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May 14, 2020

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Ref: - BSE - Scrip Code: 533150, Scrip ID - GODREJPROP
BSE- Security ID 782GPL20 – Debt Segment
NSE - GODREJPROP

Sub: - Transcript of the conference call with the Investors/ Analysts

Dear Sir/Madam,

Please find a transcript of the conference call with the Investors/ Analysts held on Monday, May 11, 2020.

This is for your information and records.

Thank you,

Yours truly,
For Godrej Properties Limited

Surender Varma
Company Secretary & Chief Legal Officer

Encl: a/a

Godrej Properties Limited

Q4 FY2020 Results Conference Call Transcript
May 11, 2020

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. And 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 '' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anoop Poojari from CDR India. Thank you and over to you, sir.

Anoop Poojari: Thank you. Good afternoon, everyone. And thank you for joining us on Godrej Properties Q4 FY20 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 results presentation e-mailed to you earlier.

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

Pirojsha Godrej: Good afternoon, everyone. Thanks for joining us for Godrej Properties Fourth Quarter Financial Year 2020 Conference Call. Firstly, I hope you are all doing okay and staying safe. And we really appreciate you taking the time to be with us today. I will begin by discussing the highlights of the quarter, and we then look forward to taking your questions and suggestions.

The spread of COVID-19 and the resultant lockdown for nearly two months has had an immense impact on the global and Indian economy. This has created a large degree of uncertainty about the near-term prospects for the real-estate sector. Our focus has been primarily on ensuring the safety of our workforce, including the nearly 10,000 construction workers that remain at our site. We are also happy to play the small part in supporting the local and national government's response to this crisis.

As we evaluate the impact this will have on our business, a few areas of focus emerge. There will certainly be a near-term impact on construction progress and therefore cash collection. The period of the lockdown has obviously been one where zero construction has been possible. But even post the lockdown, getting back to full construction speed is not something that is going to happen overnight. We are well positioned to withstand this impact due to the nearly Rs. 2,500 crore cash on our balance sheet, but we will ensure we redouble our efforts at cost containment and cash generation. We will also benefit over the medium-term for our intended shift away from more labor-intensive forms of construction to precast construction. On the sales side, we will have to wait and watch how this impacts demand and for how long. In the short-term, there is bound to be a reduction in sales due to people worried about economic condition and potential job losses. However, we also believe that this will have the impact of increasing people's desire to pursue the security homeownership offers. So as people's economic concerns subside, we expect the residential real-estate sector to do quite well.

In China, April sales for residential real-estate showed strong year-on-year growth as the most intense stage of the pandemic passed. We also expect the current environment to ensure the process of industry consolidation that has been underway for some time gather space. Customers would be unwilling to purchase homes from developers whose capability to deliver is in any doubt. This, in turn, will force such developers to partner with leading developers to monetize their land, creating the double benefit of higher market share and increased portfolio addition opportunities for developers with strong balance sheet, brand and execution capability.

I will turn now to our operating performance for the fourth quarter. It has been a strong quarter. The highlight for the period was that we had our highest ever residential cash collection of Rs. 1,401 crore, which led to positive net operational cash flow of Rs. 484 crore. This was made possible by the team delivering the best-ever quarter in GPL's history in terms of the value of real-estate sold. The total sales for the quarter stood at Rs. 2,383 crore, which represents a quarter-on-quarter growth of 100% and year-on-year growth of 10% despite Q4 FY19 being the previous best ever quarter.

The volume sold during the quarter was 3.61 million square feet, this included over 500 apartments sold in the second half of March. One of the key sales highlights in the quarter was that for the first time we were able to launch three new projects in a single city, selling nearly Rs. 700 crore worth of homes in new launches in Pune. We also had one of our most successful launches of the year with Godrej Nurture in Bangalore, where we were able to sell about 585,000 square feet of space worth Rs. 316 crore during the quarter. In Mumbai, we managed to launch our Project Godrej RKS at the iconic RK Studio site within nine months of adding the project to our portfolio. We priced the project at a premium to the market and sold Rs.186 crore worth of apartments during the quarter. While this is a healthy number, it could have been significantly higher had the pandemic not severely hit buyer sentiment, particularly at the top end of the market towards the end of March.

The total value of bookings in financial year 2020 stood at Rs. 5,915 crore, the highest ever from GPL, resulting from volume sales of 8.8 million square feet, which is also the highest ever. We managed to sell more than 1.1 million square feet with a booking value of over Rs. 1,000 crore in each of our four focus markets of Mumbai, Pune, NCR and Bangalore. This has been possible to multiple new launches with sales of Rs. 2,795 crore, and excellent sustenance sales with Rs. 3,120 crore worth of existing inventories sold during the year.

On the operations front, we successfully delivered approximately 1.9 million square feet across three cities in Q4 FY20, including 950,000 square feet at Godrej 24 in Pune, and 350,000 square feet at The Trees Phase III in Vikhroli. The Trees project was delivered in 27 months, which was one of the fastest ever construction completions we had. And our project in Pune, Godrej 24, received its occupation certificate within 24 months of starting construction, which is the single fastest ever project completion for our company. I think this bodes well as one of the key strategic priorities for the company is to ensure we are able to crash construction timeline and through that, increase the scale of opportunities available and the time frame in which we can complete projects.

In the fourth quarter, our total revenue increased by 5% to Rs. 1,261 crore. Our adjusted EBITDA stood at Rs. 321 crore while the net profit stood at Rs. 101 crore. For the full year, our total revenue stood at Rs. 2,829 crore. Our adjusted EBITDA grew by 5% to Rs. 903 crore and net profit increased 6% to Rs. 267 crore. Financial year 2020 has also been a strong year for business development in terms of area added and the expected future profit from this area. GPL added 10 new projects with a saleable area of approximately 19 million square feet. In the fourth quarter, we added five new residential projects with saleable area of approximately 6.1 million square feet. Of these, three projects were in Mumbai, and the remaining two are in NCR. The projects in NCR include the Delhi land acquisition in Ashok Vihar from the Railway Land Development Authority. This is a high value project on an outstanding site which will give us the unique opportunity to create a large well planned development within Delhi.

