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November 08, 2021

BSE Limited
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Mumbai – 400 001

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

Ref: - BSE - Scrip Code: 533150, Scrip ID - GODREJPROP
BSE- Security Code - 959822 – Debt Segment
NSE Symbol - GODREJPROP

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

Dear Sir/Madam,

We enclose herewith transcript of the conference call with the Investors/ Analysts held on Tuesday, November 02, 2021.

Further, the Company has uploaded the Audio Recording of the conference call with the Investors/ Analysts for the benefit of members at large and the same can be accessed at https://www.godrejproperties.com/investor/financials-presentations

Thank you,

Yours truly,
For Godrej Properties Limited

Surender Varma
Company Secretary & Chief Legal Officer

Enclosed as above

Godrej Properties Limited

Q2-FY22 Earnings Conference Call Transcript
November 2, 2021

Moderator Ladies and gentlemen, good day and welcome to the Earnings Conference Call of Godrej Properties Limited.

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 and 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 Good evening, everyone and thank you for joining us on Godrej Properties Q2FY22 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 have the forum open for an interactive Question and Answer session.

Before we begin, I would like to point out that some statements made in today's call, maybe forward-looking in nature. And a disclaimer to this effect has been included in the results presentation shared with you earlier.

I would now like to invite Pirojsha to make his opening remarks.

Pirojsha Godrej Good evening, everyone. Thank you for joining us for Godrej Properties 2nd Quarter Financial Year 2022 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. Fortunately, the past few months have seen a dramatic reduction in the severity of the pandemic. There has been strong progress in vaccinations across the country and at Godrej Properties over 98% of our employees have had at least one vaccine dose. The economic recovery also seems to be gaining pace with the real estate sector being an important beneficiary. The process of consolidation that has been underway in the sector for some time, gained momentum during the pandemic, and stronger developers are rapidly gaining market share.

After a weak start to the financial year, due to the severity of the second wave, I am pleased to share that Godrej Properties has bounced back strongly in the second quarter. Our sales during this period stood at more than 5x the previous quarter, backed by an excellent response to our new launches and healthy sustained sales. The total value of bookings in the second quarter stood at Rs. 2,574 crore, up 140% year-on-year and was achieved through the sale of 3,026 homes with a total area of 3.61 million square feet. Our launches across the country performed very well, with launches in Noida recording sales in excess of 0.5 million square feet. Our Noida project, Godrej Woods saw sales of Rs. 584 crore in the launch of its Phase-II, making it one of the most success recent project launches in the country.

With the ongoing festive season and our exciting launch pipeline for the second half, we are confident that this period will be exceptionally strong from a sales perspective. We also focused on opportunities to take price increases across our portfolio, both to offset commodity price inflation and to aid in margin expansion. And in fact, have already taken price increases in a majority of our projects.

On the operations front, we continue to ramp up our workforce strength, which stood at 164% of our pre-COVID strength as of the end of September. As a result construction activity is progressing well, and we expect to deliver a significant number of projects over the next 12 months.

Since we did not deliver any project in the second quarter, our accounting revenues were muted at Rs. 290 crore while our adjusted EBITDA stood at Rs. 107 crore and net profit stood at Rs. 36 crore. However, operationally it was a strong quarter with robust net operating cash flow of Rs. 426 crore. Our entire team was also proud to be recognized for the second consecutive year as a Global Leader in ESG Performance by the Global Real Estate Sustainability Benchmark.

From a business development perspective, we added a new redevelopment project in Wadala, in Mumbai, which offers a saleable area of approximately 1.6 million square feet. The project is in very close proximity to Matunga, Five Gardens and we expect it to be launched next financial year and to be able to generate revenue well in excess of Rs. 3,000 crore.

Given the business development pipeline where we have a large number of advanced stage discussion, we expect significant project additions in the second half of the year. We also exited two of our project in MMR, which were Godrej Sky and Sundar Sangam, due to multiple issues with the joint venture partner being unable to perform their obligations.

