



## Godrej Properties Limited Q2-FY19 Results Conference Call Transcript November 02, 2018

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**Moderator** Ladies and gentlemen, good day and welcome to the Godrej Properties Limited Earning 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 the conference call, please signal an operator by pressing \* and then 0 on your touchtone telephone. 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, sir.

**Anoop Poojari** Thank you. Good evening everyone and thank you for joining us on Godrej Properties Q2 FY2019 Results 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 would like to 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 emailed to 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 2019 conference call. I will begin by discussing the highlights of the quarter and we then look forward to taking your questions and suggestions.

Under the new accounting standards, for Q2 FY19, our total income increased by 36% and stood at rupees 473 crore. Our adjusted EBITDA increased by 23% to rupees 106 crore and net profit increased to rupees 21 crore. For H1 FY19, our total revenue increased by increased by 24% and stood at rupees 1,529 crore, our adjusted EBITDA increased by 22% to rupees 386 crore and net profit decreased by 45% to rupees 55 crore.

On the business development front, in the second quarter, we have added two new projects with saleable area of approximately 3 million square feet. We have further expanded our footprint in the Noida market with the addition of a centrally located project in Sector 43 with a development potential of 2.2 million sq. ft. This is GPL's 4th project in Noida and 13th in the National Capital Region (NCR). The second project is an outright land purchase located at Ghodbunder Road in Thane measuring 0.7 million sq. ft. This is the fifth project under GRIP II, the ~US\$ 275 million fund which was announced in March 2016. We expect the pace of project additions to accelerate in H2 FY19 as we have an exceptionally strong business development pipeline with two additional projects for which with final development agreements have been completed and a large number of deals for which term sheets have been executed. In keeping with our goal of establishing leadership positions in

our focus markets, and avoiding new projects in cities where we haven't launched a project, we have exited the Hyderabad market. This will free up capital to invest in the top four markets. The current market conditions where there has been an increase in funding costs and fewer refinancing lines for smaller developers presents ideal conditions for well capitalized developers like us to expand our business development portfolio. The availability of funds through our recent private placement and low gearing ratio give us an outstanding opportunity to disproportionately scale our project portfolio over the next twelve months and that will be the number one priority for the company.

The total value of bookings in the second quarter stood at rupees 807 crore which represents a flat quarter on quarter performance but a year on year decrease of 40%. We are disappointed with our residential sales performance in the first half of the financial year, but are confident of delivering a much stronger second half. From a new project launch perspective we had a subdued first half as many of our planned launches were held back due to delays in regulatory approvals. Our sustenance sales performance was once again quite strong in the second quarter. We are happy to note some traction in the monetization of our commercial portfolio in Kolkata with sales of approximately 100,000 sq. ft. in Godrej Genesis; we now only have about ~240,000 sq. ft. of inventory left to monetize in this project. With the rupee witnessing significant depreciation against the dollar in recent months, we are witnessing increased interest from non-resident Indians. We have a strong international presence through our marketing offices in Dubai, Singapore, and the U.S., which we believe will help us drive international sales strongly over the next few months.

At Godrej Properties, we have made significant efforts to integrate sustainability into our business strategy. I am happy to share with you that this year GPL was ranked 4th in Asia & 8th 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. Godrej One was also selected as one of the finalists by the World Green Building Council for the Asia Pacific Network Awards 2018 for Leadership in Sustainable Design & Performance.

In the current liquidity environment NBFCs are facing, they are reluctant to continue to aggressively fund real estate developers as has been happening over the past several years. While established developers with consistent delivery track records still have ample access to capital through both debt and equity, many developers are facing significant liquidity pressure. If this liquidity environment persists, we believe the pace of consolidation in the sector will further accelerate.

In the past two years, the government has taken several steps to increase transparency and accountability in the real estate sector. Earlier this week, the World Bank rated India on the ease of doing business in terms of construction permits at number 52 in the world; a jump in rank of 129 positions from number 181 in 2017. While the benefits of this in terms of faster pace of launches and value creation will take time to become evident, it is very positive that this major constraint to the industry's growth is being tackled head-on by the government. This will greatly help credible developers to differentiate themselves on the basis of consistent performance and delivery. Given our brand, our national presence, and our strong team and capabilities, we are well placed to capture this opportunity.

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.

