



Godrej Properties Ltd.

Q1 FY2013 Earnings Conference Call Transcript

July 30, 2012

Moderator

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

Anoop Poojari

Good afternoon everyone, and thank you for joining us on Godrej Properties Q1 FY2013 results conference call. We have with us Mr. Adi Godrej, Chairman of Godrej Properties; Mr. Pirojsha Godrej, Managing Director & CEO; Mr. K T Jithendran, Executive Director, Mr. V. Srinivasan, Executive Director, & Mr. Rajendra Khetawat, Vice President – Finance & Accounts of the Company.

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

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

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

Adi Godrej

Thank you Anoop. Good afternoon everyone. Welcome to Godrej Properties' Quarter 1 Financial Year 2013 conference call. I'll begin by discussing the highlights for the period under review followed by a discussion on the financial performance of the Company.

We have started this year on an encouraging note and have made substantial progress on several fronts. Godrej Properties has delivered strong growth in bookings, revenue, and profits in Q1 FY13. We've also been able to conclude several new agreements which will help ensure sustained growth going forward.

One important development for the quarter was the creation of a Rs. 770 crore residential real estate development platform. This platform represents a substantial growth opportunity for Godrej Properties. The initial commitments for this platform will be in the ratio of 29:71 by GPL and the investor consortium, which is led by Dutch pension services provider APG. Godrej Properties has always followed a capital efficient land sourcing strategy and this deal allows us to access opportunities for land parcels with significant capital requirements in our focus markets of Mumbai, NCR and Bangalore without having to burden our balance sheet. Godrej Properties will be the exclusive developer of the projects to be pursued by the platform for which it will receive a significant development management fee. This transaction demonstrates GPL's ability to attract long-term high-quality institutional capital in challenging market conditions. It creates a new growth avenue for Godrej Properties while allowing us to maintain our capital efficient land sourcing strategy.

While the current environment has been challenging for the real estate sector, we've benefited by using it as an opportunity on the new business development front where we've been able to continue our strong momentum from the previous financial year into the current financial year. In Q1 FY13, we have added two new projects to our development portfolio – one each in Alipore, Kolkata and Byculla, Mumbai. The Alipore project is a premium residential development in Kolkata with a saleable area of approximately 170,000 sq. ft. This is a revenue sharing agreement where GPL will receive 45% of revenues. Given the outstanding location and high prevailing prices, we expect our Alipore project to be a very high margin project. Our new Byculla project is a Development Management Agreement to redevelop a MHADA property. The project will have approximately 300,000 sq. ft. of free sale area. The entire cost for the design, construction, and development of the project will be borne by our partner. GPL will act as a development manager and will receive a fee of Rs. 50 crore. Over and above the development manager fee, we will also receive revenue in the form of an upside promote beyond certain defined selling prices. We expect the upside promote to add substantially to GPL's total return from this project. At the beginning of Q2, we concluded our third new deal of the financial year with the conclusion of an agreement to develop a residential township in Panvel, Mumbai. This is a profit sharing arrangement with GPL receiving 35% of the profits from the development, which is expected to have 3.5 million sq. ft. of saleable area. Given the profit sharing structure and the fact that Panvel is one of the most exciting locations for real estate development due to the current and upcoming infrastructure in the location, we are confident that this project will be a high-margin and high-velocity project for GPL once it is launched. For new projects that we add to our portfolio, the focus has been entirely on residential projects in target cities and on favorable deal structures that enhance our margin profile.

From the perspective of ongoing operations, despite a sluggish environment, we have witnessed good momentum in both our residential and commercial projects. The total area booked inclusive of our joint venture partner's share in Q1 FY13 is approximately 830,000 sq. ft. as compared to approximately 590,000 sq. ft. booked in Q1 FY12. The total booking value in Q1 FY13 is Rs. 525 crore, which represents a more than

118% increase over the Rs. 241 crore of bookings we registered in Q1 FY12.

From a new launch perspective, we successfully launched two residential projects towards the end of the quarter under review. Godrej Serenity was launched in Chembur, Mumbai in June and I am happy to report that in Q1 FY13 we were able to sell approximately 27,000 sq. ft. at an average price realization of above Rs. 16,000 per sq. ft. Our project, Godrej Horizon, in Pune was also launched in June and has received a positive response with 41,000 sq. ft. sold in Q1 FY13 at an average price of approximately Rs. 4,700 per sq. ft. We have a robust launch calendar for the current financial year and we expect these new launches to be an important enabler to us delivering sustained bookings growth through the year.