Our debt-free balance sheet provides us the opportunity to significantly expand our development portfolio. Our focus over these next few quarters will be to add high quality new projects to our portfolio, while substantially increasing our sales through the launch of a large number of new projects across the country. We believe this will allow us to capitalize on the new opportunity of improving sectoral demand and rapid consolidation.

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. We will now begin the Question-and-Answer session. The first question is from the line of Puneet from HSBC. Please go ahead.

Puneet My first question is actually on the joint venture. If I look back to last six quarters, one would have thought that COVID period would throw up a lot more opportunities in joint development. We haven't seen as many deals getting concluded by you. Any color, you can give on what's happening there?

Pirojsha Godrej Sure, I think, it's more of a timing issue as we see it. I think the deal pipeline has been healthy. We are focusing disproportionately on fairly large, impactful deals. So, I think the Wadala redevelopment, for example, we think is one such deal with Rs. 3,000 to Rs. 3,500 crore of revenue likely from that. So, I think even a few deals of this scale can be quite meaningful for us. And I think that's the primary focus. But we agree that the reported deal numbers over the last six-eight months have been very underwhelming. But I don't think we are seeing it as a cause for concern, we have visibility on kind of advanced stage discussions, and likely closures over the next few months. So, hopefully, we can have a very strong second half that's the expectation as of now.

Puneet And any color on whether the nature of deals have changed in anyway, where you are getting higher, upfront, share of cash or anything of that nature? Or are you targeting more land-based deals?

Pirojsha Godrej Yes, I think we are looking again to what we would describe as sort of higher impact deals, deals with net profit potential of Rs. 300 crore plus, that's not to say that we will only do such deal, I think we remain open to all opportunities that provide at least Rs. 100 crore net profits. But I think the shift has been towards deals where we think the total economic impact can be larger for the company and those typically will be, of course also projects where the capital commitment will be commensurately larger.

Puneet My second question is on the sales within the region. So, Mumbai, NCR, Pune, have all been good. But I think Bangalore sales are yet to reach a place where you should be. Any special efforts you are putting there or is Bangalore market generally more competitive?

Pirojsha Godrej I think if we had to do a ranking of our relative performance in each region from a scale perspective, I think we would probably say that we have done pretty well in NCR and Pune over the last couple of years, in scaling up the sales volumes there. And I think in both Mumbai and Bangalore, we would say there is a lot of opportunity to do better given the scale and opportunity in the market. I don't think it's an execution problem, because if you look at sort of unsold inventory to launched inventory in Bangalore could be at a very healthy level. So, I think the project that we are bringing to market are doing well. And we are not seeing any concerns.

I think the challenges we haven't brought as many projects as we should have, to market. In Bangalore, particularly, we do have a couple of new launches lined up over the next few months, so I think that will help boost numbers. In Mumbai, we have a lot of exciting projects in the pipeline. I think it's all about bringing those to market now and also adding more projects in both of those cities. But I think it's, from our perspective, more an issue of we haven't had enough active projects in the cities rather than any concern with the sales to rate or performance of projects that we have brought to market.

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

Abhinav Sinha First question is on pricing, you already mentioned that you have taken a few price hikes, during the quarter. Can you detail a bit which markets are doing better? What is the average portfolio price looking right now?

Pirojsha Godrej I think it's still relatively modest price increases that have been taken, so I would say probably low to mid-single digit across most projects. But I think given commodity price inflation, I think that focus on doing this across the board and intensify it over the last month. But it's nothing as of now that's very sharp price increase or anything like that, because we do want to balance the need to ensure margin expansion with you know that we just continue to sell strong volume in this market.

But our sense is that pricing trajectory that the residential market on is fairly upwards and we think next year, the industry as a whole, and certainly us as well, we will likely see more meaningful price increases. But I would say, as of now, it's low to mid-single digits and pretty much across all markets.

Abhinav Sinha And just hear a bit on your philosophy as well on sell through. So, for example, in Noida, we almost had 70% to 80% sort of sellouts, now back to back between March and September, could you have say taken up 5% to 7% higher price and still sold a reasonable amount, is that something you would like to pursue now?