<b>Moderator</b>	Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. Our first question is from the line of Abhishek Anand of JM Financial. Please go ahead.
<b>Abhishek Anand</b>	My first question is to Mohit. We had seen very good business development last year, but in the first half, we have seen only 2.9 million square feet of projects being added. Just to understand from your side, is this an intentional strategy of going slow on portfolio addition. Are you seeing some lucrative deals ahead or there is some change in strategy on that side. Just trying to understand why there has been a marked slowdown in addition to portfolio?
<b>Mohit Malhotra</b>	Thanks, Abhishek. I think a couple of points. The traction remains very strong. We have signed a very large number of term sheets even in the first half of the year. Now sometimes, the transaction closure takes a slightly longer time. Even these two deals which we have announced were signed in Q1, but we were waiting for certain critical CPs to get completed before we could actually announce them. We have certain other deals also in pipeline for which we are waiting for some CPs to get completed before we can formally announce them, but the agreements are all stitched together and completely signed between the parties. I personally don't see any slowdown at all. In fact, we are seeing massive traction in business development thanks to the liquidity issues and all the challenges in the environment. I think the only difference which we are also looking at is that we are looking at deals which have deeper investment opportunities and also the greater profit potential in the future, so I don't think we are necessarily facing volume pressure. We are basically looking at deals which can make a material difference from a long-term perspective and we are actually having very good visibility on that front as well.
<b>Abhishek Anand</b>	If I understand that correctly then, which means that you are planning to have higher stake in the project, higher profit share, is that correct? Is that understanding right?
<b>Mohit Malhotra</b>	See, we are already doing that, higher profit and higher stake. I think we are taking bigger bets also, so some of these bets are one project could be equal into 4 or 5 projects profitability kind of thing. That is the big opportunity which we see today, especially with the land prices getting corrected and the liquidity pressure the developers are facing. So, overall actually we are overloaded with business development work internally.
<b>Abhishek Anand</b>	Are you already seeing correction in land valuations or is it a bit of an expectation, how are you seeing the market now as compared to maybe say 6 months or 12 months back?
<b>Mohit Malhotra</b>	It is a market to market, developer to developer phenomena, people who have taken NBFC debt obviously are under stress and want to liquidate. I think people have realized that taking debt is not a great option any more. So, I think clearly that phenomena is visible. In some of the markets like North you had already seen price correction quite sharply, so I think it is a very specific situation. You can't make a generic statement on this.
<b>Abhishek Anand</b>	And on the launch pipeline Mohit, how should we look at the second half of the financial year, do we expect the launches to go up, I think Pirojsha mentioned some regulatory issues, have they been sorted out in the project pipeline?
<b>Mohit Malhotra</b>	Yes, we have very strong pipeline of launches in Q3 and we have already launched our project in Panvel. We had actually received approvals for 2 to 3 other projects. So, we are very positive about good launches happening in Q3.

<b>Abhishek Anand</b>	Any update on Godrej Alive. You were talking about change in strategy there. Are we doing something there to increase the run rate of sales?
<b>Mohit Malhotra</b>	We are evaluating all options for that project, The project has NBFC debt on it. I think the environment is giving us some unique opportunities to look at all options in that project. I think on the sales front, we are seeing good sustenance sales happening without any marketing support, so not too much worried about it.
<b>Abhishek Anand</b>	And last from my side, any change in Mumbai development potential post the new DP rules?
<b>Mohit Malhotra</b>	In our project?
<b>Abhishek Anand</b>	Yes, in our project.
<b>Mohit Malhotra</b>	We are evaluating it.
<b>Moderator</b>	Thank you. We will take the next question from the line of Puneet Gulati of HSBC. Please go ahead.
<b>Puneet Gulati</b>	First of all, you completely exited Hyderabad market. Have you also received the entire money? Or do you still have to get some more?
<b>Pirojsha Godrej</b>	We have received most of the money. Just a small amount is pending but we have received bulk of the money. It has been accounted also.
<b>Puneet Gulati</b>	And if I look at the Godrej Fund Management, how much money would still be available in that fund?
<b>Pirojsha Godrej</b>	There is, I forget the exact percentage of deployment, but there is some amount still available. But I think the focus given that now from a Godrej Properties perspective, we would like to have a higher economic interest in all the projects that we are doing, So I think any further rounds of this residential investment platform you see at GPL stake being significantly higher, but there could be another couple of investments from the existing fund.
<b>Puneet Gulati</b>	So, you are planning to raise another fund in this apart from this?
<b>Pirojsha Godrej</b>	No, nothing final has been decided, but if we do look at that, it would be again at a higher investment proportion to Godrej Properties.
<b>Puneet Gulati</b>	Lastly, if you can comment a bit more on the margins. There is still 17% EBITDA margin here. How should one think about these numbers?
<b>Pirojsha Godrej</b>	I think honestly while the margins are very little correlation with actual operations now because you are accounting for projects that were launched many years ago, you are accounting for current marketing cost. So, I think quarter to quarter margins, I don't believe are telling us a whole lot with the new accounting system. Obviously as the scale increases to a point where things are relatively more stable, you will see some of that volatility reduced.
<b>Puneet Gulati</b>	And are your project plans on track - new launches or is there a risk of any delay or any new project getting added over?

