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November 05, 2020

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The National Stock Exchange of India Limited
Exchange Plaza,
Plot No. C/1, G Block,
Bandra Kurla Complex,
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Mumbai – 400 051

Ref: - BSE - Scrip Code: 533150, Scrip ID - GODREJPROP
BSE- Security Code - 959822 – 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 Tuesday, November 03, 2020.

This is for your information and records.

Thank you,

Yours truly,
For Godrej Properties Limited

Surender Varma
Digitally signed by Surender Varma
DN: c=IN, o=Personal, title=1519, pseudonym=2e7b0291729c5f4a6e3ee3bcd1ac7c16fab92bfbe9fcb03df620208b505deb28, postalCode=400079, st=Maharashtra, serialNumber=39b51483562ef7346fc0f374b6317b99e71395d685d61e54632f770e3d52081c, cn=Surender Varma
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Surender Varma
Company Secretary & Chief Legal Officer

Encl: a/a

Godrej Properties Limited

Q2 FY 2021 Results Conference Call Transcript

November 03, 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. Devrishi Singh from CDR India. Thank you and over to you, sir.

Devrishi Singh: Thank you, Janis. Good afternoon, everyone. And thank you for joining us on Godrej Properties' Q2 FY 2021 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 Q&A 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 emailed to you earlier.

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

Pirojsha Godrej: Good afternoon, everyone. Thank you for joining us for a Godrej Properties Second Quarter Financial Year 2021 Conference Call. I will begin by discussing the highlights of the quarter, and we then look forward to taking your questions and suggestions. I hope you and your families are staying safe and doing well.

The current pandemic situation continues to pose challenges for India and the world and has substantially impacted economic growth around the world this year. While the number of cases in India remains elevated, the trajectory seems to be moving in a positive direction, and the economy has now substantially reopened. Most of our employees continue to work from home and have done a great job ensuring our business continuity is maintained despite the current constraints.

The pandemic has resulted in clarifying the value and security that homeownership offers, which bodes well for the sector once people's confidence in the economy returns. Decadal low interest rates and the recent limited time stamp duty cuts in Maharashtra have made many homebuyers realize that now may be a very good time to move forward with their purchase decision, which is already leading to visibility of green shoots in the sector.

After a strong start to the financial year in a tough environment, we had a mixed performance in the second quarter. On the positive side, we maintained very strong sustained sales which led to another quarter with over Rs. 1,000 crore sales, despite most of our planned launches getting postponed to the second half due to delays in regulatory approval. The total value of bookings in the second quarter stood at Rs. 1,074 crore through sales of 1,373 homes, with a total area of 1.73 million square feet. For the first half, despite extremely challenging market conditions, we managed to sell 4.2 million square feet of real-estate worth Rs. 2,605 crore, which represents a year-on-year growth in booking value of 11%.

Given our exciting launch pipeline for the second half, we remain confident of a strong sales performance in the rest of this financial year and expect full year sales to surpass last year's performance. On the operation front, the construction activity has resumed on all sides across the country, and we have managed to increase our workforce strength to significantly above pre-COVID levels, ahead of expectations. We also delivered approximately 2.9 million square feet across three projects in two cities during the second quarter.

During this quarter, our total revenue stood at Rs. 238 crore. Our adjusted EBITDA was at Rs. 82 crore and net profit at Rs. 7 crore. For the first half, our total revenue was Rs. 403 crore, adjusted EBITDA at Rs. 126 crore, and we reported a net loss of Rs. 12 crore. With construction activity picking up across our sites, we managed to report a positive operating cash flow of Rs. 14 crore in the second quarter. And we do expect to start reporting much higher cash flow numbers from the second half of the financial year, and have already seen, in October, operating cash flow substantially improve from first half levels.

From an earnings perspective, the outlook for the current financial year is poor, with limited project completion due to the huge construction disruption faced in the first half of the year. We expect earnings to normalize in financial year 2022 and to sharply grow in financial year 2023, given expected project completions that year. Basis our current visibility, we continue to hope to hit our goal of 20% ROE, either in financial year 2023 or financial year 2024.

From a business development perspective, we added a new project in Kalyan to our portfolio, which offers a saleable area of approximately 1.5 million square feet and fits well with our strategy of deepening our presence in key markets across India's leading cities. We also acquired a well-located land parcel in Sarjapur, Bangalore, in October, which offers a saleable area of approximately 1.6 million square feet. Lastly, we migrated to the Integrated Township Policy from the existing Special Township Policy for Garden City, our project in Panvel, and consequently the potential saleable area for this project has nearly doubled from 4.3 million square feet to 8.2 million square feet. We have strong visibility in new project additions in the second half of the financial year.

The pandemic has forced the sector to change legacy business models, go digital, and has been yet another force driving industry consolidation. This has created significant amounts of opportunities for Godrej Properties to sharply increase its market share. Our focus is to emerge stronger from the crisis as the sector recovers and to position ourselves for rapid growth in scale and earnings in the years ahead.