In NCR, we also entered the Faridabad market for the first time with a project which will offer approximately 1 million square feet. This will also be our first plotted development in NCR. In Mumbai, we entered into a joint venture to develop a land parcel in the upscale neighborhood of Worli, which will offer approximately 1.2 million square feet of salable area as part of a redevelopment project. While this micro market has, over the past few years, been quite oversupplied, we believe that the type of project design and pricing that we can come to market with will be quite disruptive and that this could be a pretty exciting project for the company. We also added two smaller projects in Mumbai, a project in Chandivali with 0.5 million square feet of saleable area and a project in Matunga with 200,000 square feet of saleable area. Additionally, we have acquired a 20% stake in a company to develop a commercial project with Godrej Fund Management under its commercial platform. The project is located in Hebbal, Bangalore, which offers 0.7 million square feet of leasable area. We also restructured a deal with Godrej Agrovet where we purchased the land parcel with potential saleable area of 1.7 million square feet. Post restructuring, we now own 100% of the project instead of the earlier development management arrangement.

We believe financial year 2021 will be another year where a significant number of business development opportunities arise. We will be focused on striking the right balance between selecting the best of these opportunities while also ensuring we maintain the strength of our balance sheet in case the situation worsens beyond our current expectation.

It has been a challenging year for the Indian economy with a sharp slowdown in economic growth even before this unprecedented economic hit from the pandemic. While the start of FY21 could be muted, we expect that our brand, our balance sheet, our geographic spread and our project portfolio will enable us to deliver sustained growth in the years ahead.

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

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the questions-and-answer session. The first question is from the line of Kunal Lakhan from CLSA.

Kunal Lakhan: Firstly, on the launch pipeline, we have almost like 15 million square feet of new launches lined up. Now considering the current lockdown and even some kind of a slowdown expected post lockdown, do you think like there will be enough demand for these many launches in FY21? Also considering the overall negative sentiment with respect to job cuts and pay cuts.

Pirojsha Godrej: Kunal, we do think that I think this is a pretty realistic outlook on what we hope to achieve during the year. Certainly, I think that there is enough uncertainty about the future that we will obviously have to keep revisiting this. But I think what gives us reasonable confidence on this is a couple of things. One, as I said, while the short-term impact, particularly in the first and second quarter is likely to be quite severe, our sense is that residential real-estate as a sector is not likely to get as hit as people are currently baking into their assessment. Because again, while it is true that a lot of people will lose the ability to afford real-estate if they lose their jobs or face big salary cuts, it is equally true that going into this affordability for the real-estate sector has been the best it's been in 20 years, with interest rates having sharply reduced, with prices having been stagnant for many years and with people's incomes having risen. And so I think the affordability actually is not that bad, even assuming some economic hit and some depression to people's incomes and spending power.

Secondly, I would say that there is going to be a very powerful effect, which I think we have already been witnessing in the sector, of consolidation. And I think the current situation is only going to add momentum to that process. I think people who are buying an under-construction home are not going to be willing to take the risk of trusting just any developer. And with Godrej Properties now being a relative market leader in the residential space, but with a market share that is still in the very low single-digits, we believe that even if the overall market declines in size, again, as it has been the last few years, we may still have an opportunity to deliver good growth through market share gains. So I think that will be the focus. We will obviously continue to revisit this. I think one thing is certain is that this is an extremely dynamic situation. What's true one week may not be true the next week. So I think we will continue to keep an eye on this and update the investor community, if any, of this changes.

But our sense is that we should be able to launch all of these projects. And actually it's a sector which lends itself much more easily than many other sectors to making up for lost time in a way. If you look at it in FY20, where, obviously, the pandemic was only an issue for the last couple of weeks of the year, our Q4 sales were nearly 3x our Q1 sales, because launches got bunched up together in that period. I think, we believe, we have the confidence now to launch multiple projects simultaneously. I think, in Q4, for example, as I mentioned in my remarks, in Pune, we were able to very successfully launch three new projects simultaneously almost. And I think that ability will allow us to make up for a soft Q1 and Q2. Obviously, if the economic pain is much beyond what is currently envisaged, that will have a hit on plans. But again, I think the combined opportunity of market share gains and the ability to make up for lost time does give us a fair amount of confidence.

Kunal Lakhan: Sure. That's very helpful. My second question was on our strategy towards land acquisition. If you look at in FY20 itself, we have like committed almost Rs. 1,700 crore odd towards acquiring land on 100% ownership basis. Has there been any shift in the strategy towards acquiring projects versus, say, doing joint developments and joint ventures earlier?

Pirojsha Godrej: See, Kunal, there has been a shift in the preference towards saying that, look at the scale we are at, to move the needle for the value creation for the company, we do need to see a higher economic interest at the project level. And there has been a concerted effort to do that. That said, I think we are quite clear on what kinds of projects we are open to buying the land or for versus doing joint ventures. So for example, projects like plotted developments which can be very quickly turned around, where the return profiles, even after buying the land, can be better than in typical joint ventures, is one area where we think land purchases make sense. Second potential area is in projects where the payment can be made over a period of time and you are linked to various milestones. So for example, our big acquisition in Delhi, one of the key advantages of this is that the payment is actually possible to be made over seven or eight years. And what that does is that if you operate it efficiently and you are generating operating cash flows after you launch the project, your actual peak investment in the land looks very different than the headline acquisition number. So I would say, I think we still prefer to look at more asset-light models prefer to have to the extent possible the cash flows from the development pay for the land parcel. But it's also true that we want to take bigger, more concentrated bets that we want higher returns at individual project level. So we have been attempting to strike that balance and find the right opportunities where the risk-reward balance is favorable for outright purchases.