Our existing residential projects continued to see good sales momentum in the quarter under review. Our Ahmedabad township project, Godrej Garden City, has registered bookings of 140,000 sq. ft. during the quarter, including the share of our JV partner. While the volumes for the quarter in Ahmedabad are below where we would like to see them, we are confident the project will continue to do well and we look forward to launching a new phase in the project later this calendar year. We also believe volumes will grow post the delivery of the initial phases and once we've demonstrated substantial progress in infrastructure development, both of which will be taking place towards the end of this financial year. Our residential project in Kolkata, Godrej Prakriti, has been one of the most successful residential projects in Kolkata and witnessed strong bookings of nearly 200,000 sq. ft. in Q1 FY13. Godrej Anandam, our first residential project in Nagpur saw healthy sales with nearly 100,000 sq. ft. of area sold in Q1 FY13. Our project, Godrej Platinum, in Vikhroli continues to witness strong demand. In Q1, we were able to sell over 50,000 sq. ft. at an average price of Rs. 14,500 per sq. ft. We have almost sold out of the second tower of this project and we look forward to the successful launch of Tower 3 later this year.

On the commercial sales front, in Q1 FY 2013 we sold 174,000 sq. ft. between our four ongoing commercial projects in Kolkata, Chandigarh and Mumbai. GPL plans to further monetize these projects and unlock capital, thereby reducing the capital employed in these projects. While the present commercial real estate market has made progress towards achieving this goal slower than we would have liked, we do believe we will witness increased momentum as the projects get closer to completion.

Before I come to the financial highlights for the quarter, I would like to comment on an issue that our management team is very focused on at the moment, which is demonstrating improvement in operating margins. We recognize that the Company's performance on this important metric in recent quarters has been disappointing and we are actively working on improving performance. There are multiple reasons for margins being low in the short term. The most important reason is that costs over the past two years in almost all input cost categories - including steel, cement, and construction labour - have increased at an unprecedented rate. Most of the residential projects that have been contributing to revenue have been mid-income projects in their initial phases where substantial pre-sales were

done, thereby locking in the selling price for these phases. As construction costs are a very large portion of the total costs for such projects, the rapid escalation in input costs has had an especially damaging impact on margins. As new phases in these projects are launched, we are confident margins will improve. Our commercial projects in Tier-2 cities have been negatively impacted both by the escalation in construction costs and by the weak current demand for commercial real estate in these cities. Godrej Waterside, Godrej Genesis, and Godrej Eternia, are all operating at negative operating margins and are weighing down our overall margins. We are focused on selling out of these projects in as quick a timeframe as possible and have decided to avoid commercial developments from a new business development perspective. While the problems are clear, we have several activities underway, which we believe will quickly resolve these problems. We have launched an operational excellence initiative, Project Pyramid, which is focused on ensuring we become best-in-class from an operating margin and operating cash flow perspective. Through this project we are exploring a variety of potential levers through which we can improve profitability. In addition to improving profitability in our existing projects, we believe our new projects can play a strong part in overall margin enhancement. All our new project additions have been highly value accretive and high-margin projects. With the addition of new business models like the development management fee model, the residential real estate development platform, and an increased focus on profit sharing joint ventures, we are confident we will be able to simultaneously add to our NAV and margin profile without negatively impacting our balance sheet.

I will now brief you on the financial performance for the period under review. Our financial growth on a year-on-year basis has been strong with a 73% growth in total income to Rs. 233 crore. EBITDA for the quarter grew at 93% and stood at Rs. 47 crore compared to EBITDA of Rs. 24 crore in Q1 FY12. Net Profit for the quarter increased by 71% from Rs. 10 crore in Q1 FY12 to Rs 17 crore in Q1 FY13.

Globally, the real estate sector is a sector that has always been a cyclical sector heavily driven by people's sentiments and overall economic outlook. Currently, sentiment in India has been impacted by a weak economic environment both locally and globally as well as by interest rates that continue to be high. We believe that this is part of the real estate cycle and that the medium to long-term outlook for the sector remains unchanged. Our focus will be to ensure that we deliver strong operating performance despite the weak current environment while also using the current weakness as an opportunity to add new deals at attractive valuations. We continue to expect strong annual growth in FY13.

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

Moderator

Thank you very much sir. Ladies and gentlemen we will now begin the question and answer session. The first question is from Unmesh Sharma from Macquarie Capital Securities (India) Pvt. Ltd. Please go ahead.

Unmesh Sharma Mr. Godrej touched upon the commercial business. Few more specifics on the Jet airways land parcel and the commercial projects which are already under construction or under development please?

Pirojsha Godrej For the BKC project in particular I think we have mentioned we are looking at opportunities to unlock some capital from the project. We have nothing new to announce on that front as of now but we continue to work on that, we continue to be optimistic that we will be able to conclude something soon. On the operational part of the project, the design now is at fairly advanced stages where we are going in for approval soon and we expect to start construction in full swing as soon as monsoons are completed. If the private equity solution for the project is in anyway delayed the idea will be to raise cash flows in the project through strata sales.

In terms of our other commercial projects, as we indicated, particularly our project in Kolkata and also our project in Chandigarh are badly affected by pretty weak demand in those cities and relatively high cost. So the goal there will be to unlock capital from these projects as quickly as we can by selling them. This will have a short term negative impact on margin, but that is something which is unavoidable and better to take and move on from those projects.

