay any demand letter. Because of GST, we have preponed some of the demand letters, there were certain things where the work was done, and GST would be applicable had the demand letter gone after the GST period. So there is no delay pre-GST, post-GST. I think the demand letters are going on time as and when work is progressing on the site.
- Moderator:** The next question is from the line of Puneet Gulati from HSBC. Please go ahead.
- Puneet Gulati:** Sir, help me understand the contours of the Ahmedabad agreement which has changed. Have you been able to take back some cash advance and have you given more advance as you move from revenue share to DM kind of agreement?
- Pirojsha Godrej:** There was no cash was exchanged at the time of restructuring. The understanding is for the future phases, the first of which we hope to launch within the financial year. There is a small amount upfront of Rs.50-60 crore that is still due on the original advance which will continue to be recovered on the existing phases and if any of it remains we will also recover that from the new phase.
- Puneet Gulati:** How much area would come under this new agreement?
- Rajendra Khetawat:** Whatever we have launched till phase 5 which is around 5 million would remain under the old. The balance will fall under the new arrangement.
- Puneet Gulati:** Trees is pretty much 80% sold, Platinum you just launched this quarter, so that I presume going by your past and would be sold in a month or so. So what next on Vikhroli now – how should we think about it?

**Pirojsha Godrej:** Obviously, it is a big piece of land and there are other opportunities for projects including some stuff that we are working on. I think overall plans in Mumbai have been held back due to various issues that have cropped up over the last couple of years including the new DP, DCR and so on. I think we are getting to a stage with better clarity on that. So hopefully we can have some big new project announcements in Vikhroli soon.

**Puneet Gulati:** And then cash from BKC sale, is that due this quarter or do you think it can be postponed?

**Pirojsha Godrej:** It is spread over a couple of quarters, some already, and some in the next three quarters.

**Puneet Gulati:** Whatever the area is left is entirely attributable to you that you do not have to share anything with Jet?

**Pirojsha Godrej:** Correct.

**Rajendra Khetawat:** We have closed the arrangement with Jet. So nothing it is payable or shareable with Jet.

**Moderator:** Thank you. The next question is from the line of Manish Gandhi, individual investor. Please go ahead.

**Manish Gandhi:** I just want to understand now we have done 18-20 million of business development in this six months. So how are we looking for the next six months, I can understand there are a lot of opportunities in the market, but how our organization is internally capable to handle these, because now I understand that whatever deals you are doing, you will be launching very shortly?

**Mohit Malhotra:** That is a great question. Actually there are a lot of good opportunities in the market and we are very careful in evaluating and deciding which project we want to do, under what structure and where to deploy capital. So there is a big detailed framework within which we evaluate projects before it gets signed. One of the critical elements is to also look at the portfolio risk and we divide the projects into various categories, so there are projects which are at early stages of design, there are projects which are at launch stages, and there are projects which are under operations and construction stages. So we just need to make sure that in every region, different micro markets, we have a fine balance of this so that we do not create a portfolio risk from that perspective. In terms of execution, as I had highlighted in even my last call, we have built our organization in a decentralized manner. If you look at it from regional perspective, still there is a lot of ability to scale up because in each of our major growth regions we have between 100-200-odd people, we have been operating in same market for last five years. If I look at even NCR where we are amongst the market leaders, practically we have five, six projects under execution. So there is a very large capability which has been built to scale up. We are also evaluating technology in a major way to de-risk ourselves from execution risk. That is something which is work in progress and we are evaluating all options. But I can just assure you that between people, process and then technology there is a lot of focus to de-risk them from an execution perspective.

**Manish Gandhi:** I just round that question and ask you, suppose if the opportunities are similar or better for the next six months, would you be willing to be the similar kind of deals. I do not want any guidance of course, you will again do 20 million of new BD?

**Pirojsha Godrej:** Yes.

**Manish Gandhi:** The second question is regarding Vikhroli. Pirojsha, any updates on Godrej 2 and now that DP is almost ready, my understanding is there is not much difference from earlier DP, so are we still hopeful of getting the additional FSI?

**Pirojsha Godrej:** I think we have broken ground on Godrej 2 and hopefully get the exact structure and how we develop it, we will have some better clarity in the coming months. We do think under what we have seen is the latest DP that we will have that extra FSI, we will be able to do one more commercial building on the project, but of course, better to wait for it to actually come about and so we can be sure of it.