<b>Pirojsha Godrej</b>	As of now, we estimate that our launch calendar is on track and we hope to launch each of the projects that we guided at the start of the year. There are couple of projects that are in the business development stage or in the portfolio that are not from the list that we are still hoping to launch, but again I think no guarantees on this until final approvals come through.
<b>Puneet Gulati</b>	Lastly, you also mentioned that you are thinking of taking bigger bets, does that mean bigger size of projects or just higher stake?
<b>Pirojsha Godrej</b>	I think higher stake and one of the other aspirations is for more co-allocations within the centres where values can be a little bit higher, so I think a mix of both taking a higher stake in projects and generally trying to improve the location of the projects.
<b>Moderator</b>	Thank you. Next question is from the line of Mohit Agarwal from IIFL. Please go ahead.
<b>Mohit Agarwal</b>	Over FY16 and 17, we have seen that you would have completed projects of almost 4 to 6 million square feet every year. Over FY18 and FY19 first half, we haven't seen that pace continuing, so just wanted to understand your thoughts as to how things have changed and do we see a lumpy kind of completion going forward and your thoughts on that?
<b>Pirojsha Godrej</b>	No, I think you will see the pace of completion, generally picking up substantially over the next few years, but given that these are often quite large projects, there will be inherently some lumpiness because I think the year in which a project completes can coincidentally be a little lumpy, but overall I think the speed of execution in the company has increased over the last few years and will reflect over the next few years in consistently growing delivery volume.
<b>Mohit Agarwal</b>	So, do you see anything significant coming up if you can guide, something coming up in the second half, because that will also impact your P&L numbers, so anything significant coming up in the near-term completions?
<b>Pirojsha Godrej</b>	I think we do have some projects and some of our redevelopment projects in Mumbai, we think are coming up. There are others, we hope to get off these more quickly. Probably in the first half of next year, we will have some big deliveries in the Trees, first two phases. So, I think there is a decent visibility on significant project completion and I think maybe in the next call we can provide some guidance on that for investors.
<b>Moderator</b>	Thank you. The next question is from the line of Adhidev Chattopadhyay of ICICI Securities. Please go ahead.
<b>Adhidev C</b>	Recently there was some news item that you are looking to buy the RK Studios land in Chembur, could you just clarify on that and are we looking to do some more outright purchases going forward in our 4 focus markets?
<b>Pirojsha Godrej</b>	Adhidev, we wouldn't like to comment on any market speculation. At any given point, we are obviously looking at very large number of deals. As soon as those deals reach a point where definitive agreements are entered into, we immediately announce those projects but I think commenting on projects before they reach that stage is not what we think makes a lot of sense. I think the focus of the company is to continue primarily in joint venture projects and projects through our investment platform. That decision is largely driven by the fact that we think these structures offer us the opportunity to generate higher returns. So, when we see projects that might be available as outright sales, where we think similar returns can be generated either

because we can turn the projects around very fast from an approval standpoint, or the size of the project allows us to complete it very fast or we see very interesting valuations because of liquidity concerns. There is certainly nothing against purchasing land that we have from a principal standpoint, but we would like to make sure that the risk-adjusted returns are similar to what we can achieve to our existing models which we think are working very well.

**Adhidev C** Second question, we have done some activation scheme during this quarter. How was the response to it, if you would quantify on the quarter's total sales, how much would be from this activation? And for the forthcoming launches and existing projects, do you foresee having to continue to do activations to drive sales or do you think market is now more receptive to just good launches by all the leading developers?