Godrej One which is a large commercial project continues to do well. I think essentially our model there was, when we started, we had expected to lease out the entire project. Half of the space in the project was intended to be used as a head quarter for our Group Companies. But in any case we do not want to sell the remaining half because we expect that over the years there may be a need for Group Companies to occupy additional space or a Group company may choose to use this space. Now at the Godrej Properties level we switched from wanting to lease the space, to wanting to actually sell this space to unlock the capital. I think the plan here will be to over the next few quarters, unlock most of the capital in the project by selling the space to all the Group Companies who will then in turn lease that out externally. So I think that project is very much on track.

Unmesh Sharma Could also please through some lights on the Gurgaon project in terms of pricing timelines and what your thought process is on that?

Pirojsha Godrej You mean our new project in Gurgaon?

Unmesh Sharma Yes.

Pirojsha Godrej Yes, that is a project we are very excited about, this is in sector 104 en route Dwarka expressway. It is a project we have seen a great amount of interest in and we are internally in every way ready to launch the project. We are waiting for the final approval, as you all may know; there has been a recent high court judgment in Gurgaon due to the water table issue. So we will have the hearing on that tomorrow and we are awaiting the outcome of that. We hope to be able to launch that very imminently and we are very confident that as soon as we are able to launch that project, it will be a strong driver of bookings for us in the near future and also margins and revenues in the medium term.

Moderator Thank you. The next question is from Puneet Jain from Goldman Sachs. Please go ahead.

Puneet Jain My question is with respect to margins. Like Mr. Godrej mentioned that this is going to be a key area of focus. Now if I look at margins excluding the Vikhroli project that actually comes out to be in single digits. So first, is my understanding correct and second, what steps are being taken apart from just possibly better cost ahead, so that the margins go to a targeted number of between 20-25%?

Pirojsha Godrej I think we have been quite up front in admitting that we are not at all satisfied with our performance on operating margins. We frankly don't think it makes sense to exclude and include this project or the other, but even including all of our projects, we are clearly unsatisfied. I think as my father explained that a couple of factors that have largely caused this, one is the poor performance of our commercial projects both from our perspective as well as from weak markets therefore weak price realization perspectives, also on some of the residential projects where we have done pre sales, margins have been impacted because of cost overruns on the same selling price that have already being locked in. We think prices have broadly also moved in a generally healthy direction for our residential projects. We are quite confident that this is a short-lived problem. It is not a problem that is going to disappear next quarter, but we are working very actively on solving this through improving operations. But as I say one of the best ways to solve this will be just through new phases of new projects which will be more high margin. However, we totally take on board and it would be in total alignment about the fact that one of our most important priorities has to be improvement on this metric.

Puneet Jain So, do you plan to have a different pre sale strategy going forward, given the fact that you lock in the sales price very early, while we are in a high inflation environment?

Pirojsha Godrej The answer is yes and no. We will have to look it at on a project by project basis. On one hand broadly speaking across projects you don't want to sell the entirety of the project upfront, at the same time the project Godrej Garden City in Ahmedabad, I think it was very critical for us to establish very strong momentum because the project is after all a 24 million sq. ft. project. On a project like that even though margins were affected little bit but I don't think we would have done anything very differently. But if you use another example, say Godrej Frontier in Gurgaon, I think it may have been more prudent for us to retain larger amount of stocks than we did. I think this is a question that you need to evaluate on project by project basis.

We all continue to feel that recently the way the costs have gone up where the price of finished product hasn't gone up as fast is an unusual time in the market and this phase is unlikely to continue but certainly we are absorbing the lesson from this. We do need to ensure that we have enough stock to balance out any cost overruns although we do think cost overruns we have seen in terms of input price increases have been unusually high over the past couple of years. We do not expect similar rates of increase to be sustainable, 20% kind of cost increase is unlikely to be sustained. But certainly we need to look on a project by project basis, and in particular, on

the smaller projects we need to be sure that we are retaining enough stocks for the overall project life to take care of input cost escalation.

Moderator Thank you. The next question is from Aashiesh Agarwaal from Edelweiss Securities Limited. Please go ahead.

Aashiesh Agarwaal The first question is on the residential development platform. Have you added any projects so far and if not when do you expect to add projects?

Pirojsha Godrej I think we just included this platform last month. The way it is set up is that the time frame that has been given for identifying and adding these new projects is up to two years. We certainly hope to have our first one or two projects well before that, but we have up to two years to deploy that capital and then those projects from an execution point of view are expected to take 4-5 years. So we don't have any projects yet identified on this but as I said the platform has been just concluded last month.

Aashiesh Agarwaal Sure. The second one is on Godrej One, more of housekeeping in nature question, so do you hold some space in Godrej One in the current quarter. Just wanted to confirm whether this is an external buyout or is it between Group Companies like that in the last quarter?