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

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Abhishek Bhandari from Macquarie. Please go ahead.

Abhishek Bhandari: Pirojsha, my first question is on Slide #22 which is the cash flow statement. So, if I look at this quarter also, we had almost Rs. 700 crore of cash outflow for land and approval charges. Can you just clarify, does this includes the payment for both the lands what we have purchased this quarter, which is the Kalyan and the Bangalore land?

Rajendra Khetawat: Yes. For Kalyan we had made a major payment. Plus, this includes an instalment of Ashok Vihar which is around Rs. 225 crore to Rs. 250 odd crore. Plus, there is a Faridabad land payment of around Rs. 200 odd crore, but since we make payment only on completion of a milestone or the CP, though CPs got completed in quarter two, so major outflow has happened towards that.

Moderator: Mr. Punit Gulati, you may please go ahead with your question, sir.

Punit Gulati: My first question is, if you can give some more colour on the sales in terms of how much was investor driven, essentially NRIs? And any other comment that you want to make, given the fact that both 1Q had pretty much one launch and 2Q had none. And despite that, 1Q in a tougher environment was better in terms of sales versus 2Q. If you can give some more colour there, it will be helpful.

Pirojsha Godrej: Yes, sure. I think a couple of things on that. I think as you know, in the first quarter in particular, we had also rolled out the 10:90 payment plans, so I think a lot of the sales were driven by that and I think led to excellent momentum. Plus, we did have the one launch. In this quarter there were no launches and we rolled back that payment plan. And I think, the inventory levels also after Q1 sales of Rs. 1,500 crore, almost all from sales, the inventory level left to sell is also quite moderate now. So I think all of that contributed. We are feeling pretty good about the overall sales visibility. I think, as you would have noticed, we do still have a very robust launch pipeline plan for the second half, some of those launches are already underway as we speak. And we expect to see very strong sales, both in this quarter and next quarter. Some of the other differences worth noting in Q2 versus Q1 is we continue to see strong international sales in the second quarter, but not at as high levels that we saw in Q1. So I think in Q1, it was almost 50% of total sales, that came down to about 25% in the second quarter. But I think from a sustenance sales perspective, a quarter with over Rs. 1,000 crore is a decent number we think. And we expect much higher numbers with some of the launches now planned in the rest of the year.

Punit Gulati: Would it be possible to quantify what would be your unsold inventory, either in terms of area or value?

Pirojsha Godrej: Rajendra, you want to take that?

Rajendra Khetawat: Sorry, can you repeat, Punit?

Punit Gulati: Yes. What would be the unsold inventory that you have either in terms of area or in value?

Rajendra Khetawat: In terms of area, I think around 8 million square feet to 9 million square feet, which is launched and unsold. In value terms, I can come back to you, because those are all different projects, so I need to sum it up.

Pirojsha Godrej: Which is a reasonably healthy level, the only thing is that it is about one year of sales, which is roughly likely a pretty healthy level to have.

Punit Gulati: Yes. Which is what I was wondering, as there is still a lot to sell so lack of choice shouldn't really have been an issue here for customers.

Pirojsha Godrej: Yes, look, I think if we start, with 8 million square feet left to sell, we have already sold 4.5 million square feet half in six months in the first half in a pretty trying environment. Things could always be better, but I think from a sustenance sales this is near sort of our best performing levels. And typically, these quarters where we go much about this, a big contribution does also come from launches.

Punit Gulati: Right. And what is the launch pipeline? Like, how confident are you for the second half?

Pirojsha Godrej: Very confident. I think, obviously, as usual, you will have some projects spilling out from one year to the other, hopefully, we can have a couple pulled into this year that weren't in the guidance. So I think that risk remains. But certainly, we expect a very strong second half for launches.

Punit Gulati: My last question is on the inventory side, on the balance sheet the inventory seems to have gone up, what does that relate to, which project is this?

Rajendra Khetawat: I will tell you. Because since we have to account for the Ashok Vihar land, so you see the inventory has gone up and correspondingly trade payables have also gone up. So while the full value of the Ashok Vihar land has been accounted, plus there is a BPTP land which we have bought, and other land parcels which we have bought, so inventory is higher by Rs. 1,700 crore. But at the same time, trade payables have also gone up by Rs. 1,300 crore to Rs. 1,400 crore.

Punit Gulati: Okay. Good. And the investments which have gone down, investment in JVs.

Rajendra Khetawat: So the money has gone towards funding of those BD outflows.

Punit Gulati: But that money basically should have come back, has it come back to you or…?

Rajendra Khetawat: No, so the investment you are saying, the mutual fund investment?

Punit Gulati: No, no, the investments in joint ventures, for example, which is Rs. 84.5 crore was Rs. 963 crore the previous quarter, so some money has come back from some projects?

Rajendra Khetawat: Avinash, can you just comment on that?