Pirojsha Godrej That's exactly what we did so the Phase-II was sold in a 5% higher price than the Phase-I, and fortunately saw very good volume, despite that price hike. Look, I think it's always a fine balance on pricing, you obviously want to price as good a price as we get. But we are quite clear that we don't want to sell very low volumes during the construction phase, because we think that become a self-defeating kind of strategy, as you then have to invest a lot in construction or interest costs go up. But I think that perceived margin expansion on having very high prices that don't really effects sales at launch, actually doesn't play out as per the plan according to us.

So, I think we do want to see, 50% to 70% of sales in our launch phases, relatively early in the days, so that the project become self-funding from a cash flow perspective. And I think remember in pricing increases both at the project levels, and certainly at company level, we have a very large portfolio to benefit on those price increases so for example, even this Noida project, while we sold something like Rs. 1,100 to Rs. 1,200 crore in the project, over the last six, seven months, it's still only the first two phases, we have only sold roughly a million square feet of well over 2 million square feet project. So, I think even as the project level there is significant upcoming inventory, but certainly at the company level, prices move up sharply. I think there will be a large number of projects in which we can benefit on that.

Abhinav Sinha You have about 11 million square feet of launch pipeline now for the second half, what's a reasonable, sort of success rate to assume, I mean, say 60% to 70% of that pool should be launch, and/or any sort of project, say in Ashok Vihar or a large one which can come relatively soon.

Pirojsha Godrej Yes, I think Ashok Vihar is clearly one we are probably most excited about, in terms of the upcoming launches. And we certainly hope to get that done probably not this quarter, but early next quarter. Look, I think all the projects that, none of these have 100% regulatory approval, otherwise, we would have launched them. At the same time, our best estimate currently is that all of these will get regulatory approvals in time for a March launch, over end of March or before launch. I think our experience is that typically we have 15-16 projects, three or four of them do end up slipping out of period, given regulatory delays. So, hopefully we don't have that this time, but I think we have enough projects lined up that even if that happens, we think the second half of the financial year will be probably the best ever six months for the company, from a sales perspective.

Moderator Thank you. The next question is from the line of Parvez Akhtar Qazi from Edelweiss Securities. Please go ahead.

Parvez Akhtar Qazi So, two questions from my side. First, with regards to the deals that we are looking on the business development side, have we seen any changes on the land prices front I mean considering the deals, have we witnessed a phenomenon of that maybe the landowners are asking for maybe better terms compared to let's say, what was the situation a year back. And second is, I mean it's possible to give some color about the projects that led to revenue recognition within this quarter?

Mohit Malhotra On the land front we haven't really seen a major shift in landowner behavior or expectations. It's largely remained very similar to what the trend was over the last few quarters.

Rajendra Khetawat Parvez what was your question?

Parvez Akhtar Qazi Which were the projects that led to revenue recognition within this quarter?

Rajendra Khetawat So, revenue recognition, we are expecting two plotted deal to go into revenue recognition this financial year, one is Faridabad. Nothing has come into the past quarter. Q2 there was no recognition OC, only in Q1 there was Elements One Tower which has received. Q2 there is no OC which has come in. But going forward, we are expecting two plotted deals to come in for revenue recognition.

Moderator Thank you. We move on to the next question from the line of Girish Choudhary from Spark Capital Advisors. Please go ahead.

Girish Choudhary Firstly, on the cash flow front, how are we looking at an operating level for the remainder of the year, considering your balance collections and construction schedule? So, this quarter, it was Rs. 426 crore. Can we see the scaling up meaningfully for the remainder of the year like in the range of Rs. 700 crore to Rs. 800 crore?

Pirojsha Godrej I don't think we want to give any guidance on cash flows. But certainly, if we draw out the collections profile of the company over the next five, six quarters we will see quite sharply increased collections over that period. I don't think we want to give any specific guideline on operating cash flows to the rest of the year, but we do expect it will be healthy.