Kunal Lakhan: Sure. That is helpful. And just a follow-up on the same question, like that the Rs. 1,000 crore of NCDs that we are looking at, the utilization of that will be towards acquiring these projects, the newer projects?

Pirojsha Godrej: For now it's just an enabling resolution. I think the idea was that it's a good time to make sure that your liquidity position is extremely strong because there are quite likely to be opportunities that may arise. And I think keeping capital available, we believe, is always a prudent step. So we have no firm plans as of now to raise this capital. But similarly, last year around this time, we raised some equity capital, which I think has proven to be a good timing because it's kept us very liquid in an environment where others are struggling. And I think similarly the idea here was to raise some capital at potentially very competitive cost and long-term capital that can be used, if needed, to deploy an interesting opportunity. But I think we will come back as and when there is a firm plan to actually pull the trigger on this.

Moderator: Thank you. The next question is from the line of Abhishek Bhandari from Macquarie. Please go ahead.

Abhishek Bhandari: Thank you for the presentation. I had a couple of questions, Pirojsha. The first one is, with the lockdown, everything is virtually shut. So what kind of impact has come on the customer collections? And if you could guide what would be your CapEx, including construction spend for FY '21?

Pirojsha Godrej: Abhishek, so I think, again, a lot of that will remain to be seen in terms of how long the lockdown lasts, whether it's a repetitive kind of lockdown or a one-off thing. Certainly, cash collections have been hit extremely hard because, as you know, in the sector, the way cash payments become due is upon completion of various construction milestones. And as of now, in the last week of March and all of April and the first bit of May, there has been virtually no construction. I am happy to report that as of today half our sites, almost exactly half our sites across the country, have reopened. One of the things we tried to do is, both from a CSR perspective, but also from kind of a protecting business perspective was to try and keep as many construction workers across the country who are at our sites or at labor camps next to our site available for when things open up.

So we have been paying construction workers, taking care of their food requirements and so on. So I think relatively speaking, we have better position with construction labor than most of the industry. But certainly, it's far from perfect. And I think getting back to full gear on construction and therefore cash collections will take time. Obviously, spend will also reduce almost proportionately as you are not spending any money on construction, not spending anywhere near as much money on marketing and so on.

Abhishek Bhandari: Sure. My second question, Pirojsha, is, with this lockdown almost being like a force majeure, are there any clauses in the RERA contracts which enable us to push the completion time lines of the projects where we have signed the contract with the customers?

Pirojsha Godrej: Yes. Mohit, do you want to take this one?

Mohit Malhotra: Yes, sure, Pirojsha. So the RERA itself has, in couple of states given an extension. Mumbai came up with a three month extension. And many industry bodies are speaking to RERA for a further extension given the lockdown is continuing and some of the potential issues in labor situation which could arise in future. So RERA has been pretty cooperative and actually taking cognizance of the situation and taking right actions. So we are pretty confident that RERA will take care of some of these delays in case if it happens. Moreover, I think apart from that, one thing which we should understand is that, from our perspective, we keep a sufficient buffer between our actual timeline for completion vis-a-vis RERA timelines. So we are actually quite comfortable in terms of the planned days even today. But I am also quite hopeful that RERA is also taking care of it, because the entire industry bodies are working towards it.

Pirojsha Godrej: Yes. And just to elaborate a little on Mohit's point. I think that quantum of gap is quite significant usually, Abhishek. So I think usually the RERA timeline completion would be close to about four years for a typical project, whereas the actual construction completion, I mentioned, we have just completed one in two years, but certainly, we would expect to complete it within three years. So, I think, the buffer is of the order of magnitude often of as much as a year or even more in some cases, which hopefully should ensure that unless things really severely worsen and we have many rounds of these shutdowns, that for the vast majority of projects, we would not have any problem delivering on time.

Abhishek Bhandari: Sure. Pirojsha, my last question would be, you said that there will be acceleration of consolidation of the sector in the medium term. So as a strategy, are we open to even acquiring some of the real-estate companies in India? Because I see one of your promoter group fund or promoter Group Company has been buying shares in one of the South Indian companies in the past few weeks.

Pirojsha Godrej: No, I think the two things should not be linked. Obviously, the primary office can make various investments in what it sees as profitable venture. I think from a GPL perspective, we are obviously open to all avenues of growth. I think for the most part, it is much more likely to be at project level, where I think a lot of the direct value creation for us comes from the underlying land. But certainly, I think we will keep our eyes open for any opportunities that come our way.

Moderator: Thank you. The next question is from the line of Mohit Agrawal from IIFL. Please go ahead.

Mohit Agrawal: My first question is on the launches. I see that it is heartening to see 15 million square feet of launches. What I see is that we don't have any launch in Vikhroli scheduled. So could you let us know what is the thought process there?

Pirojsha Godrej: Yes. This is a bit disappointing to us as well. What has happened there is that we have identified as the next phase of launch, a 20 acre project, where unfortunately a significant chunk of that, there has been an issue in the development plan of it being labeled something else. So we are working with the authorities to try and get that fixed. But I think progress, frankly, hasn't been extremely rapid. And we wanted to be conservative in the guideline this year since we missed that as a launch even for last year. So look, these are the best estimate of current visibility. What usually typically happens in any given year is that some projects end up dropping out from the list because regulatory approvals don't come as planned. And what also typically happens is some new projects get added. So for example, RK Studios, we were able to launch within the year, last year, which wasn't part of the original plan. So I would say we still hope to launch something in Vikhroli. We also will be gunning to launch a project in Worli, but I think the way to look at it is that those should be kind of stick to current plan.

Mohit Agrawal: Okay. And lastly on the P&L front, just wanted a couple of things. One is on the margins, reported about 13% margins. Well, I see that a large part of the revenue was from Vikhroli, 0.35 million square feet getting recognized. Still, it seems the margins was a little low considering that Vikhroli has been very high margins, first part. And the second part is, on the JV side also we saw some projects getting recognized, but still the losses continue to be there, it is steady there. So could you explain that and help us understand?