Pirojsha Godrej The plan for Godrej One, is that we do not actually want to sell any space outside the Godrej group. From an overall group perspective, given this is our headquarters building we would like to retain the asset and we may need to use it for further expansion in the years to come. From a Godrej Properties perspective the initial thinking was that we would lease the remaining half of the building externally which would then be kind of available to Group Companies as and when the need arose. But given our shift in focus for commercial real estate to a more capital unlocking strategy, we are keen to unlock the capital. So this sale has been done to other Group Companies, which is similar model we expect to follow for the rest of the building.

Aashiesh Agarwaal My next question is on debt. What is the current net debt as of end of Q1FY13?

Rajendra Khetawat The current net debt is Rs. 1,740 crore.

Aashiesh Agarwaal Sir, I think in the last quarter we had about Rs. 1,400 crore of net debt?

Rajendra Khetawat Last quarter it was Rs. 1,554 crore, Aashiesh.

Aashiesh Agarwaal That was gross number right?

Rajendra Khetawat Gross was Rs. 2,087 crore.

Aashiesh Agarwaal Okay and so the increase in the net debt would be about Rs. 200 crore?

Rajendra Khetawat Around Rs.180-185 crore.

Aashiesh Agarwaal And the broad break up for this I guess Rs.140 crore would be installment towards Vikhroli land parcel?

Rajendra Khetawat Some part of it has gone towards the installment, some part has gone towards the progress of our new phases which we have started and some part has gone towards the new agreement deposits, like Alipore project which have been added. So there were some deposits over there. But the bulk has gone towards the progress of the new phases which will see the revenue recognition in the coming quarter.

Aashiesh Agarwaal This is on GGC, the saleable area for different phases have increased again. So, has this something to do with showing the area again on a saleable basis?

Pirojsha Godrej I think there was a lot of confusion over which areas we use and there have been some changes in the past. So what we have disclosed this time and we will try to make it as clear as possible, it is the total salable area, on the same slide you will see the exact area that corresponds to Godrej Properties area in the project. A lot of confusion was being created by choosing our overall portfolio, by using just Godrej Properties share of booking. Particularly from our commercial point of view, area sharing is very similar to revenue sharing in terms of the actual revenue and the profit received. We think the best thing we can do is disclose the total area while at the same time every where the total area appears, when it includes any Joint Venture partner area, we are trying to add clearly as possible and show what that JV partner area is.

Aashiesh Agarwaal Seeing Q3 we had shown the area in the saleable area context. Q4 we have moved to his one, so basically what is happening is GGC Phase 1 was 1.31 in Q3 and now it is showing as 1.15 and 3A was 1.7 and that is showing 1.27. So is there something that I am missing over here?

Rajendra Khetawat Aashiesh, I think the area what we have mentioned is the final area. And like Pirojsha mentioned this will be consistently reported across quarters going forward.

Aashiesh Agarwaal One last question, how much area we would have cumulatively sold in GGC so far?

Rajendra Khetawat Around 4 million sq. ft.

Pirojsha Godrej Just a little bit more than 4 million sq. ft. overall.

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

Anand Agarwal I have few questions, firstly could you give me the breakup of the operating income in this quarter?

Rajendra Khetawat Some of that was on account of our DM fees project which is from Nagpur and Vikhroli; and some part is the FSI compensation we received on

account of our Bangalore project. I don't have exact details on breakup right now, I can come back to you offline.

Anand Agarwal Second on Godrej One Vikhroli, is my understanding now correct that the 0.76 million sq. ft. of commercial building that you are doing will all be sold to the Group Companies and Godrej Properties will basically cash out on that property?

Pirojsha Godrej That is the intent.

Anand Agarwal Also if you can give me what is the total amount that has been collected so far on Godrej One and what is the amount that has been paid so far to G&B for the money that needs to be paid?

Rajendra Khetawat Anand, on your second question, we have paid around Rs.126 crore till date to Godrej &Boyce for land payment. What we have collected is around 55% of the total booking value of what we have sold to the Group Companies.

Anand Agarwal Including what you have sold in this quarter?

Rajendra Khetawat Yes.

Anand Agarwal Third, just wanted to understand are you adopting the new accounting norm for revenue recognition?

Rajendra Khetawat All new phases from this financial year, new projects would be into the new accounting norm.

Anand Agarwal When is the next payment due on the BKC land.

KT Jithendran The next payment for BKC for the TDR is due in December of this year.

Moderator Thank you. The next question is from Akshit Shah from SBI Capital. Please go ahead.

Akshit Shah Sir my question is primarily on the debt part. Right now our overall plan is to monetize the commercial properties and try to reduce our leverage. As earlier mentioned that overall the scenario is not very conducive for commercial properties. So suppose if we don't manage to monetize the property in a quicker time, and then what is the plan B?

Pirojsha Godrej There is no plan B. We have these properties, now most of them; at least three in Kolkata and Chandigarh are at a very advanced stage. We have to monetize them through leasing, selling the projects. I think the question is how long will that take? As you rightly pointed out that will be little bit a function of the market. We would like to do it as quickly as possible, but how successful we are in that goal will be a function little bit of market condition.