Avinash Kothari: Yes. Investment in joint ventures has increased actually, I think you are grappling something of a wrong number. So it has increased from Rs. 826 crore to Rs. 885 crore.

Punit Gulati: The Q1 number I thought was Rs. 963 crore.

Pirojsha Godrej: Why don't we check this and come back to you offline.

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

Abhinav Sinha: Sir, first question on the net debt level which has moved up. So clearly, I mean, there is some pressure on cash flows. But broadly speaking, where do we see the gearing head to in the next few quarters as some of these land payments and business developments scales up?

Pirojsha Godrej: Yes. I think, first of all, we have already guided that the reason we raised the capital we did last year was to invest in your projects. As those investments come due, we are obviously making those, and we expect to see very strong operating cash flows as these projects get launched and these cash flows start coming back. So as Rajendra mentioned, we had two, three projects in Mumbai and NCR that alone contributed about Rs. 600 crore, Rs. 700 crore outflow. I think we expect net debt to go to about 1:1, and that's the level that we should expect it to see over the next few quarters. But again, I think the cash flow from an operating perspective we expect now will improve dramatically. In the first half, the challenge was the first quarter was almost a washout from a construction perspective, labour only started coming back strongly in the second quarter, we had a lot of sort of pre-monsoon activities that couldn't get done. So I think all of that now we think has settled down, even customers who are sort of holding back payments and things, even that we think is behind us. So our expectation is that Q3 itself will see much better operating cash flow generation than in the first half, and that will continue. But clearly, the BD investments will also continue, so I think we do expect to see net debt continue to go up, as has always been the intention with these investments.

Abhinav Sinha: Right. And secondly, on the P&L itself, so we have seen a few deliveries this quarter, right, 2.1 odd million square feet, but it doesn't seem to have made a dent on either revenues or profitability. So how do we explain that?

Pirojsha Godrej: Rajendra, you want to take that?

Rajendra Khetawat: Sure. So, basically the projects which have got delivered, our share of profit was very, very less, our share of profit in the range of 22% to 35%. So, obviously, the contribution was small. Plus, like we have explained in the earlier calls also, there are period cost, marketing cost which keeps expensing out onto the JV front. So, since there is no recognition of those projects, so those are shown as a negative. So that offsets the profit which has contributed by the three OC received projects. Plus, there were certain provisions which we have made on account of some legacy project, basis the auditor's advice. So all that has contributed to a negative quarter.

Abhinav Sinha: Okay. And just one last question, so on these tails overall for you, as well as for some of the listed peers, now we have seen reasonably good numbers. But do you think this is all market share gain or the cycle also seems to be looking better now than what it was a few quarters back? Thanks.

Pirojsha Godrej: Mohit, you want to take that?

Mohit Malhotra: Sure, Pirojsha. I think the overall sales momentum which we are seeing, both for the company and for the competition, is largely market share gain. I think it's too early to say whether we are seeing any change in the cycle right now.

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

Abhishek Bhandari: Sorry, I got disconnected at the start. So, again, taking back to the land payment, I don't want the breakdown of this Rs. 700 crore. But what I am more interested, Pirojsha, is that do you expect this Rs. 700 crore, Rs. 800 crore run rate on a quarterly basis to sustain over the next few quarters given your BD pipeline and some of the payments which are due for likes of Ashok Vihar and the Bangalore which got completed in the Q2.

Pirojsha Godrej: Abhishek, I think it will be up and down quarter by quarter, depending on which milestones hit. But obviously, if we are saying that over the next few quarters we expect to see gearing go to 1:1, I think that does imply that it will be reasonably regular BD outflows. Now in some quarters, maybe more or less, and I think this past quarter was obviously particularly high, which would be big payment. But yes, I do expect BD investments to be at a pretty elevated level for the next 12 months.

Abhishek Bhandari: Sure. So a related question, Pirojsha, even if you assume 7.5%, 8% debt cost on, let's say, Rs. 4,500 crore of debt, which is your eventual goal of 1:1, we are looking at almost an annual interest cost of Rs. 350 crore to Rs. 400 crore. Now, do you think we have enough visibility on the momentum on the operating cash flow that will be sufficiently able to cover the interest payment and other charges what will be due to us?

Pirojsha Godrej: Yes, we do thing so, Abhishek. Obviously, we are putting all of these investments in with the expectation, none of these are projects where the launch timeline is many years away or anything like that, these are all relatively quick turnaround projects, or at least we plan for them to be. So, for example, we spent about Rs. 200-odd crore on this Faridabad land parcel during Q2, that project is already launched or is in the process of being launched right now. And most of that cash flow, plus the profits in the project will actually come back, given that it is a plotted development to come back next year itself. So, I think we certainly are not putting this capital into very long gestation projects where we are expecting to see huge delays in the returns. So these will be quite quick turnarounds, which is why we are expecting a high degree of confidence that in FY 2023, 2024 both from an earnings perspective and cash flow perspective we think the trajectory of the company will quite meaningfully change.