Pirojsha Godrej: Rajendra, would you like to take this one?

Rajendra Khetawat: Sure, sure. So the margins from Vikhroli is healthy, as you very rightly pointed out. However, like the JV projects, which we are into the launch stage, the projects which are under JV and getting launched, as we informed in the past, these are all marketing and advertisement expenditure which get expensed as a period cost. So since we have done 16 launches, so all these marketing and other expenses are coming as a P&L hit. However, the revenue is postponed at a later date. So it is a timing difference on account of JV income getting recognized. So if you see, Rs. 85 crore of share of loss in JV has been reported. So this is one point which has brought down our margin. Secondly, there are certain old projects where we have been taking calls to liquidate and encash. I think there are also some of those projects which has passed through P&L, but not very significant amount. So these are the two reasons because of which you see the overall margins not adequate in spite of Trees being a major contributor.

Mohit Agrawal: Okay. And Vikhroli margins would be above 30%?

Rajendra Khetawat: Yes, around 38%, 40%.

Moderator: Thank you. The next question is from the line of Puneet Gulati from HSBC. Please go ahead.

Puneet Gulati: Congratulations on great results in these tough times. I wanted to understand one thing, are you seeing any need to go back to some of your joint venture partners and renegotiate the agreement that you would have done two, three years back?

Pirojsha Godrej: Well, we have in various cases done that. So for example, recent example is with our sister company where we have converted a development management arrangement to an outright purchase. We had restructured our big Ahmedabad project in kind of a different direction. So I think whenever we think the original structures don't work, for whatever reason, we will do that. Obviously, given how this situation is, we will have to kind of all wait and watch how this plays out. But I think overall, negotiating power with the developer today is probably at its kind of all-time high. At the same time, I think, obviously, profit sharing projects, etc., inherently are quite risk protected, and for the most part don't need to be renegotiated in our view.

Puneet Gulati: Okay. And the landowners are not also coming back to you for renegotiation? It is only you who is initiating any kind of renegotiations.

Pirojsha Godrej: Yes. I think why would the landowner be renegotiating at this stage. I think clearly, again, the balance of kind of more control is shifting I think to the developers who can still monetize land parcels in this environment. Mohit, you want to add anything?

Mohit Malhotra: No, Pirojsha. You are absolutely right. The landowners are now actually seeking more and more partnership with us and some of the quality players. So I haven't seen any trend of a landowner asking us to renegotiate terms.

Moderator: Thank you. The next question is from the line of Murtuza Arsiwalla from Kotak Securities. Please go ahead.

Murtuza Arsiwalla:: Just a question on the business development during the quarter, Ashok Vihar, Faridabad and Chandivali land. Could you give us a sense on what is the land purchase cost commitment? And how much has been paid during the quarter and how it would be staggered over a period of time?

Pirojsha Godrej: Rajendra, you want to take?

Rajendra Khetawat: Sure. So Murtuza, as far as Ashok Vihar, like Pirojsha mentioned, it has been staggered over the period of eight years. So it will be a payment plan over the eight years. And like if all goes well, the project itself would be paying for the land cost. So over the period of eight years, it's an installment of 100, 150, 200, it staggered over a period of eight years. As far as other projects are concerned, like we have been off late linking the land payments to a certain milestone. And I think the last land payment is almost linked near the launch. So there are certain stages at which those payments get released on the happening of event so that there is a participation of the landowner and then at any given point of time we don't take him for a surprise. So we have staggered those land payment as and when those events get fructified. So we can give you off-line whatever the land payments are staggered. I don't have that information right now available with me.

Murtuza Arsiwalla: Sure. But in general, we are trying to stagger the land payments across the three parcels that we have entered into?

Rajendra Khetawat: Exactly. That we have been doing from last 1, 1.5 years, we have been doing this.

Moderator: Thank you. The next question is from the line of Swagato Ghosh from Franklin Templeton. Please go ahead.

Swagato Ghosh: So the first is a follow-up to an earlier question. I just want to understand what prompted change in the structure in the Agrovet project? Was it more of a demand from your partner's side or something else happened?

Pirojsha Godrej: No, it was actually fully initiated from our side and they accommodated the request. I think, as we have been saying for a while now, our interest is more on projects where we have a higher economic interest. So if you would have noticed, we haven't added any pure development management fee projects in the last couple of years. And I think the other thing that we wanted on the Agrovet project was to convert it towards market development. So what we have done is bring down significantly the saleable area of the project, but dramatically increases the project IRR and kind of cash recognition time frame. And I think Godrej Agrovet not being their core business was happy to kind of monetize the land, but this was fully initiated and sort of requested by Godrej Properties.

Swagato Ghosh: Yes. Sorry. My follow-up was, are there similar projects where probably we have partnered with a noncore real-estate player and how we can push to increase our stake?

Pirojsha Godrej: I think from project-to-project we will keep sort of evaluating this as an opportunity. But I would suggest there is no point trying to sort of think through the whole portfolio and far between these kind of big structure changes.

Swagato Ghosh: All right. Right. Got it. And secondly, I just want to tie in your sales with your cash flows. So if you can just help me understand, today you are making Rs. 100 sales. Based on your gross margins and economic interest, how much is the net cash flow attributable to Godrej Properties? I understand it's a dynamic number and it's a changing number every day probably, but a ballpark number would be very helpful in understanding the cash flows for the business.

Pirojsha Godrej: Rajendra, you want to take this?

Rajendra Khetawat: Sure. So what happens is the entire cash flow is controlled by us. So the entire cash flow comes to Godrej Properties. And as per the RERA, 70% goes towards construction of the project, 30% is what the free cash flow. That is after meeting the taxes and the sales and marketing expenses, the balanced cash flow gets distributed into a pre-agreed ratio between both the parties. So technically, 70% always remains for the project that gets unlocked only after the OC is received, 30% is after meeting all expenses is what something is pre-agreed between both the parties to be distributed.