For Godrej One in Vikhroli, we have explained that we have a solution in place and that project is going very well both from a monetization point of

view as well as from an actual construction progress point of view. We actually completed the structure there over the last few weeks and expect to complete that by the end of the financial year.

For our BKC project, we have been maintaining we are looking at options to try and unlock the capital from the project at an initial stage and our goal will be to make sure we do that. We don't think that the commercial real estate markets can remain in the doldrums forever. It is quite natural that commercial real estate will not be doing well in current economic condition. At the same time real estate is a cyclical business, we do feel reasonably confident that there will be an improvement. But we will have to wait and watch to see how exactly that pans out.

Akshit Shah My second question is primarily on the cash flow. How much we would have received from sale of property and how much we would have invested in construction cost, newer land acquisition, debt repayment?

Rajendra Khetawat We don't have a breakup right now. I will come back to you offline.

Moderator Thank you. The next question is from Gunjan Prithyani from JP Morgan. Please go ahead.

Gunjan Prithyani Firstly on your APG investment platform. Can you throw some light in terms of if you have any identified deals, which are they all? What would be the strategy around this in terms of an asset class or the market that we are targeting? Also just want to reconfirm that this Rs. 770 crore of platform needs to be invested in the next two years?

Pirojsha Godrej I think you rightly pointed that investment timeframe for that is over the next couple of years. The strategy of the platform has also been quite clearly laid out, which is to target developments primarily in Mumbai, NCR and Bangalore and also to look at projects in Pune and Chennai. So those are the five cities that the platform could potentially look at. All the projects will be in the residential space and primarily in the mid-premium kind of residential space.

Gunjan Prithyani And have we identified any deals in place as of now?

Pirojsha Godrej No deals as yet, the focus was to first conclude the platform. Like any other kind of new deals that we have, as and when any deal is concluded we will of course be informing the stock exchanges and make an announcement. There are already several projects that we are looking at with potential investment targets, but nothing has been frozen. The idea of the platform is to sort of create a new growth vertical for Godrej Properties by allowing us to focus on projects that do require more capital upfront - so either for an outright land purchase or for a joint venture where there is a substantial upfront capital requirement. Particularly in the current market conditions we do think that this is an interesting model to have at our disposal because there is a little bit of distress in some pockets of the market. Often what the case there is that the land owner or the developer requires upfront cash so that is the real need for them to do a deal. We don't want to do that on our

own balance sheet, this platform allows us to do that for us, looking very much like a joint venture.

Gunjan Prithyani Just one thing, in terms of our land agreements, are we looking more for joint ventures and development management rather than joint development agreements right now. Given the cost escalation and I am sure that most of the projects which we have done in joint development agreements, we have been hurt on the construction cost both in our part as well as the JD partner. So is there any change in terms of strategy going ahead, we would want to do more on JV and development management?

Pirojsha Godrej I think that is a fair statement in some sense. We continue to be interested in joint development agreement. But I think the focus there will be to be quite confident on the level of margins available in the projects and to avoid JVs where we think margins could come under pressure if cost moves up. So for example, we did have a JV which we concluded last quarter in Alipore in Kolkata, a relatively small project but we got what we think are very good terms. Even though it is a revenue sharing agreement, we don't think given strong cost escalation, the project profitability will come under pressure. On a case-by-case basis, we continue to be open to revenue sharing projects but certainly I think it is fair to say that our focus will be more on profit sharing projects. Essentially this residential investment platform in some ways you can look at it as a profit sharing joint venture where we come in with our financial partner and then replace the land owner.

Gunjan Prithyani Why did the debt increase by I think about Rs. 200 crore in this quarter, did we pay out any land advances?

Rajendra Khetawat I mentioned in an earlier query, the debt increase is on account of two three reasons. One is we have paid land payment to Godrej & Boyce. Second are signing some new projects like Alipore where we have paid some advances. And third is we have invested into new phases of the existing projects which we will start recognizing in the coming quarter.

Gunjan Prithyani And there has been no incremental premium payments in case of the BKC project?

Rajendra Khetawat No.

Moderator The next question is from Arunabh Chaudhari from Morgan Stanley. Please go ahead.

Arunabh Chaudhari One is I think we have still about 0.3 odd million square feet left in Godrej One. When do we expect sell this remaining portion to the Group Companies?

Pirojsha Godrej I don't think the exact timeframe has been decided but before the project is complete we would like to have sold most of that space. We expect the project to complete by the end of the financial year or latest by the first or second quarter of the next financial year.

Arunabh Chaudhari As far as the new launch pipeline goes, I think we have about 17 projects , project phases which are in the Q1FY13. Once these projects starts trickling into the P&L which could be one to two years from now, where do we think the operating margins would stabilize at, at that point of time?