Girish Choudhary And secondly, while you did share the planned launches, which is 11 million square feet during the remainder of the year, just wanted to get a sense on what’s the current unsold inventory levels you have, just to assess, in case if the launch shift due to regulatory approvals can the sustenance sales take care of the growth part.

Pirojsha Godrej We have roughly about one year’s worth of sales available for preferential sale, so I think that's a healthy level to look at. Our unsold inventory to launch the inventory percentage is actually the lowest it's ever been for the company. But I think the absolute inventory available for sale is quite healthy. But also I think even again, if some of the launches get postponed for any reason, we do have a very strong pipeline for the second half of the year. So, I think even factoring in some delays, we don’t expect launches to be low in the second half.

Moderator Thank you. The next question is from the line of Kunal Tayal from Bank of America. Please go ahead.

Kunal Tayal Pirojsha, my first question was, I was just hoping to get some more color around, how intense can the capital deployment or business development opportunity look like in the coming 6 to 12 months. And if that would afford a chance to sort of, maybe increase the skew in favor of Mumbai and Bangalore.

Pirojsha Godrej Yes, I think, we certainly expect to see much higher rates of business development in the next 6 months as compared to the last 6 or 8 months. And I would say that within the four markets were we are disproportionately focused on Mumbai and Bangalore, in both we have a healthy pipeline. So, hope to see significant closures in both of those markets. And as I said, also, I think some of the, one in sort of the number of deals and I do think it's important to ensure a strong number of view, because that would indicate that we are entering new micro-markets, expanding the number of projects in which we can sell simultaneously. But it's also important to ensure the impact of the deals that where we are doing is going up. So, for example, again, this Mumbai, what we announced, we do see as a relatively high impact deal. So, yes, I think both we should expect to see the quantum of the deals go up. The focus on Bombay and Bangalore, hopefully yield results and some more impactful projects getting added as well.

Kunal Tayal And then the second one was just a bookkeeping question, broadly of the $1 billion of deployable cash that you currently have. What could be the development value against the same, should we assume as 6x to 7x, as an indicative range?

Pirojsha Godrej Yes, I think that's probably fair, I think, 6x to 7x on the deployment is roughly what one should expect whatever key value.

Moderator Thank you. The next question is from the line of Samar Sarda from Axis Capital. Please go ahead.

Samar Sarda One bookkeeping question, Rajendra revenue recognized for the quarter, was from which projects like we understand that no projects were completed during the quarter. So, which unsold inventory got sold a rough breakup could help.

Rajendra Khetawat: There are various small projects, some in Ahmedabad, some in Trees there are some portion of TDR we sold. So, there are various small projects and unsold inventory got sold. So, that's how the total stacks up. And then obviously, there is a DM fees which is part of an operating income which keeps coming across the projects.

Samar Sarda Okay, and Pirojsha, on the business development part, like you have already answered it a couple of times. If we have to put a timeline to the deployment of the Rs 37 billion we raised in the fourth quarter, could we safely say like, within the next three or probably four quarters, the entire amount might be deployed?

Pirojsha Godrej I would hope that within next calendar year, we will fully deploy at least the equity component of that, and certainly again I think the idea is not just to deploy equity, I think we can, we have the balance sheet to build against that. But yes, I think we are looking, this is a big priority for the company. So, hopefully, very significant momentum can be demonstrated on this over the next three, four quarters.

Samar Sarda And since you mentioned about the gearing part, and the balance sheet, like the net gearing is pretty low, debt has been going up slightly, probably using the debt for the projects. So, this Rs. 45 billion odd absolute gross debt number, what are the levels you will be comfortable from an absolute debt perspective on the balance sheet?

Pirojsha Godrej I think the way we have looked at it is, I think anything up to one is to one gearing, we are relatively comfortable. So, that would imply roughly Rs. 1,000 crore of capital that could be deployed. I think, given the enhanced size of the balance sheet, maybe we would have a slight conservative buyers to going all the way up to one is to one. But nothing has made really change, I think we still have that billion dollar plus of capital that we can deploy over these next few quarters.