Abhishek Bhandari: Sure. Pirojsha, second question is basically the mix of promotion-led sales versus the normal payment cycle sales this quarter. If I remember correctly, last quarter, almost 70% odd was driven by the subvention kind of schemes, which of course, was probably keeping in mind the market conditions then. What was the break up for this quarter in terms of this promotion related schemes? And do you think time has now come for you to end those events, as you mentioned, some visible signs of green shoots, etc., are there from the demand side?

Pirojsha Godrej: Yes. The proportions we ran in Q1 ended in Q1 itself. But Mohit, you want to elaborate any further on that?

Mohit Malhotra: Yes. So we did continue it towards the end of July. But overall, if I have to answer your question, the ratio would be largely in favor of almost 80:20 ratio in favor of the CLT plan, and which is very regular kind of sales which we do. There are some payment plan flexibility we offer, but 80:20 or 75:25 is the kind of split which we have.

Pirojsha Godrej: So I think from 80:20 the other way in Q1 is now 80:20 with normal plan.

Abhishek Bhandari: Sure, thanks. And my last question is more like a strategy question on the office side, many peers in Bombay have now started talking about becoming bigger in office, possibly driven by investor interest to fund those constructions. Will you want to revisit your standing or not really doing capex heavy projects and just focusing on residential? Or do you think you might be opportunistic?

Pirojsha Godrej: I think we have in a small way our foot in commercial through our partnership with Godrej Fund Management, where we are focusing on doing a great office buildings and we have added a couple of such projects over the last couple of years. But I think our sense is that the residential opportunity is an absolutely massive one, and one that we are quite well placed to do well in. So I think any deviation or focus from there, we think, is a little bit of a distraction. And so I think the primary opportunity for Godrej properties remains scaling in residential, gaining market share in these cities that we are operating in. And I think, frankly, the way we expected things to play out so far is more or less on track, what we laid out as our strategic plan three or four years ago, which was to make sure we focused on doing a lot of business development, increasing our percentage share in these projects, increasing our market share as a percentage of the market, and riding this wave of consolidation. And hopefully, with early stages of seeing the market actually turn, I think we have all also forgotten what a residential market upswing looks like. But eventually it will come, I mean, we have had one shock after the other that seems to delay it indefinitely. But we think all of these business developments that we have done will hold us in extremely good stead for when that comes. And there is no reason that if the economy does recover, with interest rates where they are, with the amount of pent up demand, we had even said in Q1 that we think really the intent for homeownership has only increased as a result of this pandemic. So I think if the overall economic situation is manageable, we expect to see a pretty good demand recovery and that is not a one or two year thing but a sustained upswing for the next decade. And really, the opportunity again is to focus and concentrate on residential, be as good as we can in that, gain as much market share as we can in that, drive better returns and cash flows in that. And office, particularly for our strategy of wanting to do a 20% ROE business, putting a lot of capital in office mix makes such a target, I think, quite unrealistic. So while we are happy to look at office as part of some of our bigger developments or in structures such as the one we have with Godrej Fund Management, we are not planning to do a lot of on balance sheet commercial at the moment.

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

Kunal Lakhan: My first question was on the cash flows. So if you look at the project related outflow, historically it has been a very sizable number. If you can break it down for us, like what it comprises of?

Pirojsha Godrej: Rajendra?

Rajendra Khetawat: So the project related it comprises of construction outflows plus there are other outflows which relates to JV payments, taxes, approvals and other stuff.

Kunal Lakhan: No, construction outflow is mentioned separately, I am talking about the other project related outflow.

Rajendra Khetawat: The other project related, the JVP share of collection, we have to share the top-line or the share of collection which has been agreed. So as and when the collection happens, it gets distributed. That is one part. Second it, statutory dues and other taxes, then there are marketing and other costs. Then obviously, the period overhead costs or the administration costs, all those sit as other project related outflow.

Kunal Lakhan: Sure. So technically, historically, if you see, that number has been almost close to one-third of our collection, you think that will sustain based on our ongoing progress or ongoing portfolio, you think that will sustain at these levels going ahead also?

Rajendra Khetawat: Yes, because it's like JVP share of collection is directly correlated to the collections what we do. And obviously, statutory dues and taxes. So more or less, obviously, the only variable figure would be the marketing, depending on the launches, that can fluctuate a little bit.

Pirojsha Godrej: But also with a JV partner, a lot of the project now owned outright, so obviously in those projects you will see a lower outflow.

Kunal Lakhan: Sure, fair enough. And second question was on the collection side. So in FY 2019 and FY 2020, we had seen a very similar level of collections, but we have ramped up clearly on the sales side. Do you think these collections run rate, I mean, barring this year maybe, but FY 2022 onwards what kind of collection run rate can we expect? Because our outflow remains both in the construction as well as the other projects related outflow we just spoke about, it continuously remains high, but on collections that we haven't really ramped up as much.