Pirojsha Godrej We don't put out any sort of specific number. Clearly, we think where we are today is far too lower. We historically have been able to deliver 30% plus EBITDA margin on a fairly consistent basis. We last year got 25%, this quarter it is even lower. So, clearly we would like to get up to that 30% kind of level. The exact timings of that will of course depend on several factors. If you look at the new projects and particularly at the Vikhroli project which is under the development management fee model, that is the project that is going to remain at 80% plus EBITDA margin. We are adding more development management fee projects which would further be of similar kind of margin levels. So, we feel fairly confident that over the medium terms our margins should go back to being higher than industry standards. But we recognize we do have some short term pressure on margin that will continue because of these commercial projects and because of some of the cost escalations that are locked in on existing projects.

Arunabh Chaudhari On these two projects that we announced in the first quarter which is in Kolkata and Panvel, I think you have indicated that these are going to be launched sometime in the next year, that is 2013, which is about a year's delay. So, why is this delay and is it something that we should assume for the other projects going forward because we have seen about an year or so delay in projects in Bangalore, Gurgaon, and Chembur, so on and so forth?

Pirojsha Godrej Yes, I think the two projects we announced last quarter were actually Alipore as you rightly said but not Panvel, we had announced our project in Byculla last quarter. The Panvel project was concluded this month actually in Q2. So for the two projects that we concluded last quarter Alipore and Byculla if you actually look at our launch update both of those are planned to be launched this financial year and we hope to be able to meet that target. Each project is a little bit different, Panvel project which we just concluded this month is a large project, it is a township project; certainly the absolutely best case sort of launch there would be at the very end of this financial year but more realistically I think this will probably happen in the next financial year.

Obviously it is our endeavor to launch projects as soon as we can. At the same time, you do have a bunch of developers who launched projects without some of the required approval in place. We try to make sure that we don't do that because we think that can have adverse consequences of different kinds. I think on a minimum time basis projects do tend to take 5-6 months to launch, sometimes they can take longer; sometime they can take considerably longer. But certainly our goal is to launch all new projects at the most within 12 months of concluding the projects and I think the two projects we concluded agreement for in quarter one, we hope to launch this financial year and even for the Panvel project we would hope to launch it within 12 months of having signed the agreement.

Arunabh Chaudhari The key reason of delay is approvals or is it some encumbrances in place or what is it exactly?

- Pirojsha Godrej** I think you know almost entirety of the reason for delay is approval. Of course we do have a lot of internal work that needs to get done for any launch; you do have to conclude the design process in a satisfactory manner and so on. So those are all activities that are within our control and they don't require large amounts of time, at most we need a few months for those. That part is well under control but where we are seeing substantial project delays and launches getting delayed is without an exception due to approval related issues.
- Arunabh Chaudhari** Finally one house keeping question, how much interest would be capitalized in Q2?
- Rajendra Khetawat** Yes, we capitalized around Rs. 58 crore interest.
- Moderator** The next question is from Abhishek Singh from B&K Securities. Please go ahead.
- Abhishek Singh** On the margins, the most apparent reason what we can see out here is cost escalation as what you have mentioned in the opening remarks. So going forward what will be our strategy, like in Godrej Garden City, we did have some fixed cost basis contracting which we had in the earlier phases. Will it not be a good strategy to keep the cost in that domain and also if we have that strategy still in place or was it only for the initial couple of phases?
- Pirojsha Godrej** Clearly in some ways there are substantial benefits driving these contracts where the prices are fully locked in at an initial stage. It is little bit like taking insurance because the contractor does build that in to the cost. We continue to think that this is something that we need to explore on a project-by-project basis. But I would agree that particularly on any project where we do a huge amount of presales, therefore locking in our selling price, it may make more sense to try and push for this kind of contract. I think that is our thinking.
- Abhishek Singh** We don't have any such fixed contract at this point of time going forward in any of our projects, is that what you are trying to say?
- Pirojsha Godrej** We have for a couple of them but most of them are not fixed price contracts.
- K T Jithendran** One should also keep it in mind is that even in fixed contracts the basic materials that cement and steel they are on some basic prices, so that escalation is not included in the fixed contract.
- Abhishek Singh** And the second thing on our commercial projects, barring Godrej One, we still have almost 80% of the inventory left to be sold in three of our projects - Eternia, Genesis in Kolkata. This cost thing is still quite prevalent in nature; we don't see the macro economic situation improving further. So do we have any other strategy to sell these particular projects because we are moving at snail's pace, so do we offer a discount, some kind of initiative just to move it on faster.