**Mohit Malhotra** Are you referring to the happy EMI scheme which we had launched?

**Adhidev C** Yes, that only.

**Mohit Malhotra** We got a very positive response to that scheme which we had launched. In fact, we are still completing that scheme, so overall extremely happy with the results. The whole idea of doing that was to do a very large sustenance sales activation because it helps in our cash flows and I think I am overall extremely happy with the way it has happened and we would like to continue with these kind of engagements may be once every 6-9 months or a year.

**Moderator** Thank you. The next question is from the line of Sameer Baisiwala of Morgan Stanley. Please go ahead.

**Sameer Baisiwala** First question is on the ongoing credit squeeze in the market. Are you seeing the homebuyers also getting affected in terms of their ability to get mortgage borrowings?

**Pirojsha Godrej** I think so far we haven't seen anything like that and we track our own customer base. First of all, it is a relatively even split between customers who are taking mortgages and those who aren't. For those who are taking mortgages, they tend to be from the largest institutions like HDFC and SBI which have the disproportionate share of our customers. We haven't personally seen anything yet and our sense is that for the better developers with established projects and credentials and the customers purchasing that, I think we anticipate much less of an issue even if it does worsen from here.

**Sameer Baisiwala** And second question is on the Panvel. How has been the response for this and any update on the new Mumbai airport?

**Pirojsha Godrej** I think the response has been excellent so far. We will obviously come back at the end of the quarter with more details, but I think we are very encouraged with that launch. The airport, I think as far as we know is certainly happening, there is some initial work now going on. I think the delivery timeline they are talking about is 3- 4 years and we would assume that could be, perhaps, a little bit further delayed, but certainly it seems very likely that will happen in the near future.

**Sameer Baisiwala** And just ask couple of more from my side, why exit Hyderabad given the fact there is economic momentum and the whole IT space is growing over there and the second is on the outlook for the prices, especially for Mumbai and all the interest rates subvention schemes, even the larger, even the most high pedigree developers are now increasingly coming out with these schemes which means that there is a 10-

15% implicit discount in the prices. So, how do you see this pricing thing unfold in Mumbai going forward?

**Pirojsha Godrej**

On your first question, I think the reason to exit Hyderabad was less about the specifics of Hyderabad than about our overall strategy. I think our learning from entering markets that are not amongst the leading 4 markets that we have selected is that the ability to scale our operation there from a market absorption perspective, we think is relatively limited compared to our focus cities. We have also had learning on the ability to create fairly world-class teams that can effectively compete with the best developers and our sense is that we have a huge opportunity in the 4 cities that we are targeting. The data also suggests that two thirds of the value of real estate sold in the country is sold in these 4 cities. Our thought is that by maximizing our focus on these markets, doing the best we can to deepen our presence in these, we are much likely to create value for the company than by spreading ourselves a little bit more thin. So, Hyderabad is a market that certainly we will keep an eye on and as we get to a point in these four markets of relatively substantial scale, in all likelihood I would say in the next 5 to 7 years is probably a market we were might re-enter. But I think the entire focus for the next 3 years is on executing in these 4 cities and doing our best to achieve significant growth in these markets.

On your second question, prices in Mumbai will obviously be affected by a lot of different things over the short term. I think one of the things to keep an eye on is generally this NBFC situation and how that affects developer liquidity. I certainly would not rule out some kind of price correction but at the same time, I think you had now many years of very sluggish real estate sector performance which to us indicate relatively high amount of demand build up in the system, lot of pent up demand that we think is waiting for a positive trigger to come back into market. I think it is a question of when that exactly happens. There is obviously being in the sense that this is about to happen and then tends to be a setback or a new development that has postponed it. Whether it is demonetization or the new development plan and now potentially this liquidity squeeze. What I would say while obviously it will affect short-term performance in some areas, pricing and ability to really scale booking value as much as we want. Overall, we don't think that the current market conditions present a bad operating environment for us. In fact, if anything I think the relative advantages to the stronger players in the sector only increase as difficulty in terms of liquidity and other things increase. So, while there might be some pressure on bookings and prices, there will be huge opportunities on business development and I think in any case, our focus is primarily on that part of the business for the next 12 months because that is really where we see a lot of opportunity. I think the individual schemes that different developers launch, I think you have to look at them quite closely. Many times for the leading developers, the scheme does have a price component that compensates for any disadvantage in terms of timing of cash flows and other things. No, I don't think we are seeing the major developers take any lower price cuts unless on a project level, there is a broad priority to quickly monetize and so on. So, I don't think what we are seeing concerns us greatly so far but certainly, there are enough reasons to be concerned over the next few months in terms of the liquidity situation that we will be closely monitoring which is also why the company's strategy has not been to build up a huge completed inventory portfolio or anything like that. We have been selling as we develop. I think the cash flows from locked in sales across almost every project fully fund the construction in those projects and there will be a lot of opportunities thrown up by these conditions as well.