Pirojsha Godrej: Yes. I think we see that ramping up considerably in FY 2022 and 2023. Even things like some of these 10:90 sales we have done in Q1, a lot of those collections would be an FY 2022 and 2023. So definitely, and of course, based on the overall increase in booking value we have seen over the past few quarters. So I think you will see a sharp uptick in collections. I mean, compared to first half you will see it even in the current quarter. But I think from next year onwards, you will see a very marked improvement.

Kunal Lakhan: Sure. And my last question is on the debt side. You mentioned at the beginning that the ideal net debt-to-equity you would aspire to have is about 1:1. So that would mean about Rs. 2,000 crore of additional debt on our current balance sheet levels. Would this all be towards business development or would that be also towards construction?

Pirojsha Godrej: No, that would be all towards business development, we expect operating cash flows to be positive. And hopefully, from next year onwards, strongly positive. So this would be all for business development. Okay. I think to ask, the big opportunity is that we are in a market that is an industry that is very large, extremely fragmented, where the leading player today has a market share of extremely low single digits. And I think we do believe that a counter cyclical investment strategy, which we have been employing over the last two or three years and continue to do now, will hold us in very good state as the market inevitably turns in the other direction, which we hope it will, it might already be starting that but certainly we expect a couple of years from now for the market to be doing extremely well.

Kunal Lakhan: So just a follow-up on that, like we almost have close to about 200 million square feet of portfolio, we are selling about 7 million square feet, 8 million square feet odd annually, and we still continue to add projects on the business development side. What is the level of sales that you aspire to achieve over the next four to five years, to do justice to the portfolio that we have built up so far?

Pirojsha Godrej: So look, I think we certainly hope to grow sales from current level very rapidly, I hesitate to put a specific number from it. But we did about 9 million square feet of sales last year. I think certainly we look to hopefully at least double that in the next three, four years.

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

Sameer Baisiwala: The first question is, can you just update us on the Bandra and Worli project? And specifically, what percentage land has been cleared and what work is left to be done?

Pirojsha Godrej: Mohit, you want to take that?

Mohit Malhotra: Sure, Pirojsha. So on Bandra, the things have starting to move on the ground. And we expect good positive momentum to start from Q3 onwards. Of course, due to COVID there was not much happening on the ground, but now things have started to improve. On Worli, we are currently at the design stage, and on the site clearance side, the JV partner is trying to arrange for a funding, which he will be needing to clean the site. And that is their responsibility. So a lot of positive development happening on that front. And again, I think on that project also we should start seeing momentum on the ground by end of Q3.

Pirojsha Godrej: That's right, it is already about 50% clear, Sameer.

Sameer Baisiwala: Okay. Bandra is 50% clear you said?

Pirojsha Godrej: Worli.

Sameer Baisiwala: Okay. And Bandra?

Mohit Malhotra: Bandra is right now about 20%.

Sameer Baisiwala: Okay. So the launch looks more like a 2022 event?

Mohit Malhotra: Yes, I think we do aspire to launch it in next financial year, both these projects.

Sameer Baisiwala: Okay, great. Thanks. And the second question is on the two land acquisitions, Kalyan and Sarjapur, just wanted to check specifically what was the value of the transaction, if you can share? And second, who the seller was? Was it another developer or was it a third party or something?

Mohit Malhotra: Rajendra, are we allowed to divulge the name of the seller, is there a confidentiality clause?

Rajendra Khetawat: Yes, we have that, because I think there are certain CPs pending with this guy. So normally unless those get completed, we don't say. But Sameer, I can talk to you offline.

Sameer Baisiwala: Okay, that's fine. I just wanted to understand whether it is industry consolidation thing or it is a regular land acquisition.

Mohit Malhotra: So it's an industry consolidation thing. And we want to do many more with the same partner in future. So I think, clearly, big time consolidation happening in Bangalore, with very limited players now looking for land acquisition.

Sameer Baisiwala: Excellent. Great. And just one final one from my side. And that is, for your four key markets, is there any commentary that you may want to share, what is doing better than the other, whether you are seeing a stronger demand versus the other?

Pirojsha Godrej: Mohit, you want to take that?

Mohit Malhotra: Between the cities I don't see any major change. We see very strong demand across cities. And for mid-income segments, at the right price point there is very, very strong off take. And even if you see the sustenance sales which we have delivered in the first half of the year, there is a very strong momentum. And of course, with the launches coming in, we see another round of strong momentum. Now if you look at even the launch performance of our only project, which we launched, we sold more than 5 lakh square feet of stock in that, and still selling quite well. So overall, I would say, for the quality players in the mid income segment, there is very, very strong demand.

Pirojsha Godrej: And I think that's borne out, so there also we look at our Q2 sales, it is reasonably well diversified across the four markets.