- Pirojsha Godrej** We wish there was but unfortunately there is no sort of silver bullet that can just solve this. We have to keep in mind variety of factors when deciding pricing. Clearly, we have not been very aggressive with pricing and we have said we are already operating at negative margins for these projects. At the same time we cannot just cut prices dramatically. We don't think first of all that would necessarily quickly solve the issue. Also we have existing customers who bought from us, so any dramatic price cut could create issues there. But also I wouldn't say clearly while we are not happy with the momentum, I would not say it is moving at a snails pace. Even if you don't include Godrej One, we have sold more than 100,000 sq. ft. of commercial space this quarter. We sold in Godrej Waterside which is the closest to completion over 60% of the total space in the project which given the Kolkata market is a reasonable level. The other projects are getting closer to completion, so we hope that will lead to improved momentum. It is a challenging situation but it is what it is, we will have to do our best, but I don't think any one thing that can automatically solve it very quickly.
- Abhishek Singh** Our presales we have booked this quarter, we have shown 0.833 million as our total presales booked and the JV partners stake in the Godrej Garden City Ahmedabad is approximately 79,000 sq. ft. So can you just give us some break up about the rest of the projects, what is the total economic interest of ours? Just a ballpark figure will also do.
- Pirojsha Godrej** We won't read out the whole thing. All the information you asked for is in the investor presentation, we have a slide where we give project-by-project square footage sold and if you look in the annexure our economic interest in each project is also mentioned. I think it will be easier if you could just refer to that.
- Abhishek Singh** Finally, in Mangalore and Chennai for the sales what you have shown, is it fresh booking or does it also include some of the earlier sold portion. We have actually re-launched these two projects. So does it like include those portions which were sold?
- Rajendra Khetawat** These are all fresh bookings.
- Abhishek Singh** Okay, what about the old sales and have we refunded?
- Rajendra Khetawat** The booking has been shown in the last quarter or in the respective quarters whenever we have sold.
- Abhishek Singh** Sir, on million sq. ft. terms, can you just give us rough idea of how much will be launched in FY13. You have given the name of the projects but in a million sq. ft. term if you can just substantiate it further?
- Pirojsha Godrej** We intentionally don't put out a specific number because the exact amount of space to be launched in each project is something which we need to decide closer to launch based on market conditions, based on the ultimate project designs, in terms of how it make sense to start construction and so on. We have given the names of all the projects and some of the projects could be a single phase kind of projects like our launch in Godrej Serenity

but most of them will be done in phases. We don't have a precise guidance in terms of square footage to be launched.

- Abhishek Singh** Last question on the Panvel Township, is there any security deposit involved in this particular deal also and if so how much have we given to them?
- Pirojsha Godrej** Yes there is a security deposit involved. The total security deposit to be given on a stage linked basis with approvals is about Rs. 25 crore. So far Rs.5 crore has been given.
- Moderator** Thank you. The next question is from Puneet Jain from Goldman Sachs. Please go ahead.
- Puneet Jain** My question will be with respect to target debt-equity ratio. So, what is your target towards the end of FY13?
- Pirojsha Godrej** We don't have a specific target for the end of FY13, we have said this historically the range we would like to operate in is about the range we are at today which is 1-1.5:1. As our equity base has increased, we would like try and get that on the lower side. Of course it will depend a lot on different factors including our ability to monetize the BKC project and the monetization of other commercial projects. But broadly speaking we are well within the range of debt equity which we have guided is our intended range.
- Puneet Jain** So there is no plan of any further equity raising in the near term?
- Pirojsha Godrej** No there are no current plans for any further equity raising. But we raised some equity in Q4 of last financial year.
- Puneet Jain** Also, now how much inventory do you have in Kolkata from a commercial property?
- Rajendra Khetawat** 1.5 million sq. ft. for all Kolkata and Chandigarh commercial projects, Kolkata itself will be 1.1 million square feet.
- Puneet Jain** So this is unsold inventory?
- Pirojsha Godrej** Yes, 1.1 million sq. ft. in Kolkata and 1.5 million sq. ft. including Chandigarh.
- Moderator** The next question is from Sumit Rohra from Silver Stallion. Please go ahead.
- Sumit Rohra** It is very heartening to see your booking values of about Rs. 525 crore versus Rs. 240 in an environment that is sluggish as this. Pirojsha I wanted to actually touchup on the question which was just answered by you about 2 minutes back regarding the launches, so approximately out of the 15 launches I think we have done 2 so far. So can the total launches be close to 5-6 million sq. ft.?

Pirojsha Godrej We don't want to put a specific number to it because we are not certain of that number, so we don't want to guide anything that we are not completely clear on. But clearly we have maintained that our launches this year will be a much larger number than in previous financial year and we expect that to lead to a much higher overall bookings this financial year than we have recorded in any previous year in our history. So, we continue to be optimistic about that but we don't want to put a specific number to it.

Moderator Thank you. The next question is from Aashiesh Agarwaal from Edelweiss. Please go ahead.

Aashiesh Agarwaal This question is again on the residential development platform. Just coming back to a strategy overall as I understand we would normally rely upon our land owners of the JDA partners to get us all the approvals. So, in this strategy would it entail that we would go and actively source the approvals ourselves or how would it work?

Pirojsha Godrej Aashiesh, I don't think our strategy actually has been to get the joint venture partner to get all the approvals. I think what it has been more accurately is if there is a project where we are not comfortable or not confident of being able to get approval in a time-bound manner, we then sometimes make it a responsibility of the joint venture partner to first get the approval before we commit capital to the project. Clearly a similar rationale will be used here where we will only get into projects where we are confident that the approvals can be attained in a time bound manner. The idea is not to go and dominate agricultural land or anything of that sort, but rather to get into parcels that can be relatively clean and that can be launched in a reasonable time frame.