Moderator Thank you. The next question is from the line of Pritesh Sheth from Motilal Oswal Institutional Research. Please go ahead.

Pritesh Sheth So, my question is on cash flows, firstly, I think last two quarters, we have really ramped up the execution part. So, we have seen around Rs. 700 crore of construction spends in last two quarters. In terms of collections, how we can see that moving going forward, and considering last year, majority of our sales also had happened with some deferred payment schemes. So, how is the trajectory that we see going forward from here on in terms of selection?

Pirojsha Godrej I think it will be a sharp upward trajectory is our sense. So, I think this year it should be 30% to 40% higher than last year, and next year should similarly be 30% to 40%, at least higher than then this year. So, as you rightly pointed out, I think there are a couple of things, I think this one is, for some sales, for example, in first quarter of last year, a significant number of sales were done under deferred payment plans. So, I think a lot of those collections will be happening over the next few quarters. Equally, we are going to be launching a lot of new projects, I think the overall scale of bookings of the company, we expect to grow considerably over the next couple of years. So, all of that we do think will lead to much higher collections. And I think growth rate that it's probably safe to assume for these next couple of years is probably in the range of 30% to 40%, over last year's number.

Pritesh Sheth Sure. So, we should see improvements happening from Q3 onwards or maybe Q4 onwards?

Pirojsha Godrej I think, it's hard to, I don't have off hand the exact number, quarter-by-quarter. But yes, I think that trajectory should be clearly upward, depending on when some projects complete. And you get a larger tranche of collections related to that there will be some quarterly moment, but I think overall, should be trending significantly higher.

Pritesh Sheth And on the business development. So, any market that we see a challenge to do business development deal, specifically like in Bangalore, some market, I think somewhat we are hearing that a local larger developers are still comfortable in terms of adding business deals. So, are we facing any challenge in that market?

Pirojsha Godrej No, I don't think so, I think there is no market where is no competition and that we have to only game in town or something like that. So, I don't think that's probably a reasonable expectation to have. But overall, if you look at it, in each market, there probably only a handful of developers that have both the execution capability and the balance sheet to support deal acquisition. So, I think competition within this set of top four - five developers in each city is going to be a feature to stay, I don't think that, any, I think most of the leading players in each market have fixed the balance sheet, have the execution capability to deliver. So, we will be looking to add projects.

We feel pretty good about our ability to compete head-on with any set of developers in each of these markets, I think the brand is good for joint ventures. We feel we have a distinct advantage with people wanting to partner with us. And with the balance sheet today, we can also compete for transactions that are outright, if we see value in them.

So, yes, there is of course competition. But I don't think the competitive intensity is very high at the moment. The vast majority of the sector continues to be relatively struggling with liquidity issues. The uptick in sales has been visible across all the stronger player we don't think is equally evident, for the industry as a whole. And there are large numbers of developers who are still struggling with sales and therefore looking for opportunities to monetize the land bank. So, I think overall, we remain quite confident on the business development prospects.

Moderator Thank you. The next question is from the line of Manish Gandhi, Individual Investor. Please go ahead.

Manish Gandhi My first question is a micro project wise. So, Hinjewadi, Pune, which we are launching in the next few quarters. Why, we are just launching 0.4 million where the project size is 10 million, the IT is booming, and we are doing so well in Godrej Hill Retreat. So, I was just wondering that.

Pirojsha Godrej Mohit, you want to take this.

Mohit Malhotra Thanks Manish, the way we look at this first project both Hinjewadi and Mahalunge, we look at it as one project. And right now the focus is to continuously launch projects in Mahalunge, which is the Godrej Hill Retreat project, and have seen how strong the sales have been in this project. We would like to launch Hinjewadi later, of course, we will launch a big phase, but at a much higher pricing. So, right now focus is on Mahalunge. And if you see the Quarter 2 launch also, we sold close to Rs. 400 crore in our recent launch. And we would like to continue to sell that first.