Swagato Ghosh: Yes, that true. But I wanted to understand sir that, of this whole Rs. 100 how much is actually attributable to Godrej? Like I understand the technical bit of it...

Rajendra Khetawat: The attributable, finally the attributable is related to your profit sharing ratio. Now if I'm having 50%, at the end of the project, I will be entitled to 50% of the cash flow in form of profit. Otherwise, like I said, the entire cash flow is controlled till the end of the project by us only.

Swagato Ghosh: Yes. Sir, so at the current time snapshot, what is that number? Any ballpark number would also be helpful.

Rajendra Khetawat: No, you have to go project-by-project. It is very difficult to give a ballpark number. That's why we publish the cash flow which is a gross cash flow, whatever the inflow we receive from the project and whatever the gross outflow we do from the project. It's very difficult to give a ballpark number.

Pirojsha Godrej: It's highly dependent on both structure, whether it is a profit-sharing structure, ownership structure, what the health of the project is in terms of final delivered margin. So as Rajendra said, I think any average would probably more mask the sort of real numbers which can vary quite a bit at the project level.

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

Manish Gandhi: I hope you all are well. So my first question is, Mohit, can you explain about our recent 10:90 scheme in respect to cash flow effect on the project and cancellation risk? So how are we covered in case of cancellation after one year there?

Mohit Malhotra: Yes. Thanks, Manish. I think this 10:90 scheme is right now on for a couple of sustenance projects. Some of them would be coming into the 90% within this financial year and some might come in the next financial year. Largely, they are projects which are at fairly advanced stages. In terms of cancellation risk, see, we are collecting 10%, and then there is stamp duty and registration. So the total customer commitment is around 15% to 16% of the value of flat, which we feel is the number which is reasonable from the overall perspective. Even within RERA, most geographies would have this kind of a lock with the customer. So I think cancellation risk, Manish, is I would say, less because customers are today buying more consciously, and they are fully aware of in the current situation and taking their calls basis their outlook of the future. From our perspective, that is the best we could have done from a safeguarding perspective. Sorry, what was the second part of your question?

Manish Gandhi: No. That was only the cancellation part only, and the cash flow effect on the project...

Pirojsha Godrej: And Mohit, you may want to talk about pricing of these apartments in this case.

Mohit Malhotra: Yes. So other thing, Manish, which we have done, from a cash flow perspective your point is very fair that while cancellation risk I personally feel is less, we are delaying cash flows from these projects by some period of time. Now what we did was we did the NPV of this cash flow and then post that we said, because we are delaying our cash flow and there is a higher risk premium which we want to attach, we have significantly enhanced the prices of these units. So actually, if you are buying something in 10:90 scheme, the price of that unit is between 15% to 20% higher than if you buy in the CLP plan, which we also offer at this point of time to the customer, and we actually try and switch. See what we do is also we use this as a sourcing tool and then during the negotiation, we try and switch people to the CLP plan. But even if they don't switch, we are charging a hefty premium for these delays of cash flow.

Manish Gandhi: Okay. That's great. And my second question is on the new deal of the Worli, is this slum redevelopment, Pirojsha or...?

Pirojsha Godrej: Yes.

Manish Gandhi: So we have Kandivali, Bandra and now Worli, so three slum redevelopment. And as they say, every crisis presents an opportunity, so Pirojsha, I would like to know your view about Mumbai Slum Redevelopment. As we have seen historically many cities have dramatically developed after pandemics. Do you feel Mumbai Slum Redevelopment can be a big opportunity for the next 10 years and which can be win-win for all, and a big boon for Mumbai? And you, as a leading developer and a trusted brand, can you play a big role to driving into it?

Pirojsha Godrej: Manish, I think time will tell. But certainly, it's a real shame to have a city like Mumbai, which is one of the leading cities of our country, and have almost 60% of residents in the city living in slum. I think, obviously, this pandemic brings home the kind of challenges and difficulties people living there face, the city faces. And I certainly think this is a big wake up call. So I have been participating in some groups trying to sort of aid the government's response. And there is no question that I think one of the takeaways everyone is focused on is that once things settle we must get serious about fixing this problem for Mumbai once and for all. Whether that actually comes to pass, of course, as I said, time will tell; people have short memory sometime. But if this doesn't wake people up to kind of unnecessary danger we are putting people's lives, we are putting the city, I am not sure what will. And certainly, I think, it will at a minimum, I think, hopefully expedite things like regulatory clearances for projects that are already reasonably far along the way. So hopefully, we don't continue to see the kind of delays that are typical in slum redevelopment projects, and hopefully some of the bigger areas of slum can also open up for development which, as you say, is a win-win for the residents, the city as a whole and certainly for private developers as well.

Manish Gandhi: I hope better sense prevail. Thank you very much.

Pirojsha Godrej: Thanks, Manish.

Moderator: Thank you. Your question is from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.

Sameer Baisiwala: Pirojsha, when does the groundbreaking happens for Ashok Vihar, Worli and Bandra? And second question, specifically on Ashok Vihar. I mean, it's quite a unique location, which is not where sort of Delhi cares, so to say, forgotten part of Delhi. So do you think, as you have got such a big demand of 3.3 million square feet luxury housing at that price point?

Pirojsha Godrej: Yes. Thanks, Sameer. I think it's certainly a project that we, as a company, and we personally are quite excited about. I don't know if you have had the chance to see this, but it's one of the largest in Delhi. And what's particularly exciting about it is, around three sides it has a large public parks, it's a beautiful green sight. And I think 3.3 million square feet to us doesn't sound like too crazy a number. It is not obviously a single phase or two phase kind of project. But I think we have thoughts on bringing in variety of kind of product positioning. And do believe that we have in that site kind of a canvas that we can, if we do our design well, come up with something quite special that hopefully should attract residents in the Delhi market. That's a project we are hoping to launch this financial year. We are already pretty far along with things like design, which was actually bid out earlier in the year and re-tendered and so forth. So we had quite a bit of time already spent on this. Regulatory approvals are regulatory approvals, we will see if we are able to get them. But certainly, it's a part of the team's plan and incentive for the current financial year. The hope is to also launch both Bandra and Worli this financial year. I think in our guidance for the year, in the presentation, we have left Worli out and have included the other two. But the internal effort will be to do our best to get all three launched. I think these are not sort of first half launches for sure, and will be dependent on kind of regulatory approvals coming in. But I think if we are able to get these done, these three potentially blockbuster launches for the company.