Aashiesh Agarwaal And second sir just trying to understand, since we will be paying for the land, maybe we are contributing 29% capital and which would give us say about 35-37% economic interest, if we add the development management fee on the balance portion. So, would you think that this will entail some additional capital infusion from your side into the JDA model and given that our balance sheet is not really at the lower end of the target debt-equity, do you see this as a little more capital intensive model than what we have historically followed?

Pirojsha Godrej Broadly, we consider it to be quite similar, which is what we like about it. But you are right it is marginally more capital intensive than joint ventures. In the joint venture model we typically deploy up to 20% of the capital so here that capital is at 29%. But we do think it is really advantageous model, we do think there are opportunities that can be captured under this model. We think we will be able to get both equity returns on these investments, particularly what we hope for the investments in weak market conditions that would prove to be a very strong investment, but also with the additional advantage of having a development management fee of a fairly substantial nature. We do think this is a worthwhile investment, we don't expect to stretch the balance sheet substantially due to the platform and the investment amount is to be made over the couple of years and it is broadly similar to the joint venture model but you are right it requires slightly more investment than a typical joint venture.

- Moderator** The next question is from Sameer Desai from Finco Capital. Please go ahead.
- Sameer Desai** Can you tell me if you have to maintain any debt-equity ratio philosophy in next 2-3 years? The other question is regarding further equity dilution in coming 2-3 years?
- Pirojsha Godrej** I think as I just mentioned, generally we said that we are comfortable operating with the debt-equity ratio between 1-1.5:1. We think we have a tremendous amount of advantage in things that don't really show up in something like debt-equity ratio. The most important one is our Vikhroli project through which, not in a very short term, but over the project life we expect to receive Rs. 1,000 crore of cash flow without any investment. That does not show up in things like debt-equity ratio at the current time. But broadly 1-1.5:1 is where we are comfortable.
- Whether or not we will require further equity raising in future years, will really be dependent on our ability to monetize current projects and our ability to capture growth. We continue to feel that it is very important to manage ourselves appropriately from an operational point of view and from a risk point of view. Also the current moment is one still with opportunities from a new project perspective and we continue to look to add those new projects. So if we were really successful in that goal we may need in the future years to raise further equity, but certainly we think no immediate need for that.
- Moderator** Thank you. The next question is from Anand Agarwal from Jefferies. Please go ahead.
- Anand Agarwal** Just continuing on the discussion on the residential margins, some of the developers have started building in an escalation clause in the selling agreement to protect themselves against margin pressures. Is that something that you would consider and you think that it is feasible at all?
- Pirojsha Godrej** It is an interesting question. It is something we are watching, what the other developers have done. We don't have any plans to adopt such a strategy. My personal sense is that it creates a lot of risk of different kinds. I think it is at least as yet best an unproven strategy in terms of developer's ability to actually get customers to pay those kinds of cost at a later date; it may have potentially a large risk of creating issues with customers. That is something we would like to try to avoid. I think it is an interesting development that others have looked at but we have not immediate plans to look at this. We will keep an eye on how it works for others and continue to take a look at it but our current sense is that it could create more problems than it solves.
- Moderator** Thank you. Ladies and gentlemen due to time constraints we will take one last question from Chirag Dhanani from HDFC Securities. Please go ahead.
- Chirag Dhanani** I have a question regarding the Eternia project. Could you just quantify what is the amount by which the costs have been revised and how much of debt has hit the P&L during this quarter?

- Rajendra Khetawat** Yes, the cost revision is around Rs. 800-900 per square feet. This is the budget which we have provided. This is on account of revision in the parking rules and interest provision.
- Chirag Dhanani** The entire amount has been provided in the P&L itself.
- Rajendra Khetawat** It has not been provided, it is the budget provision, as and when progress happens, that will get expensed out into the P&L.
- Chirag Dhanani** And we have mentioned that total debt of Rs. 1,740 crore, what will be GPLs effective share in this?
- Rajendra Khetawat** Prima facie it is mostly GPL share because what net debt is reported is only the GPL's net debt. Jet would be a 50-50 profit sharing. So, by structure it would be 100% subsidiary which gets consolidated, but by agreement it will be 50-50 profit share.
- Chirag Dhanani** The debt in the Jet entity would be what Rs. 500 or Rs. 750 crore?
- Rajendra Khetawat** Rs. 740 crore.
- Moderator** Ladies and gentlemen that was the last question. I will now hand the conference over to the management for closing comments.
- Adi Godrej** I hope we have been able to answer all your questions. If you have any further questions or would like to know more about the company, we would be happy to be of assistance. We hope to add our valuable support on a continued basis as we move ahead. On behalf of the management I once again thank you all for taking the time to join us on this call.
- Moderator** On behalf of the Godrej Properties Limited, that concludes this conference call. Thank you for joining us.

- ENDS -

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