**Moderator**

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

**Kunal Lakhan**

Quickly on the exit from your non-core markets, you also have some projects in Mangalore and Kochi, how should we look at it, like gradually we look at exiting these markets as well or?

**Pirojsha Godrej** I think that is fair to assume. In Kochi it is a similar situation in the Hyderabad where we haven't launched the project. In fact, there we don't even own the land. It is a joint venture, so you won't see us launching that project. It is a matter of when we agree on terms to exit the city that is very fair to assume. On Mangalore, it is a little bit of a different situation since the project is underway, the first phase is complete. I think we are in discussion to figure out how to handle these subsequent phases and whether GPL will develop those but certainly we don't see beyond this project, any continued presence in Mangalore over the near-term. So, I think really the focus markets are very much the top 4 cities and beyond that, of course we do have our presence and will have a continued presence in cities like Ahmedabad and Kolkata as well.

**Kunal Lakhan** Also if we look at our portfolio, there are couple of projects, more so like one project which is your Bhugaon Township project, which is lying there in past 6-7 years now. What is the thought process there? I understand, we don't have much of stake over there, but it has just been lying there for a long time now. Is there any plan to launch it, is it on stream or how should we look at this? It is a sizable project, it is almost 13 million square feet.

**Pirojsha Godrej** I think some of these projects have ended up getting kind of extremely delayed on a regulatory approval front. Some of them, the structure no longer makes sense given the company's current priorities. I think we have had some success renegotiating some of the projects including a project like Ahmedabad. I think if we were to continue with the Bhugaon project, something similar not necessarily the same structure, but a similar renegotiation would have to be successful. So, I think please be assured that we are very much monitoring our existing project portfolio in each case. We are trying to structure the project where it can move forward. Often regulatory approvals are the concerns of any of these projects which haven't launched for a long time and our efforts are certainly to achieve closure on those.

**Kunal Lakhan** When are we looking at launching the Mamurdi project?

**Mohit Malhotra** Mamurdi, we are fairly advanced stages of approval, so we would launch it as soon as we get approval.

**Kunal Lakhan** And last one from my side. So, looking at our balance sheet, it is pretty healthy, you are sitting on some INR 1500 crore plus of cash and with liquidity crisis that we are staring at in the industry, will we look at acquiring some of these projects on an outright basis, or model of acquiring via JD and JVs. I am sure there will be lot of opportunities, lot of land owners or stuck products that may exist, would we look at those assets?

**Pirojsha Godrej** As I mentioned earlier on the call, I think we are open to it, if we see valuation getting to a level where we find them very compelling or other aspects of the specific project, we think allows us to generate the kind of risk-adjusted returns we think are possible through structures like profit sharing. We certainly will be open to it. Broadly, I think it is fair to state that the company is very focused on business development through outright profit sharing or other structures and thus fully agree that now it is a very unique opportunity to scale the business development efforts given the liquidity environment, given the tough nature from a customer receptivity perspective to other developers and given the fact that we have just raised some capital and unlocked further capital from our commercial portfolio and very much keeping all of that capital with the idea of putting it into business development over the next 6 to 12 months.

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



**Manoj Dua** Sir from investor perspective, we are tracking presales and cash flow and now we spend lot of amount in the launch phases itself, so presales itself depend upon them of how many launches we are doing. Definitely depending upon the market conditions and approval, now we are concentrating on four cities, can we assume that if the consolidation goes on, we can launch approximately 4 launches in a quarter in every 4 locations which goes to 16. So, can we are in the position to launch approximately 8-10 million in a year in new launches, so that we can sell approximately 50% or 5 million from new sales?