Sameer Baisiwala: Okay. And second question is, in terms of new project acquisitions, are you going to focus on the same key four markets or are you thinking differently hereon? And second is, your assessment of these three big markets, Bangalore, Mumbai and NCR, which you call Gurgaon, how much supply is still there? And how many quarters, years do you think it takes for the city as such to really become the buoyant real-estate market? I understand this just too well, but just around the market per se.

Pirojsha Godrej: Yes. I think we will remain focused, Sameer, on these top four cities. I think they offer us a lot of opportunity. I think, hopefully, this past quarter gave a little bit of an evidence of what strong business development in each of the cities can do to total scale of operations as we sold well over 1 million square feet in Pune just within the quarter. So if you extrapolate that, and we have the project. I think one of the areas we feel we have not performed well as a company is that we have been kind of very hand-to-mouth with project launches. So we don't have a bunch of projects with fully approved, and we time the launches exactly as we want. We keep kind of needing to pull the trigger very fast as soon as we get regulatory approvals. Hopefully, with the kind of business development activity we have done over the last couple of years, we will gradually be kind of emerging out of that stage and have projects like Ashok Vihar, which will be four or five independent kind of mini projects that will all be approved and kind of ready-to-go per our timing.

So our focus will be on these four cities. I think our market share in each of these, while we are now one of the top two, three players in all of these, our market share is still extremely low. And again, I think the Pune example is a good illustration of the fact that if you have the right project and you have a good brand and you have the ability to deliver the project, there is no reason that, that market share count shoot up quite strongly. And I think that is the key goal of the company to make sure in these four cities the market share continues to rise. I think within them, they have all performed slightly differently. I would say Bangalore and Pune have been the most steady and kind of better performing. NCR, as we know, has been probably the worst, and Mumbai probably somewhere in between. Our sense is that our Pune portfolio now is quite well set. So that is not a big area of focus for business development, given the existing opportunities we have there. NCR and Mumbai, I would say, in a decent place we have a good amount of things. I think we did something like six new projects in Mumbai and three or so in NCR this year. So we are reasonably well placed, but I think we will still be looking for interesting opportunities to build the portfolio there. And Bangalore certainly is a city where we would be a little bit disappointed with the pace of business development. So I think that will be a focus for this year.

Sameer Baisiwala: Excellent. Thanks for this and any thoughts on the city markets and the supply time it takes to clear this up?

Pirojsha Godrej: Yes. I think the sort of months to clear is, obviously, a function of current demand levels. And I think what we are seeing is even before the pandemic compared to kind of 2012, 2013 levels, as you know, market volumes are kind of down 40% or thereabouts. Now our sense is that, that is not here to stay forever. This is probably an unpopular time to express that opinion. Certainly, we don't have any great expectations from the overall market this year. But certainly, the residential real-estate sector in India will revive. And I think when it revives, the strength of that revival will probably surprise many. I wouldn't hazard a guess on how many months of supply there currently is. What I would add is that while there is a lot of talk of sort of short-term supply, and I don't even think the situation there is as bad as sometimes made out.

But what is very clear to me is that if we look out two to three years from today, it seems very unlikely that the supply-demand balance wouldn't have turned in the favor of developers. For the simple reason that the number of developers focusing on truly new projects and truly new launches today, in my view, is pretty close to zero. So you obviously have new launches, but those really are of projects that were in developers' pipeline where they had already acquired the land a few years ago and have gone through the regulatory approval process. The number of developers out there today saying that they want to buy a piece of land and start that process afresh, in my mind, is very limited.

So as you see demand eventually pick up and current supply get absorbed, I think you are in for the next upswing for the sector a couple of years from now. And again, there is nothing very insightful about, it is a typical real-estate cycle when demand is good, people over-commit on the supply side. When demand is bad, people under-commit on the supply side, and that sort of kind of drives the cycle. So we are hoping to position ourselves to be a key beneficiary of that turn in the cycle. But the encouraging thing is that we are in no means dependent on it because with the market share of 1%, 2%, 3%, depending how you calculate it, the opportunity to grow that even in a stagnant or declining market, if we have the right project, is pretty strong.

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

Abhinav Sinha: Just wanted to check on the consolidated cash flows that you have put out, page 33 of the presentation. The other project related outflow is now almost equaling the construction-related outflow. So what is this exactly? And how long does this continue?

Pirojsha Godrej: Rajendra, would you to take that?

Rajendra Khetawat: Sure. Abhinav, which page you are talking about?

Abhinav Sinha: This is slide 33 of the presentation, consolidated cash flows. So the other project outflow…

Rajendra Khetawat: These are all on account of all rising expenses, architecture expenses, these are all on account of that. Since number of projects is increasing, so these are the expenses which we incur across the project.

Abhinav Sinha: Okay. This is like a pre-launch sort of expense that you have.

Rajendra Khetawat: Exactly.

Abhinav Sinha: Okay. And second question again on the cash flow and balance sheet front again. So the three large projects that we have mentioned here, Bandra, Worli and Ashok Vihar, assuming we do hit the milestones and hit the launch, what is the incremental expense we are looking at in FY21?

Rajendra Khetawat: So incremental expense would be in the terms of marketing and advertisement, and whatever we would require to seek approval. So that assessment, we are underway. But I think the major review, initially major review would be more on towards seeking the basic approval, that means the environmental clearance and obtaining start-up construction plus the marketing and other launch activities what we normally spend for.

Abhinav Sinha: Right. And the shifting activity and the SRA building, what is the status there?