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

Swagato Ghosh: So on your overall strategy, in June quarter, which was a really tough time for the sector, you guys had this promotion scheme which saw a very good response, then you also launched a project, you could incentivize NRI sales. But in the September quarter when things are actually looking up for the overall sector for other guys, you have kind of cut back on some of these steps. The promotion scheme is no longer there, you said after July it's no longer there. There were no new launches, although probably they were new phases of projects which could have been launched. So I just want to understand the strategy.

Pirojsha Godrej: Sure. So I think on the no new launches, that's 100% driven by regulatory approval. We don't have any current projects that are approved that are not launched. We are in the midst of some launches, as we speak, so certainly that was not any kind of intentional strategy saying we won't do a launch. But the launches we had, for example, planned three or four launches, all of them ended up not getting the regulatory approvals in time to be launched during Q2, so will now add to the second half our portfolio. So the balance that we had planned, perhaps at the beginning of the year of sales between the first half and second half will slightly get disrupted. That's not extremely unusual. I think if you look at our FY 2020 performance, you will actually see something similar, where H2 sales were more than double of H1 sales, because of the similar reasons that some of the launches got pushed out. So it is nothing sort of intentional there, I think we remain extremely bullish on how the projects will perform once they are launched. And hopefully we can demonstrate that in the current quarter.

On the schemes, those were always intended as a short-term measure. And I think they worked exactly the way we wanted them to, which was to tide over the bookings performance and use an opportunity where other players, frankly, were not really making any sales to register a strong quarter and lock-in a huge market share, which we successfully did. Continuing them indefinitely would add further pressure on cash flows. And we didn't seem to do that, it was sort of meant to be a limited time objective, which it served exactly as intended.

Swagato Ghosh: Okay. So another related question is, if I remember last quarter, you had also said that the last couple of years were BD heavy and you now would probably look to consolidate the market share by selling some of those projects. But this call, like we are guiding for increasing net debt with more BD deals, which would entail cash outflow. So I believe there is a change in that thought process as well, so want to understand that bit why?

Pirojsha Godrej: So, again, I don't think there is any major change that either. I think what we had said was that the relative priority of business development for the organization today is significantly lower than it was this time last year or this time two years ago, and that's certainly true. So for example, in a city like Pune business development is not at all really a focus. If we opportunistically see something interesting that doesn't cannibalize our current portfolio, we are open to it. But we feel like we have the pipeline we need to deliver strong growth for the next several years and are not really focused on BD there. There are some exceptions to that, like Bangalore we actually are not satisfied with the scale of our portfolio, and don't see the portfolio visibility of delivering the kind of growth we would like to see over the next few years. So I think you should expect to see us try to do quite a bit of business development in Bangalore. And then Mumbai and NCR are probably somewhere in the middle where we do have very strong portfolios now, but we are still open to strengthening in micro markets that we don't have a presence. So for example, in NCR we have added this project in Ashok Vihar, which is only our second project in Delhi, we have added a second project in Faridabad. So I think BD is important and will be something we continue to look at. But certainly, as a scale of kind of our current portfolio, I think BD will now decline on a relative basis over the next couple of years, compared to the previous couple of years. And will be targeted in cities like Bangalore or in micro markets, like some of the ones I described, where we feel our overall portfolio needs to be strengthened.

Swagato Ghosh: Okay. And one last question on the Bandra and Worli projects. These slum rehab projects always kind of drag on, as we have historically seen. So can we like cut our losses, like not in terms of cash burn, but at least the management bandwidth gets drained for these projects? Can we maybe somehow exit these projects and focus on more of the highest velocity which are likely quick to get approval kind of projects?

Pirojsha Godrej: I don't think it is a either or, they don't stop us from focusing on other projects, so cash invested in these projects till date is extremely low and very clearly linked to milestones that give us confidence that launches will happen in short order. I think these projects can be extremely successful, we are very bullish on both of these projects. And things obviously from a margin and earnings perspective, these can represent, each one can be like 5 or 10 more regular projects. So I think they have value for the company and are worth pursuing. And we are reasonably confident they won't be inordinately delayed. And I think the important thing is to make sure that we are not locking up huge amounts of cash in projects that would be delayed, and that certainly be assured we are very focused on in these projects.

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

Mohit Agarwal: My first question is on Ashok Vihar, so could you share the exact timelines of launch, if it has been finalized? And what is the product like going to be? Is it a high rise or is it a mid-income or a luxury product? And what is the pricing like?

Mohit Malhotra: Yes. So it is a very unique site. And one thing which we have developed is, we have done a mix of a high rise and the low-rise development there. So the master plan is already completed. And the drawings have been submitted for approvals. So, from here on, we are targeting to launch it in this financial year, and if not this financial year, it will be early next financial year. So, we remain quite optimistic. In terms of pricing, we are still discovering pricing. We are talking to the channel partners and the customers in the area. But we remain extremely bullish and optimistic about this project. And if you want, we can take you through some of the development which we have planned on this project, separately.