**Pirojsha Godrej** Manoj I think we have said that in the very near term, our goal is to make sure that at least on a consistent basis, we are doing one new project launch per region that we are focused on per quarter. We haven't necessarily hit that, for example, in the first half of the financial year, but certainly that is something we would like to do but that is really a very near-term objective. I think we need to go much beyond that over the next couple of years and we do have to build capabilities to have pretty soon new launches every month in some of these regions. Because our aspiration is to be in a leadership position in each of these four markets and there are players in each of the market who are at a significant scale. So, I think while we try to get to this one per region per quarter launch situation, I think we would like to move beyond that quickly.

**Manoj Dua** This question was coming from that because we are in a midst of a lot of business development deals and even signing 3 million seems less to the people. So, if you are signing approximately more than 10 million, so our launches should be much higher going forward? This was basically my question?

**Pirojsha Godrej** I think if we are just going by the first half number, I think we will be the first to say that the concluded business development announcement and the booking numbers delivered are disappointing. I think that happened for a couple of reasons. On the business development front, as we mentioned, we are not particularly concerned. I think internally the visibility is exceptionally strong. We hope to conclude the financial year as by far the best year for business development that we have ever had. On the sales front, it has been largely because of our delay in new launches. I think, if you look at our sustenance sales over the last 18 months, there has been a very dramatic improvement which is also evident in the very strong operating cash flows we have reported over the last 18 months. We remain confident that as these launches come through, you will see booking number scale quite significantly. That aside I think we were obviously working hard to get to a point where there is more consistency that we are able to have 3-4 new deals every quarter and have 3-4 new launches every quarter. We certainly see that as an achievable objective.

**Manoj Dua** Apart from the approval, do we feel that the market conditions are right for us for these kind of launches - approximately as you said one per quarter for every region?

**Pirojsha Godrej** Definitely, as a company, it has still not gotten to a point where there is any project where we are fully ready, we have all the approvals and we are not launching the project. So I think we are quite confident of our ability to sell in these markets. In fact, residential sales most of the data shows that the industry likely improved a little bit over the last 6 months and when they were probably at their worst which was last year, we saw our booking grow on a little over 150% last financial year because of the number of launches we did. So, I don't think that we are in anyway feeling nervous about the market and our ability to launch a new project successfully. I think it is just a function of when the regulatory approvals on a project by project basis come through.

**Manoj Dua** One small question, how much area we launched in Bangalore this quarter, how much area we opened for sale in Bangalore?

<b>Pirojsha Godrej</b>	I don't know the exact details. We sold about 200,000 square feet, I don't know the exact details on the launch volume, we can get that offline.
<b>Moderator</b>	Thank you. The next question is from the line of Abhinav Sinha of CLSA. Please go ahead.
<b>Abhinav Sinha</b>	Firstly on the sales momentum that you are talking about, so October seems to be doing okay or there has been some impact on the market already?
<b>Pirojsha Godrej</b>	I don't think we are seeing anything as of now at least but we will have to keep an eye. We are in the midst of one launch in Panvel, it is going well. Sustenance sales were pretty strong.
<b>Abhinav Sinha</b>	And on the funding cost, so incrementally how are things looking like?
<b>Pirojsha Godrej</b>	As reported average borrowing costs, last quarter was still under 8%.
<b>Rajendra Khetawat</b>	So, the cost has been increasing but we have taken certain products and long calls. That is helping us to maintain our average borrowing cost. It cannot be completely insulated. We will see some increase in our funding costs but however, because of some long calls taken, our average borrowing cost would be quite low as compared to the market.
<b>Abhinav Sinha</b>	But like-to-like, will you say that 100 basis points sort of increase is there for you?
<b>Rajendra Khetawat</b>	Not necessary because if you see from March to September, we were 7.80, we are at 7.88, so it is an 8 bps increase in 6 months, so I don't think that will be 100 basis point increase.
<b>Abhinav Sinha</b>	Sir secondly on the cash flow front, the net debt reduction that we saw during the quarter, is it primarily because of Hyderabad exit?
<b>Rajendra Khetawat</b>	Yes, primarily because of that and some money from our BKC project due to the pending cash flows.
<b>Abhinav Sinha</b>	And the construction spend also seem to be a bit slower on the Q-o-Q basis?
<b>Rajendra Khetawat</b>	As we get more projects approvals and the construction speeds up, you will see those construction spend improving. If you see that trajectory, it has been on an increasing trend but normally Q2 because of the rains and monsoons it is always a little slow, but that will pick up pace in Q3 and Q4.
<b>Moderator</b>	Thank you. Next question is from the line of Manish Jain from Garmal One LLP. Please go ahead.
<b>Manish Jain</b>	My first question was on our capability set. Given our aspiration to grow disproportionately in terms of our market share, operations we have started precast and things like that to do a faster delivery of the product. On the funding side we are very well taken care off. BD, you just mentioned that you will have a strong pipeline. So, on a capability set over the next 3 to 5 years, if I see a challenge as a leader what will that be in your view?
<b>Management</b>	That is a great question, Manish. We constantly assess the capability set of the people and the function to see where the challenge is and it is a constant effort, it is a continuous job to improve. So, every quarter, there is an assessment done on the