Pirojsha Godrej: Mohit, do you want to take that?

Mohit Malhotra: Sorry, can you just repeat the question, please?

Abhinav Sinha: Yes. Mohit, on the Bandra and Worli side, respectively, what is the status of the shifting activity and building where the rehabilitation has to take place?

Mohit Malhotra: So on Bandra, we had started work and we had cleared up close to 200, 250 slums. Post that, the work had halted. But now once the COVID situation is over, we will again restart the work. On Worli, actually, almost 50% of slums are already clear. So it's actually at a fairly more advanced stage than Bandra. But given the COVID and given the implications of COVID on the slums, we expect there would be greater inclination also from the slum dwellers to move out of these sites and live in better accommodation. So both the JV partners are actually quite bullish that once the lockdown is over, we can move very fast on clearing the slum. On the approval front, on Bandra, we have actually had good progress on the approval side. So we are working on those fronts parallelly. And on the design front in Worli, we are actually at a fairly advanced stage. So a lot of work happening on all fronts on these two projects.

Abhinav Sinha: Right. And just one last question. So on Worli, can you just give us some more color, I mean, what is the cost you would have put up for this? And where exactly is the location?

Mohit Malhotra: So we haven't put up any cost yet. Our deposits are linked to milestones and largely, most of it is linked to slum clearance and approvals. So right now, our exposure are very, very low. In terms of location, this is close to Nehru Planetarium and a very, very good location with excellent sea views and this Mahalaxmi views. We are pretty optimistic about this project.

Moderator: Thank you. The next question is from the line of Dhaval Somaiya from PhillipCapital. Please go ahead.

Dhaval Somaiya: Mohit, I just wanted to understand if you can give some guidance in terms of for what time period do we plan to run these 10:90 and, in certain cases, those 20:80 Scheme?

Mohit Malhotra: Yes, this is something we are running as a pan-India play right now for Q1 only. And we definitely would like to switch back to the regular payment plan once the situation stabilizes across the country.

Dhaval Somaiya: And Mohit, as per my understanding, we have not launched these schemes for Bangalore micromarket. Is my understanding correct? Or we have ruled out schemes there also?

Mohit Malhotra: Everywhere. We have rolled it out everywhere. But as I said, while forcibly using with particular methodology, we also provide enough incentive for customers to switch to the construction-linked plans during the sales process. But it's all over the country right now.

Moderator: Thank you. The next question is from the line of Adhidev Chattopadhyay from ICIC Securities. Please go ahead.

A. Chattopadhyay: Sir my question, you mentioned you have 10,000 laborers on site. So as an overall percentage of our peak labor, how much would that be, like 50%, 40%, is there some ballpark number over there?

Pirojsha Godrej: I think it is 60% to 70%. Right, Mohit?

Mohit Malhotra: Yes. Around 70%, yes.

A. Chattopadhyay: Okay. And are we seeing a further exodus of labor because we have been hearing migrant labors wanted to go back to their villages. So are you seeing an exodus further happening or it is more or less settled now across your sites?

Pirojsha Godrej: Mohit, you want to take that?

Mohit Malhotra: It varies site-to-site. Of course, there has been a lot of news flow, which has been prompting labors. But I think once the site starts operation, we are seeing that labor actually is happy to stay back. So that is why the shift is to start the work on the site. But right now, it's a pretty evolving situation. We are, with our contractors working out on all options to retain labor. And given the way that all the sites are paid on time and given the way we have handled them during this lockdown, where we were taking care of their entire needs, so we have a goodwill with the labor. But again, it's a very evolving situation and interventions are required at a site level to manage this.

A. Chattopadhyay: Okay. Sure. Sir, next is a housekeeping question. So what would be your debt maturity schedule for both FY21 and FY22?

Pirojsha Godrej: Rajendra?

Rajendra Khetawat: Yes. So the big repayment would be the Rs. 500 crore NCD, which is coming for maturity this financial year. Other than that, we have lines of credit which get rolled over every year. So not a very big payment other than the NCD thing.

A. Chattopadhyay: Okay. And just if I can squeeze in this Rs. 2,500 crore of cash balance we have, are we looking to maintain it at a similar level during this year or you are open to making some big spend, if some opportunity comes by?

Rajendra Khetawat: Definitely, this money has been raised to deploy into business development opportunities. So we would be deploying as and when the opportunities arise and some payments, which are already the commitments which we have made last year will go towards that.

Pirojsha Godrej: See, I don't know if we are just going to keep cash on the balance sheet indefinitely. Obviously, some of the business development we have already done as these projects get closer to launch milestones, the cash will be deployed, and as Rajendra said, also for new projects. But I think we will obviously have a pretty high bar for new investments in this environment in terms of expected returns and got a risk-return balance.

Moderator: Thank you. The next question is from the line of Sushmit Patodia from Motilal Oswal. Please go ahead.

Sushmit Patodia: I just have a couple of questions. Firstly, our current debt to equity is 0.2. So how far will we stretch this again, will you go all the way back to 1? And just extension of this question is, in your long-term business plan, when does the company becomes self-sustainable in terms of not having to raise any more equity? That's my first question.

Pirojsha Godrej: Yes. I think on the gearing question, we would be happy to have it for the right opportunities go back into the kind of 1:1 range. Again, our sense is that our ability to borrow capital from long-term capital providers at competitive rates is kind of a key competitive advantage. So our average borrowing cost at the end of the quarter was 7.85%. So I think post tax shield cost of capital of sort of 5% is a pretty attractive source of capital and certainly one that we would like to continue to take advantage of. I think the question on when does the company become self-sufficient is hopefully already, but I think it depends a lot on the kind of pace of growth. I think given the current visibility, we don't expect to raise any further equity in the foreseeable future. But I think certainly, that could change if the scale of opportunity increases or other things change. So I think we would like to keep a dynamic decision making sort of framework for this. For example, I think the last couple of capital raises we have done in hindsight have been quite well timed. We have no plans currently to do anything like that again. But certainly, if the right opportunity presents, then we wouldn't totally eliminate the option.