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

**Abhinav Sinha:** The sales that you have done this quarter, was this pre-leased and then sold out?

**Pirojsha Godrej:** Yes.

**Abhinav Sinha:** Going forward also, are we expecting a similar model now?

**Pirojsha Godrej:** It can be either or. We certainly think there are buyers who want a fixed investment product. So the lease should be considered almost as good a sale from a monetization perspective. On the other hand, obviously, there could be end users who want to buy outright as well we will be open to both.

**Abhinav Sinha:** This was not to your investment platform, right?

**Pirojsha Godrej:** It was in our investment platform from a sale perspective.

**Abhinav Sinha:** Secondly, on the new launch pipeline that we are seeing now, you have given on Page #14 of the presentation, like six large new projects which can come up here, so where are we on the approval process there?

**Pirojsha Godrej:** Obviously, each project will be a little bit different, I think it will be little hard to go through all 15 on the call. This is our estimate of project for which we can get all required approvals and RERA registration and launch then. Clearly, if the past is anything to go by, there will be something unforeseen which can come up and it might get pushed out a little bit. However this is our current visibility which we try to update on a quarterly basis to give you the best possible idea.

**Abhinav Sinha:** Finally, the high amount of sales that you have seen in last couple of quarters, do we see prices moving up in another 2-3 quarters?

**Pirojsha Godrej:** Again, it is very hard to project the pricing with any great accuracy. What I can say is that affordability in the sector is now probably at the best levels in the last 15-years. When we look at cost of real estate, interest rates have reduced considerably around 300 basis points over the last few years, property prices in most markets have been flat, and some markets like NCR have actually reduced a bit. So I think affordability is very good. Our sense is the Indian economy is doing reasonably well. GST will be another fillip to the medium-term performance of the economy. I think RERA will bring in and boost consumer confidence which again should bring back real estate demand. So our own internal estimates suggest that 2018 should be a very good year for the sector overall. I think actually it will be more in the form of volume initially

but that does then subsequently obviously play out in pricing. I think what gives us a lot of encouragement though is that even if we are a little bit wrong about the timing of that recovery, this is a cyclical industry, there will be recovery whether it is in the next six months or 18-months, frankly is a little harder to project accurately. But I think what we feel good about is that actually this current period of pretty negative sentiment in the sector actually gives us a lot of opportunity. So even if it stays a bit longer, I do not think we will be too worried about that because the deal structure we have, we think are reasonably well protected and gives us a lot of opportunity to further strengthen the portfolio.

**Abhinav Sinha:** Just to add to this, do you feel there is some element of investor demand also now which is back?

**Pirojsha Godrej:** We have not really seen any great improvement in the on the ground sentiment around the sector as a whole.

**Moderator:** Thank you. The next question is from the line of Tanuj Mukhija from Bank of America. Please go ahead.

**Tanuj Mukhija:** My first question is GPL has reported about 1.5-1.8 million square feet of sales in the last two quarters. What is the sustainable sales rate if you can give any qualitative comment on that, can you scale it up further from these levels?

**Pirojsha Godrej:** Certainly, we have to be able to scale it up from these levels. Just to put it in context, while we are quite happy with the scale up the company has had and obviously it has been a very strong couple of quarters from an operating perspective, we do continue to see that we are just scratching the surface of what is possible. It is obviously a big sector already, we expect it to be a very fast-growing sector. So there is an opportunity to go and participate in sectoral growth, but I think equally important is obviously a big opportunity to increase market share. Amongst the listed players probably we have had the highest booking value over the last 2-3 years, but our actual market share if you look at it from residential real estate perspective in the country, it is probably still under 1% or just above 1%. I think being able to move that is a big opportunity. Certainly, we are seeing significant headroom for growth. Obviously, it will be up to us execute well and unless we execute well it won't play out. But if we are able to execute well and we continue to see successful business development, setting up the portfolio to have multiple launches in each of our regions, diversify our project portfolio in a region to be covering most micro markets and if we are able to continue the good work that has been happening on sales reach on strong marketing and design, there is no reason why we cannot see the rapid growth from this level.