Pirojsha Godrej: Yes, I think just to add onto that, we do think that this project is going to be a really significant one for the company, because we think it has a similar profile in terms of pricing and margins to the Trees, but it is much larger and, again, a very unique site we think, in Delhi. So, really, all teams are looking forward to getting this launched, hopefully later this year.

Mohit Agarwal: Sure. And my second question is on the cancellations. Now it's been six months since the pandemic, and I know we would report the numbers post net of cancellations, but how has it been overall in the last six months? And if you could share any geography-wise trends, if you have seen, or any trends on the luxury or mid-income side where you have seen more cancellations, any qualitative comment would be very helpful. Thanks.

Pirojsha Godrej: I don't think we have seen anything very different from typical. We always have a set of a certain percentage of customers who asked for cancellations. I don't think that has dramatically changed as a result of this. And whatever, it would have been more or less sort of a Q1 phenomenon, I think now again there is quite a bit of optimism coming back about residential real-estate. So I don't have much of an issue. But Mohit, you want to add anything to that?

Mohit Malhotra: No, Pirojsha, same view.

Moderator: Thank you. The next question is from the line of Girish Chaudhary from Spark Capital. Please go ahead.

Girish Chaudhary: I have a question on the deliveries. So you delivered around 5 million square feet in FY 2020. And even if you look at first half, around 2.9 million square feet, of which 1.9 million square feet was plotted. But looking ahead, how is the scheduled delivery target looking like heading into second half on 2022 and 2023, if you could give us some numbers to that?

Pirojsha Godrej: I don't think we have those offhand. But typically, you can assume a roughly three, three and a half year from launch delivery timeline for group housing, we are obviously aspiring to do that quicker. And some of the projects have hit even two, two and a half years, but broadly should be three, three and a half. And plotted, can even be sort of 12 months after a launch. So that can give you a rough sense if you look back at what the numbers are. Clearly, the deliveries will start going up sharply. I think this year is a bit of a mess because I think we have lost most of the first half with this lockdown, construction workers moving out re-mobilizing, monsoon effects having hit. So I think completions, we are not expecting anything very strong in the second half. But I think next year, we will see good completions and really we are where we expect completions and therefore earnings and a lot of other things to see a big jump up is FY 2023.

Girish Chaudhary: Got it. Sure. And then my second question is on the construction related outflow. So, if we look at the slide on the cash flow, so I am looking at a number of Rs. 350 crore which was spent on construction outflow, which was broadly similar to the number which was spent even in Q1. This despite you had indicated that the labour strength is in excess of pre-COVID levels. So, why are we not seeing a corresponding increase in the construction outflow?

Pirojsha Godrej: So, a couple of things. I think first of all, this is a labour strength as of the end of September. So, obviously, between June and September the number doubled in terms of construction workers. So, not all of that was available for the full quarter. Secondly, one of the challenges of the situation was that typically in the first quarter, you do a lot of these monsoon preparation activities that we are kind of required to keep the site moving at full speed during the monsoon. And the lockdowns sort of totally disrupted those activities, adding a further layer of kind of difficulty on the construction side. Given where construction labour numbers are now, we expect a much, much stronger Q3 onwards on this. So I think, while optically the first quarter was only one disrupted, actually the second quarter was also very disrupted. And some of the construction spends in Q1 would actually have been payments for work done in Q4 of last year.

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

Manish Jain: I want to understand what have been the top customer behavior trends that you have seen which are unique or different, especially in the last six months?

Pirojsha Godrej: Mohit, you want to take that?

Mohit Malhotra: Sorry, Manish, can you please repeat your question?

Manish Jain: I just wanted to understand what has been the top customer behavior trends, especially in the last six months which have been different out of the normal behavior that you have seen over the years?

Mohit Malhotra: Difficult to say, Manish. I think not sufficient data to answer this question, because Q1 was largely NRI sales and a lot of investors coming in. But one thing which we see as a long-term trend emerging out of COVID is a need for flexible spaces. People are realizing the importance of home and, of course, there is the need for larger spaces. But given the ticket size constraint, there is a good need for flexible spaces, which is emerging out as a big trend for design which we are working on. Also, there is a lot of appreciation for balcony and some of these terraces which earlier people were ignoring. Also, at a master plan level there are certain things which are emerging. So, these are the kinds of things. But these are more of a design thing which we are doing, both from a consumer study perspective. But from a buying behavior perspective, right now a little early for me to comment.

Manish Jain: Thanks. And second key thing which I wanted to understand is, we have seen that a number of potential buyers of land or joint venture, like Godrej, have trickled down to less than five in each of the focused markets for you all. So, the question is, have your IRR rates on the BD deals that you are exploring, are these superior to what you have signed in the last 12 to 18 months?