capability front and we keep grooming the second line of leaders. At the end of the day what happens is that as we scale up, the same set of individuals have to scale up their skill set and go to the next level. There are a lot of training programs, done internally. So, it is a continuous effort which is put in for capability development.

**Manish Jain**

Let me take a live example, NCR, do we plan to get entry into newer micro markets like Ghaziabad or Faridabad. That will entail scaling up the existing teams in NCR further.

**Management**

We are looking at some of the geographies which you have mentioned, we always look at our structures because our entire strategy is on scale. So, even the teams the way they are designed, there is enough bench strength built in to get some of these projects and launch them successfully. So the way we had structured the team is that there are separate launch and sustenance sales teams. We have a self-sufficient site structure now rolled out, which kind of takes care of project level issues, so we keep thinking about new ways of strengthening our structures and taking care of future growth.

**Manish Jain**

And one last book keeping question was on Godrej BKC, we do still have 50,000 odd square feet pending. If you have to take guess 12 months, 6 months, 18 months, what would that be to exit the pending?

**Pirojsha Godrej**

Since you asked for a guess, we will give you no more than a guess. I think hopefully we will certainly like to finish it off this financial year, but it is not that we have an imminent deal or anything. But I think it is not a very large amount of area, so I think we are all hoping sort of something clicks within the financial year.

**Manish Jain**

Just on the extension of the earlier questions, I am actually looking at every single parameter of capability set that you all have been building over the last 5-6 years. It is an ideal timeframe, so I am actually visualizing what is it that will lead to me as Godrej Properties not being able to capture that because of some weakness, because the chain is as strong as the weakest link. That is what I am really focused on right now?

**Pirojsha Godrej**

Honestly, I think you are right and we agree that the opportunity is there, so I think the environment that we are in the overall growth visibility we expect to see from the real estate sector over the next 5-10 years, the relative advantages the company has through its geographic presence, the team we have now, the challenges others are facing from a customer attraction perspective, from a financing perspective. So, I think we fully agree that we are in a relatively unique space given the kind of opportunity that we have and that is up to us now to execute against that and I think the only limit to our growth is our own execution. Honestly, we have been doing a lot of capability building. The main focus of the company over the last few years is making sure we have the teams that are capable in each of these new geographies of delivering the kind of goals we have set out. That said, I think we have a long way to go in many different areas which we see as an opportunity. So I would say we don't think for example today GPL is doing as well as it could on delivering lowest cost solution for each of our project. So I think that is an area where we are working on. As you know, we moved to precast in an effort to dramatically change the project timelines that we are delivering today. So, in each area I would say we have a long way to go, whether it is in the way we service our customers, our sales reach, our construction capabilities, the kind of design standardization objectives we have. I think it is very much a work in progress along each of these, but that presents part of the opportunity as well. I think if we can continue to execute, whether we can continue to deliver improvements in these areas. We are starting from a relatively strong base in terms of the types and capabilities of people we have within the organization and with the opportunity we have but certainly it is an area where given

the kind of growth we would like to achieve, we have to keep investing and keep improving and it is more of a journey than in an end stage.

**Moderator**

Thank you. Next question is from the line of Prakash Kapadia of Anived PMS.

**Prakash Kapadia**

Given the headwinds in the sector which have accelerated of late, are we seeing smaller builders shutting shop, or desperation coming from landowners in terms of trying to sell at a lower price. What could be helpful on an annual basis, if you could give us some colour. I think last quarter you have mentioned we are hardly a percent of the residential segment of real estate segment in terms of market share, so you know if next 2-3 years, if we execute our current projects, at least on an annual basis if you could tell the investors or analyst this is what the sector is and this is where we are in terms of market share that will be helpful. Secondly on the stuck projects, are we ready to explore stuck projects if they are available in focus markets?