**Tanuj Mukhija:** You earlier mentioned about affordability being at the best levels right now. Do you think GPL can potentially double its sales over the next two to three years in terms of booking value?

**Pirojsha Godrej:** It is a bit of a dangerous question, can we do it? Certainly. It will obviously depend on how well we execute over that period. But we believe the opportunity is there, even though the market is not doing great, if we execute well, certainly there is a possibility for asset growth and our sense is the market is actually going to do really well over the next decade, there is a dual and kind of rare opportunity to participate in what will hopefully be the rapid sectoral growth and hopefully we can combine that with strong market share gain.

**Tanuj Mukhija:** My last question is on the deposit given to JV partner. Several of your JV partners are stressed for cash flows. So have you increased the deposit given to JV partners in the last six months?

**Pirojsha Godrej:** I think it depends on the deal. Obviously, things like development management fee, no deposits, we are very well open to doing slightly higher deposits and higher profit share to our deal. I think all of us are strategically aligned. Some of the deals we had done are a little bit like that, others are on a no investment basis, but we are open to that.

**Moderator:** Thank you. The next question is from the line of Kunal Lakhan from Axis Capital. Please go ahead.

**Kunal Lakhan:** Can you throw some more color on our Mamurdi land acquisition. What is the product that we are planning there, how is the underlying demand and what are the launch timelines and the monetization timelines for this project?

**Mohit Malhotra:** At Mamurdi, we are planning a mid-income product, we have close to 4.5 to 5 million square feet development for 60 acres. We are trying to do something similar to what we have done in GGL, but it will all depend on design and various options should get created, but I think clearly it is a very strategic project for us and we are quite bullish about it.

**Kunal Lakhan:** Would we be launching affordable housing projects here?

**Mohit Malhotra:** We will follow multi-project strategy in this large project. So we may consider one or two phases or projects within that in affordable segment as well.

**Kunal Lakhan:** When is the launch expected?

**Mohit Malhotra:** Yes, it should happen in next financial year.

**Kunal Lakhan:** Have we frozen the capex commitment towards Godrej 2, the hotel and the retail space that we are planning for growth?

**Pirojsha Godrej:** As I mentioned, we are still figuring out exactly how we would like to structure that. But we should have more details on that shortly.

**Moderator:** Thank you. Next question is from the line of Saurabh Kumar from JP Morgan. Please go ahead.

**Saurabh Kumar:** Two questions; one is of all the projects you are doing what is the sale potential of that, what is the construction commitment and of that how much actually accrues to Godrej?

**Pirojsha Godrej:** We are happy to take that offline. Saurabh, we have some data on that, I do not think we want to publish overall data. But happy to discuss it in a little bit of detail.

**Saurabh Kumar:** Second is how much of this APG platform is now deployed?

**Pirojsha Godrej:** I have not seen the latest thing, I think it is about 50% deployed.



**Saurabh Kumar:** Your other operating income is essentially the fee income which you get from this platform, right and the DM fees?

**Rajendra Khetawat:** No, the other income is on account of interest into JV, interest income and other mutual fund income. The DM income whether it is on the platform or from the DM deals, it gets accounted as an operating income.

**Saurabh Kumar:** So the other operating income is essentially this DM income and this platform income which you get, right?

**Rajendra Khetawat:** Yes, all the DM income gets classified as an operating income because that is the part of our operating model now because it is an established model. So other income is interest, investment income and other stuff.

**Saurabh Kumar:** Basically, what I am trying to get at is the asset management fee which you seem to be getting from this APG platform, seems to be quite low, seems to be like under 1% based on whatever, should it not be higher?

**Rajendra Khetawat:** Because the asset management is broken into parts -- One is our economic interest and those individual projects plus the share of top line which will start kicking in as and when the revenue keeps coming in. So the deployment which has happened over some few months, those have not yet started kicking in a full sense. So as the project starts generating revenue, this operating income portion also will start going up.

**Pirojsha Godrej:** That is not 1% for sure.

**Saurabh Kumar:** But I thought platform-1 is fully committed and most of those would have started accruing at least?

**Rajendra Khetawat:** So the platform one was on a different structure, it was not on a top line sharing, it was first to effect commitment. So some projects have already accounted for and some is still yet to be accounted.