Mohit Malhotra: Yes, you are right. The competition has completely come down. And if you see the recent transaction in Bangalore, where we bought land from a very prominent player, there was no competition actually from any of the other developers in Bangalore. So even across markets we see the same trends. So you can definitely say the fact that there are no other buyers give us a lot of buying power and it does reflect in better deal terms, better IRRs. And also Manish, we are also significantly focusing on plotted development, given the unique benefits that opportunity provides. But to answer your question specifically, yes, the IRRs and the deal terms are far superior with every passing quarter.

Manish Jain: So actually my last question was on plotted development, given the kind of returns that you are likely to achieve in Faridabad, whilst Pirojsha mentioned that you all are not focused on BD much, can we see some significant activity happening on the plotted development sides?

Mohit Malhotra: Actually one of the big focus area for this year is to secure some of the plotted development projects. And I think somehow people misunderstood, Pirojsha didn't say that there is lack of focus on BD, there is a focus on BD, the relative focus on operations and launches is higher. But on BD, we have an aggressive pipeline of term sheets already in place for plotted development. And the biggest area of focus right now in BD is to sign some of these plotted developments, apart from the group housing projects which we anyways have signed.

Moderator: Thank you. The next question is from the line of Biplab Debbarma from Antique Stock Broking. Please go ahead.

Biplab Debbarma: Just trying to understand on that cash flow for land payment and the approval related payment. Going forward how much land payment and approval payment in terms of INR crore is needed to be paid out?

Pirojsha Godrej: Difficult to give that, because it's all linked to various milestones getting completed. So, it's hard to get that. But certainly, we expect a significant amount, given both the number of recent deals we have signed and the pipeline Mohit just mentioned.

Biplab Debbarma: Okay. Fair enough. Sir, the second question is, what would be the ballpark in receivables? And I just wanted to understand, if going forward on the ongoing projects there is no incremental sales, how much receivables would cover the cost to be incurring those projects? In terms of percentage, just ballpark I just wanted to understand.

Pirojsha Godrej: Rajendra, you have any comment on this?

Rajendra Khetawat: So, it's very difficult to give. What I can do is I can connect with you offline and give you this number, because it has to sum it up to 70 projects, and those are at various stages of construction. So I can give it to you offline.

Biplab Debbarma: And one final question on the approval and premium, does this cost significantly vary from city to city, like from Mumbai to Pune to Bangalore, NCR, the approval and premium cost?

Pirojsha Godrej: Yes, hugely. It does vary a lot.

Biplab Debbarma: And Mumbai would be highest?

Pirojsha Godrej: Yes, by far.

Moderator: Thank you. The next question is from the line of Ketan Gandhi from Gandhi Securities. Please go ahead.

Ketan Gandhi: It is very good on your part to deal in land acquisition deal during the quarter. And we noticed that you have stopped doing DM deals for few years. In regards, I am keen to know of your plan for upward revision of 10% DM structure at Vikhroli, either in terms of higher DM or profit share?

Pirojsha Godrej: Yes, there is no guarantee visibility on anything there, so we should just assume the DM for now. And obviously, as soon as there is anything, we would, of course, come back immediately. But I think from the company's perspective, as you have rightly pointed out, DM has now sort of gotten less focus. We, of course, use a lot of DM parcel for other structures, but standalone DMs are less interesting for us now.

Ketan Gandhi: Sure. Sir, I mean, can you share some timelines on your residential residual inventory of planet Godrej Chandigarh and BKC and Kolkata, as well as 50% stake in Godrej 2?

Pirojsha Godrej: Yes. I think the first few projects, Planet Godrej, BKC and Genesis, we have almost very, very little inventory left. I think Planet Godrej may have just one apartment that we have held, and BKC also I think we have one small unit, like 1% of the area of the project, which we hope to monetize shortly. I think only one of those where it remains a bit of a headache is our commercial project in Chandigarh. And I think that we have not been able to successfully monetize yet, but we certainly continue to hope to do that. But the Kolkata commercials are also now almost fully complete. And Godrej 2, of course, the intent is to lease it out to tenants. We have had good traction there, we have completed a large deal in in Q1, we are on the cusp of another large deal which we hopefully can announce in the next couple of weeks there. So that Godrej Properties plan for now is to continue to own the 50% and enjoy that rental income. We may look at some stage at monetizing 50% stake, but no immediate plans there.

Ketan Gandhi: Can you share that for Godrej 2 how many has been leased till date?

Pirojsha Godrej: Yes. I don't have the exact details offhand, but we have done one large deal with Maersk, which was, I think, a couple hundred thousand square feet, we have another similar size deal in the pipeline, not in the pipeline, as in close, but just waiting registration, and a large number in the pipeline. So I think that visibility there is quite good.

Moderator: Thank you. Well, ladies and gentlemen, that was the last question for today. I would now like to hand the conference back to the management for their closing comments. Over to you all.

Pirojsha Godrej: I hope we have been able to answer all your questions. If you have any further questions or would like additional information, we would be very happy to be of assistance. On behalf of the management, thank you again for taking the time to join us today. And a very Happy Diwali to all of you. Thank you.

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