Sushmit Patodia: Okay. And my second question is, do you think the hospitality industry, which we have been away from, can give you significant opportunities and the biggest distress could actually come from there?

Pirojsha Godrej: No. We don't think that.

Sushmit Patodia: Okay. And just last, just to squeezing in the housekeeping tax rate. The tax rate in the reported P&L is 44% which is about Rs. 220 crore, while the cash flow statement shows an outflow of only Rs. 23 crore. Could you help us on that?

Rajendra Khetawat: Yes, of course, so when you report, the reporting is considering the JV and its losses, which are also there. If you exclude those, the tax rate would be around 35%. So as far as the outflow is concerned, we have carry forward tax shield. That's why our outflows are lower as compared to P&L.

Sushmit Patodia: So, I mean, at what rate does the tax rate stabilize, sir?

Rajendra Khetawat: So the tax rate anyway is at 35% because of the JV reporting. So it looks higher. Otherwise, the maximum margin rate is 35%.

Moderator: Thank you. The next question is from the line of Rajesh Disale from SBI Mutual Fund. Please go ahead.

Rajesh Disale: So I have two questions. My first question is for Mr. Rajendra. So what are pending collections as on the end of FY20? And what's the time line we expect to collect this amount? And my second question is on the Worli project. Can you elaborate on like what's the strategy on that in terms of like product type? And what was the business case of like getting into crowded market like South Bombay?

Rajendra Khetawat: So on your first question, there is always a time lag, by the time you build and you collect there is always going to be some outstanding. So as far as the bill debtors are concerned, we have around Rs. 150 crore to Rs. 200 odd crore, which are bill debtors. There are certain other outstanding which are old outstandings, that would be another couple of hundred crore. So we expect this outstanding to get cleared in the coming quarters as most of the outstanding are also linked to time and some of them are linked to payment plans. So we expect this to keep coming in the quarters ahead.

Rajesh Disale: Actually, it is not about the bill outstanding, it's about like whatever bookings you have done until now cumulatively.

Rajendra Khetawat: That is more or less around Rs. 400 crore.

Rajesh Disale: Okay. All right. So, this is for invoices raised and outstanding or this is like invoices haven't raised, but these are like sales and we are like we will be collecting the rest of the amount?

Rajendra Khetawat: So, most of the invoices are raised, and they are into various collection cycles per se.

Moderator: Thank you. The next question is from the line of Manish Jain from GormalOne LLP. Please go ahead.

Manish Jain: I just wanted to know on the land deal on Railway Land Development, Ashok Vihar. Now going ahead, will we prefer something similar where maybe the IRRs are slightly lower or you would prefer outright where IRRs are higher? And would you get to make most of the payments by the first launch because here is a very dream kind of land acquisition.

Pirojsha Godrej: Mohit, do you want to take that?

Mohit Malhotra: Yes. Thanks, Manish. So Manish, it depends, there are two kind of projects as you rightly mentioned. There is a project with eight years' time frame to pay for land value. I think you can compare it almost like a joint venture project in some sense because a lot of the money will be going out of the project cash flows. So pretty high on IRR and returns perspective. And of course, there are other projects where you pay upfront for the land. Now typically, our strategy is very clear that if there is a project which is very unique in terms of either location or size, so typically, if you have a project less than 1 million square feet in a good location with fast turnaround, we don't mind doing outright purchases for those projects like we have done for RK, we did one project in Mumbai the last financial year, but those are unique situations. Otherwise, the preference always remains with the JV kind of model. And the way I look at Ashok Vihar RLDA project, it is kind of a JV project with the government where the land payments have staggered over eight years. Have I answered your question, Manish?

Manish Jain: Yes. Perfect. And my second question was, one risk emanating there, we have completed a design, approvals have been applied for, but somehow that gets delayed, and we had quite a few launches due in March. At what stage do we have, there is a risk where we may have to undertake some design changes?

Mohit Malhotra: For which project you are seeing?

Manish Jain: No. So something like, say, Sector 43 in Noida. I'm just taking as an example where the project launch gets delayed beyond 6 to 12 months and there, I would say, premium kind of projects, there could be behavioral or demand changes happening. So I'm just trying to look at it from a risk perspective, where the risk where we have to undergo on a drawing board, Bandra, for example?

Mohit Malhotra: Yes. So I think it's a fair point, and this is something we have to keep our eye open. If you look at Sector 43 Noida as a specific example, we are actually at the final stages of getting approval, and we have a fairly strong demand. Because it's a large project with multi-phases, we are also relooking at what is the right strategy for the future phases and should we have a mix of both premium and maybe some compact sizes. The same kind of thinking we are actually doing in Bandra today because, again, I think these multi-phase projects give you an opportunity to adjust the product mix, both for the short-term, but also retain some of the long-term thinking, which we have on this project. And even during the life cycle of projects, if we have launched a project in Kalyan last financial year where we saw that there was an alternate launch by a competitor next-door with very compact sizes and that was cannibalizing the sales. So we quickly reversed the plans for the unlaunched inventory, got an approval and now it is the fastest selling project in our portfolio again. So we have to be very, very flexible and also have our ears close to the ground and make changes as per what markets are asking because the market environment is also dynamically changing.

Manish Jain: Perfect. And just wanted to congratulate you on outstanding work that your team did in Pune and South Estate.

Mohit Malhotra: Thank you very much.

Pirojsha Godrej: Thanks very much, Manish.

Moderator: Thank you. Ladies and gentlemen, due to time constraint that was the last question. I now hand the conference over to the management for closing comments.

Pirojsha Godrej: I hope we have been able to answer all your questions. Of course, if you have any further questions or would like any additional information, please do let us know. On behalf of all of us, thank you again for taking the time to join us today. Please take care of yourselves, and stay safe. All the best.

Moderator: Thank you. On behalf of Godrej Properties Limited, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.