**Saurabh Kumar:** What is the top line you are accruing on the platform-1?

**Rajendra Khetawat:** So I do not have that figure, Saurabh, we can take it this offline, we can share the details with you.

**Saurabh Kumar:** I think that number is still less than 1% of the platform-1 commitment, so that is what my concern is?

**Rajendra Khetawat:** That is not possible, but we can take it offline.

**Moderator:** Thank you. The next question is from the line of Samar Sarda from Kotak Securities. Please go ahead.

**Samar Sarda:** I have three questions; the first question was on your project additions in Sarjapur, we have seen three project additions in the last 18-24-months. What is the strategy of adding such big projects in the same market or what is the distance between these projects and your sales strategy?

**Pirojsha Godrej:** I think you might be talking of the Bangalore project in Sarjapur they are actually in different parts of city, we are very happy to show you the differences I think they are

quite clear. So these will be kind of differently positioned projects. One is an excellent and central location, will be high-end residential project, one where we are having partnership with Godrej Agrovet, it is a little bit on the outskirts, it is more like plotted development. I think there is a clear rationale and ability to kind of simultaneously manage these projects.

**Samar Sarda:** The second question was on the Pune project which you started with the fund. Just to take this question further, it is a location which is little off-Pune, so from a pricing perspective, just help us what are you thinking because from a product perspective, are you really planning to launch projects like Rs.2-3-million ticket size or it would be more of 4-5 million ticket size product?

**Mohit Malhotra:** Just to answer your question on Mamurdi, the project is exactly opposite Lodha project in Mamurdi and just to give you a little bit insight, Lodha is selling between INR 6,000 to INR 6,500 in that micro market. So I think it is now quite well established given that Lodha has now started to give deliveries, etc., We are positioning it as end use product for Pune market while there will be investors from Mumbai as well, but this will be at end user market catering to people working in Hinjewadi and some of the other parts of Pune. The connectivity is brilliant. Actually, from there if you want to reach Hinjewadi, it may be faster than reaching it from the Phase-IV.

**Samar Sarda:** The commercial sales in BKC did it happen with the group company or some of the investment platform of the group?

**Pirojsha Godrej:** Yes Samar but it was a leased phase. We leased to outside of the group and then we have sold it.

**Samar Sarda:** The last two quarters, our construction spend is like round about Rs.2.6 million per quarter.

**Rajendra Khetawat:** It is actually sheer coincidence. So more or less we are looking at a construction related outflow from last 2 quarters in the range of Rs.250-Rs.275-odd crore. So it is a number you may see in the presentation it may be sheer coincidence.

**Samar Sarda:** No, because you are launching a lot of projects. What is this number expected to increase to like from a construction outflow over the next two quarters of FY18?

**Pirojsha Godrej:** I do not think we want to get into exact channel for any of these numbers. Obviously, as the scale of the company is increasing with launches, all of this will go up, but so as the collections and other things.

**Moderator:** Thank you. Next question is from the line of Abhishek Bandhari from Macquarie. Please go ahead.

**Abhishek Bandhari:** Given a significant pick up in our business development momentum and disruptions like GST and RERA in last six months, have we seen the competition on business development increased from other developers who are also talking to some of the unorganized companies, talking to same guys whom you are talking to?

**Pirojsha Godrej:** It is similar from that perspective. There are obviously other developers who agree with us that this is an interesting opportune time for business development and have the investment and operating ability to support that. But as you also probably recognize that there are not that many developers in that kind of a position currently in the market. So I think those who have that dual capability of being confident or being able to operate projects successfully in this environment and the financial

ability to be looking at new investments, there are obviously some others like that and we are seeing continued competition from them in BD. But as I also mentioned that list is not very long at the moment.

**Abhishek Bandhari:** The reason I asked is the number of deals what we are signing is probably skewed towards your side and we are not seeing many such numbers getting from some of the other developers. So just wanted to know if you are being a little more pushy or aggressive in taking whatever is coming on the table?

**Mohit Malhotra:** We are a preferred partner for multiple reasons, people look at our capability both in terms of execution and sales. I think the one thing which is a big difference compared to some of the others is that we have been following a partnership model for last 20-years and we typically give reference of our existing partners to new partners and that gives them huge comfort. So there are some softer elements which also make a difference because it is a partnership.