Manish Gandhi No it is given in the presentation that we will be launching Hinjewadi 1 and 0.42 million. So, that's why I was confused in the new project launch.

Mohit Malhotra Yes, I think that was maybe a small phase we would have planned. But as of now, the idea is to continue the Mahalunge launch. We may launch a small phase if it comes, but the likelihood is more on Mahalunge side, right now.

Manish Gandhi And the second question is a broad question. See now the real estate market is picking up so well in all the big developers so the major developers have good cash flow. So, they are also now launching many projects and going to launch. So, our differentiation in competitive advantage, one was launches and the other was of course, timely delivery, the gap is getting narrower. So, what next we are doing to maintain our competitive edge. So, as Jeff Bezos said, "The Customer Delight" or yesterday's wow become today's normal, so what else we are doing? I have one suggestion, I don't know whether you guys have, do you guys look at something like, tie up with the Live Space or something like that, online interior, I don't know. But I would like to hear from you.

Mohit Malhotra Yes I think, you have rightly pointed out Manish that, as the industry matures, some of these differentiators might become less in terms of differentiation, although I still feel, sales is something and business development is something which is a strong differentiator for us as organization. But we were thinking about this question almost two - three years back, as an organization. And we have identified customer centricity as a key differentiator for the brand.

In fact, we worked on focus which we have been unwilling, essentially about bringing everyday joys to our customers. Over the last four years, there has been intense focus on improving the customer satisfaction, which we measure through a score called Net Promoter Score. And we have seen it going from a single digit to as high as closer to, 50 plus, over the last four years. So, overall as an organization, we want to be the most customer-centric organization and create 'wow' for our customers, both at the time of the whole experience of buying and three years of preposition and also, once they come into our societies and live, they should experience a completely different lifestyle in our home. So, that is something we have been very focused and working on over the last three - four years. And I think that will be the long term differentiation for the organization.

Moderator Thank you. The next question is from the line of Himanshu Zaveri from Dhruv Gems. Please go ahead.

Himanshu Zaveri So, my particular question was regarding the Mumbai region. Any particular reason why we are a little slow in selling our projects like the Chembur one and the Chandivali one, because other regions that I am seeing, the NCR, Pune, Bangalore whenever you are launching almost you are selling like 70% to 80% of the launch inventory, or any particular reason we are going on higher margins because we own those two projects.

Pirojsha Godrej Yes, I think its more a question of, I think these are both relatively high priced inventory, which tends to be a little bit more steady but slow sales. And two on both of these projects, we have launched at quite a premium to the market, because we know that the project sizes are relatively small, both of these four or five lakh square feet kind of project. So, I think the focus has been on ensuring strong margins. And we are not overly concerned about being able to sell those volumes over the life of the project.

Himanshu Zaveri Another question on Mumbai, only. So, next, if you want the company to go on the next level of sales, and all, so we all know that other three regions are doing very well, so particularly in Mumbai, we have to concentrate more on the deals and all, I think we have a lot of deals in the pipeline, already we have projects. And now the execution and the sales have to be there for the Mumbai region to do very well, right?

Pirojsha Godrej Yes, I think of course we will have to execute all of these projects we are adding. I do think that some of the challenges has been not having enough projects in the market. So, I think we have been trying to address that, over the last couple of years with the development. Mumbai projects, particularly things like redevelopment do tend to take a little bit longer from a regulatory approvals and time to launch perspective. But I think we are very confident of seeing the scale of our Mumbai business increase sharply over the next year or two.

Moderator Thank you. Ladies and gentlemen, that was the last question for today. 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. If you have any further questions or would like any additional information, we will be happy to be on the system. We would like to take this opportunity to wish all of you a very Happy and Prosperous Diwali. On behalf of all of us at GPL thank you for taking your time to join us today. All the best.

Moderator Thank you. Ladies and gentlemen on behalf of Godrej Properties Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.