**Pirojsha Godrej**

Thanks for the question and for the suggestion on market share guidance. I think let us discuss a little bit internally and come back in a future forum. On the stuck project, I think there are many projects that fully approved that have either been launched or developers not able to execute. I think we have already done some such projects. We are quite happy to take that project on if we are confident of the design after we do the vetting of the project, but often times, it can be a bit messy if the launches have happened and there are a lot of existing customers. So, I think, it is a project by project analysis that needs to happen, but in principle I think we are open to the idea of taking on projects that are at a more advanced stage of development than just kind of bare land. I think obviously those projects can also offer a lot of opportunity if we are able to successfully turn them around. So, in principle, we are okay with them, but I think at the project level, we will of course have to exercise a fair amount of caution and be confident that the project makes sense at the individual asset level.

**Prakash Kapadia**

And you mentioned about NRI interest, as of now that would be a very small percentage of say, our last 4-5 quarter bookings?

**Pirojsha Godrej**

I don't have exact details about the last couple of quarters, but it has actually at times been a very meaningful part of our overall booking. At peak it is even the quarter of our overall company level booking. So, I think we can get you the data for the most recent quarters, but it is not a small part.

**Prakash Kapadia**

So, there has been spurts and sharp jumps also historically.

**Moderator**

Thank you. We will take a last question from the line of Puneet Gulati of HSBC.

**Puneet Gulati**

Did I hear you right when you said that this year we could see the highest level of business development in a year?

**Pirojsha Godrej**

Yes, I think there is just a sort of caveat that the fact that we are talking about the future profit from the company through business development which may not necessarily correlate with area added to the company's portfolio. But yes, I think in terms of of future profit being locked in, we will be very disappointed if this year isn't the best year for the business development.

**Puneet Gulati**

Secondly, you also mentioned that sales were slow because of slower launches which are probably because of regulatory hurdle, on the other side India has moved up ease of doing business ranking. How does one weigh these two things?

<b>Pirojsha Godrej</b>	Good question Puneet, we were hoping you didn't catch that. I think the best assessment is that the ranking jump of 129 is probably a little bit generous but I think the directional interest of government in resolving this is something you can see through the introduction of the real estate regulatory act, the introduction at the city level acts and a lot of expectations in terms of turnaround time on various issues. I do think that directionally, the ease of doing business in the sector had been improving. It has not improved as fast as we would like and certainly there remain a very large number of issues on the ground that prevent kind of faster traction, but I think the environment has improved from a governance perspective tremendously and we hope to see that now also translate into faster turnaround time in the quarters ahead.
<b>Puneet Gulati</b>	My last question here is how do you balance between now your quest for increasing share in the projects as well as being asset light at the same time?
<b>Pirojsha Godrej</b>	Well again I think the point is that we would like to be asset light, we would like to do the vast majority of our project in partnership structures, but I think we are willing to put in a little bit more capital at the initial stages as long as we are very confident of being able to recover that quickly and therefore the results not changing from the times when lower capital was being invested. So, I think just given the scale of the company has increased quite a bit over the last 4 or 5 years, it is important that the scale of returns were generating from individual projects also see some shift and we think this is an appropriate way to do that. So, I don't think it is major shift in sort of the strategy of the company which continues to be asset light and trying to source land in the most capital efficient way as possible, but it does mark, hopefully a shift in our ability to invest more given the company's scale and balance sheet and a desire to improve the overall profitability of the company and the kind of quality of location that we are in.
<b>Puneet Gulati</b>	But there is a direction towards making it slightly asset heavy, then what it was previously?
<b>Pirojsha Godrej</b>	I think that is correct, yes, but within the broad concern, I don't think you will see us at all moving to kind of pull and purchase strategy or anything like that, so we don't think is something that would make sense for us. But yes I think it is fair that directionally you will see more high deposit profit share kind of structures than say development management fee structure.
<b>Moderator</b>	Thank you. I would now like to hand the floor back to the management for closing comments. Over to you sir.
<b>Pirojsha Godrej</b>	I hope we have been able to answer all of your questions. If you have any additional questions or would like any other information, we would be happy to give assistance. On behalf of all of us, I would like to thank you again for taking the time to join us today and wish you all the very best for the Diwali festival ahead. Thank you.
<b>Moderator</b>	Thank you members of the management. Ladies and gentlemen, on behalf of Godrej Properties Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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