**Abhishek Bandhari:** My second question more on the balance sheet side. Now that our corporate debt rate is hitting close to 8% which probably is a record low for us. Do you think we might be more interested in leveraging our balance sheet if required or we still stick to 1-1.5 which has been previously stated as comfort band on debt-equity?

**Pirojsha Godrej:** I think that is continued kind of approximate comfort range. Now obviously, we may temporarily go below or above that. I could say situation where commercial sales are very strong and we could go even under that for a while or we see a lot of new deal opportunities and we could go a little bit over that for some time and that has happened over the last several years, that has always been the range. We indicated we are comfortable with that and as it gone above it, we try to fix it, when it gone below it, we invested. So I think that continues to be broadly the range that we feel is appropriate from a kind of prudent perspective while also giving the opportunity to kind of stretch ourselves to grow. As you rightly pointed out we do think at 8% our post tax rate comes to around 5%, it is a very attractive source of capital for our loan requirement and we will continue to pursue it, but I think that is the correct range and we will keep revisiting it so.

**Abhishek Bandhari:** My last question is on the hotel announcement you made two or three quarters back. Any more firm up of plan in terms of spending or the timeline out there?

**Pirojsha Godrej:** Not really, we are starting to get into the planning for that project. We are probably at least a year away from breaking ground, maybe a little bit more and then it will take about three-year execution once we do break ground. I think in terms of how to structure it financially and things we are frankly not at a very advanced stage of that yet.

**Moderator:** Thank you. We take the next question from the line of Manish Jain from SageOne Investment. Please go ahead.

**Manish Jain:** I just wanted to get some insight on any trends that you all are witnessing in your BD deals because the Mamurdi deal was very interesting where besides you all, you also took an external partner to sweeten your return profile. The question is broken into two parts – First is what are the trends that you are seeing on the BD side? Second is does your deal closure get delayed when you have taken additional partner to enhance your overall IRR returns?

**Mohit Malhotra:** I will answer the second question first, that is an easier question. So we actually closed even Mamurdi on a record timeline, very honestly it really does not matter if

we have external partner in place, and as you rightly said, it definitely sweetens our return profile to have someone there. On the first question, it is a pretty deep question. What are the trends we are seeing in BD? One trend which I am seeing a lot is there are extremely distressed assets available in the market with the external funding already happened and then there is a bank or NBFC, there is a land owner and those kinds of deals are existing in the market, but they are very difficult deals to actually make financial sense from. That is a one large set of profile of deals which are there. The other set of deals which I see is, medium to large developers actually exiting the development business and asking us to pick up their assets both at a portfolio level as well as at asset level. So there is a lot of interesting opportunities we see in the BD space. Third trend which we are seeing but that may be limited to a few markets is softening of land prices is pretty visible now.

**Manish Jain:** I really want to congratulate you all for Bangalore Godrej Air launch, you have been actually successful in selling it at a slight premium to very-very well-established player who has a ready inventory next door. So again just want to have some insights and trends in your sales booking process because Bangalore we thought had the most dominant and well-established players and here you all have managed to get at par or slight premium. So little bit of insight on that will be very helpful?

**Mohit Malhotra:** So Manish, there is a lot of work that is happening in sales and marketing front, this needs a detailed explanation, maybe we can discuss it offline because this will be a very longish answer, but lot of innovation and thinking is happening, we are obviously pushing our teams to earn premium while we are selling high velocities.

**Manish Jain:** Just one clarification on my understanding; does the shrinking of time gap between a BD deal closure and launch of sales booking, provide a higher certainty of your targeted IRR from that specific project?

**Pirojsha Godrej:** Yes, definitely.

**Moderator:** Thank you. We take the next question from the line of Ritvik Sheth from Deep Finance. Please go ahead.

**Ritvik Sheth:** Sir, I had a few questions; out of this 145 million square feet, what is the area which is under construction and is live?

**Pirojsha Godrej:** Around 30-odd million.

**Ritvik Sheth:** So 30 odd million is under construction and the rest is either legacy projects or they have recently come under business development, right?

**Pirojsha Godrej:** I think Rs.30 million is active construction. If you look at the project sizes now if you look into the last quarter average projects size if you divide per million square feet by four, it is over 3 million square feet. If you see any individual phase, at most would be about a million square feet. So all of these bigger projects of which there are now a large number, we have only part of the projects under any kind of execution. So that is the biggest share. There have been a couple of inactive projects if you will like Hyderabad one, one in Pune under the DM arrangement.

**Ritvik Sheth:** I actually wanted to know what kind of legacy projects which are stuck for some reason or the other. That would be around 10% you said?

**Pirojsha Godrej:** In the ballpark, yes.

**Ritvik Sheth:** Just wanted to check on the inventory at BKC, it is around 250,000 square feet?

**Pirojsha Godrej:** Of that we sold 75,000 square feet. So it is around 175,000 sq. ft.

**Ritvik Sheth:** Last question is on the debt. Since our interest cost is around 8%, so would we be tempted to divert these BKC or the commercial cash flows to residential development, like we can lap up the opportunities which are there in the market and maybe we can earn better returns on that?

**Pirojsha Godrej:** We have no aspiration to see our debt come to zero, we think given our current borrowing cost, given the level of opportunity available in the sector it will definitely be highly counter-productive, to try to bring debt down too low. At the same time, obviously, we have to take a balanced view because there is certainly no shortage of examples of developers who have taken debt a little too far to an extent and then and gotten into kind of vicious cycle. I think it is all about taking that right balance and we think that approximate range is keeping a gearing ratio of 1 to 1.5 which we think balances both objectives.

**Ritvik Sheth:** So basically earlier what you have been mentioning on the call is that the commercial cash flow will go to reduce the debt. So more or less it answers?

**Pirojsha Godrej:** No, I think the commercial cash flow will both to reduce the debt and for fresh investments, I think is what I have been consistently saying.

**Moderator:** Thank you. We take the next question from the line of Manoj Dua, individual investor. Please go ahead.

**Manoj Dua:** I am an individual investor, I am from Noida and last week I visited your Greater Noida site and the construction work was quite brisk. So can we expect revenue recognition from this project in Q4 this year?

**Mohit Malhotra:** Manoj, it will be difficult to give a guidance on that. We are obviously constructing at a rapid pace and we are looking at using pre cast technology there to fast track construction, but giving guidance on whether it will come in Q4 is difficult at this stage.

**Manoj Dua:** Sector-150 launch is also due in this month and I hope this will be a good success also. What is your view about this Noida market -- how much close are we towards signing new deals, how are you looking at this market?

**Mohit Malhotra:** Noida market is a pretty complicated market especially because there are land payments which have to go to Noida Authority on a periodic basis. So we are very careful in signing the projects there. So as you have highlighted, Sector-150 is about to get launched there. So we will look at adding fresh in that vicinity after our experience with the new launch. However, in some of the other segments which are may be on towards the 8,000 - 10,000 kind of price points, we are evaluating options. So we are bullish about Noida market but we are also quite careful about adding projects there.

**Manoj Dua:** One thing that you talked about was softening of land prices. The cost for the developer in terms of RERA is also increasing because of the working capital. Do you think the softening of land prices will lead to the softening of the finished product? If yes, whether it will create pressure on the existing projects of a particular developer?

- Pirojsha Godrej:** There are lot of moving parts obviously to this pricing question. On the one hand, we are already seeing land property prices in NCR come down, there is no question whether it is Noida, Gurgaon prices today are lower than they were two, three years ago. At the same time, I think there is obviously a fair degree of pessimism in the sector at the moment. Our sense is that the cyclical nature of the sector isn't going to go away and we probably are quite near if not at the bottom of the cycle now. So yes, there are obviously pressures on developers. Yes, if the real estate market stays as weak as it has been we could see price reduction, but I think there is at least equal and we think much better chance that given the affordability is now already at its best ever level and the economy is doing reasonably well, there is quite a strong likelihood of turnaround in the sector, I think that probably is the more likely outcome.
- Moderator:** Thank you. We take the next question from the line of Sandeep Kapadia from Four Stone Advisors. Please go ahead.
- Sandeep Kapadia:** My question was really on very high level and also from a longish perspective. I just wanted to understand in the annual report, you talked about scaling the business in a substantial way. Can you please elaborate on this, what kind of parameters will be relevant for us to scale? What could be the deterrents to scale it on a multi-fold basis? If you can just put some color on that concept.
- Pirojsha Godrej:** I think the key goal for us will be as you rightly said to scale the business. The best way to measure that we think is booking value from a scaling perspective. But frankly scale without kind of efficiency and high returns is obviously not achieving anything. So I think the key will be to couple that with far improved return metric. I think in a short-term the scale of how we are doing is that probably the operating cash flow over the medium-term I think the most relevant will be to see how our ROE is moving. I think certainly that is the key focus for all of us.
- Sandeep Kapadia:** So those are more like financial goals. I was actually trying to also understand, is there any kind of natural inhibitor internally like either people, processes, systems, just the financial resource, is there any limitation which allows you to or deters you from growing let us say 5x or 10x over a longish period, we are not talking about next 1-2 years, but let us say, 5, 10, 20 years?
- Pirojsha Godrej:** I will put it like if you see overall quality of our execution, any of the things that you mentioned could become road block but it is our job to make sure that they don't. I think whether it is processes, people, execution scalability, sales reach, all of those obviously have to keep moving for us to keep scaling, but again I do not see any reason why we cannot keep strengthening and building those to the required level.
- Sandeep Kapadia:** One additional question I had was there is this whole massive opportunity on Affordable Housing which is kind of talked about and I think you referred to it in the annual report as well. Are we having any kind of a substantial plan to address that market or is there something which is quite below where we target?
- Pirojsha Godrej:** That is a great question Sandeep. I think the definition of affordable housing is something that different people take a different view at. But if you are talking about kind of benefits that have been announced for affordable housing that the government particularly give the income tax benefits, we do think there is a reasonably significant portion of our portfolio that could qualify for that and we do think that it makes sense, there are still some clarifications awaited on exactly how it is going to be in terms of whether it is the full projects, a phase, the building and units within a building. But yes, to answer your question, we do intend to take benefit of this new incentive.

**Moderator:** We take the next question from the line of Bharat Sheth from Quest Investments.

**Bharat Sheth:** I have two, three questions. One is on there is a talk of bringing land also under GST. If it is happening, how it can play out for the industry?

**Rajendra Khetawat:** Bharat that is a proposal which is being discussed. Now, if they bring land to GST obviously the stamp duty needs to be subsumed, otherwise, it is not sustainable. So we need to await for more clarity what is government thinking about. But they cannot add GST on the land without giving a subvention on the stamp duty. So I think we have to wait for some more clarity to come in.

**Bharat Sheth:** We have like Ahmedabad project and Panvel project. Can it be converted into affordable housing to avail the benefit that is available?

**Pirojsha Godrej:** Any project now, if we want to do smaller units can be converted to avail those benefits. So I think on most of these big projects there is at least a case to be made that some phase should be done to make sure that we are able to take those benefits. We will evaluate it both at a policy level once there is a better clarity on exactly how it is to be viewed and of course on the project-by-project basis, but I think there is a very strong likelihood that many of our projects can take advantage of this.

**Bharat Sheth:** We had ambition of reaching 30% kind of EBITDA margin once all the legacy projects are out. So now in the whole journey where we are in reaching that kind of a margin?

**Pirojsha Godrej:** Adjusted EBITDA is the right metric to look at because EBITDA actually includes the cost of interest with the way the real estate accounting standards works. So on adjusted EBITDA basis, we have basically been in that kind of range; we were about 31% last quarter, I think 29% for the half year. But I would at the same time say that there will be a high level of fluctuations in margin in different project contributing in different quarters since the projects are at quite different levels of margin currently.

**Bharat Sheth:** Have you seen any improvement in sanctioning project or approval side from the various authorities?

**Pirojsha Godrej:** I think there is a lot of intent to improve the process, but it remains quite challenging, so nothing major on the ground. But certainly, there has been intent I would say particularly by the BMC to streamline processes, have some time lines and things, but there continue to be at the same time setbacks, so we will have to wait and watch.

**Moderator:** Thank you. That was the last question. I now hand the floor back to the management for their closing comments.

**Pirojsha Godrej:** I hope we have been able to answer all your questions. If you have any further questions or would like any additional information, please do reach out, we will be happy to be of assistance. On behalf of all of us, thank you again for taking the time to join us today.

- ENDS -

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