# Phoenix Mills Limited
# Q2 FY15 Earnings Call
# November15, 2014

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**Moderator:** Good afternoon everyone. I am Harpreet Kapoor, the moderator of this call. Thank you for standing by and welcome to the Phoenix Mills Limited Q2FY15 Earnings Call. For the duration of presentation all participant lines will be in listen-only mode, we will have a Q&A session after the presentation. I would like to now hand over the conference to Mr. Pradumna Kanodia. Thank you and over to you sir.

**Pradumna Kanodia:** Good afternoon Ladies and Gentlemen and thank you very much for participating in the Phoenix Mills Limited conference call to discuss the Q2 FY15 standalone and consolidated results. It gives us great pleasure to report that the operating metrics across all our malls continue to grow at a healthy rate and given the positive economic environment due to the new government we are very confident of continuing the steady growth even in the future. I do trust that you have received the Q2FY15 Results and Investor Presentations which we circulated and also uploaded on our website as well as the BSE website. I shall very briefly highlight the operating and financial trends of our operating assets, I will start with HSP High Street Phoenix.

During the quarter Q2FY15 consumption at HSP has increased 9% year-on-year to Rs.3.6 billion translating into a strong trading density of Rs.2456, this is up 9% year-on-year as well. And the consumption in the quarter two Market City Pune increased by 23% year-on-year to Rs.1940 million. Consumption at Bangalore increased by 22% year-on-year to Rs.1992 million while at Kurla it increased by 40% and stood at Rs.1569 million and of course Chennai which has been the star performer, the increase has been 53% year-on-year to Rs.2669 million, this has been the highest among our four newly open market city malls. We expect that the strong consumption trends will continue in the second half of the current year as well.

Now moving on to our development portfolio, One Bangalore West our flagship residential development in Bangalore, we have sold more than 1 million square feet at a current weighted average price and excess of Rs.8120. Currently our current selling price is Rs.11500 per square foot. Also, we have a large office space under development at Kurla, the new infrastructure development surrounding this location has led to an improvement in consumption at the mall and also the sales at the Kurla commercial assets have seen a direct impact of that. Phoenix Paragon Plaza, we have sold more than 100,000 square foot resulting in a sales of 1380 million and collection of over 970 million over a cumulative period. For this asset we have recognized revenues for the first time in this quarter and the total amount that was recognized was Rs.572 million as far as the Phoenix Paragon Plaza is concerned.

We have also repositioned and renamed our erstwhile Orion Park and now we call it Art Guild House, the sales and the traction at the property have been very encouraging, the current sales price have been increased to almost Rs.12000 per square foot and we have closed, almost 50% of the inventory has been sold as of date. Also we did a launch of our luxury residential project at Pune named as Fountainhead, we have roughly sold around 10% of this inventory to date and we hope to really capitalize on this initial interest as we go forward.

Very briefly on our hotel business, the revenues at Palladium have been steadily increasing due to better occupancies and also the fact that the revenues from F&B and banquets have been really very strong. We also opened up a new Japanese restaurant Yuka by renowned chef Ting Yen, I hope you take the opportunity and visit the hotel pretty soon to enjoy the offerings at Yuka. Our Agra property, the Courtyard by Marriot is nearing completion and is expected to become operational in the first quarter of the new calendar year 2015.

The rest of the details are of course given in our presentation which we believe is pretty exhaustive and I am sure you had a chance to look at that. Very briefly on the financial numbers, for the Q2 FY15 the consolidated income from operations was Rs.4.4 billion and the EBITDA was at Rs.2.1 billion, we hope that we continue with our strong performances and based on the retail asset portfolio and also the residential and commercial projects where sales recognitions and sales are happening very briskly.

These were my brief opening remarks and I know welcome any questions that you may have regarding our Q2 numbers and otherwise as well. Thank you so much.

**Moderator:** Thank you sir. With this we will open the floor for a Q&A interactive question. First question of the day is coming from Adhidev Chattopadhay from HDFC Securities. Your line is unmuted.

Adhidev Chattopadhay**:** Firstly, just wanted to ask a broader question, with the advent of online shopping there has been an increase in online purchases, so across malls are you seeing any specific category being affected on account of this and over a two to three year period do you think the sort of CAGR growth which you are expecting in our rental income growth, could it be affected to any extent by this?

**Pradumna Kanodia:** Hi Adhidev, I think the question is very relevant and pertinent keep in view what’s happening around the country and the globe today. Very difficult for us to say how the things will span out and what would be the impact but clearly one should look at positioning of our malls. Today we are the best performing malls across all the centers so whether it be the Bombay mall or the Pune, Bangalore and Chennai, we are the undisputed leader at each of these locations, any impact or so called perceived impact of the e-commerce probably will felt by us pretty late in the day because we have the ability to absorb all these things being the number one and the leader in the market. Clearly the industry is evolving and I am sure as the ecommerce platform becomes more robust so will be the learning for us and we will be able to really see how we can differentiate. Already we have a lot to offer at the malls which cannot be replicated on the ecommerce platform. If you look at the large entertainment and F&B outlets that we have and kind of experience that you can have in terms of day well spent which is our tag line for High Street Phoenix. These are things which will continue to attract a lot of consumption at our centers. We spoke about how our consumptions have increased year-on-year across all the geographies, across all the malls, clearly the trends and the patterns are that the brick and motor is continuing to do well at our location. So how much of that will have an impact going forward and which categories will get impacted, is very difficult to say but I am sure we as market leaders would be ready for these challenges and our malls will continue to show robust growth as we move forward.

Adhidev Chattopadhay**:** Right. And second question on Palladium hotel. Now when do we see this asset turning cash positive. Lets say when do you see your EBITDA being enough to cover your interest cost and when do we see, at least at a PAT level, the losses going out? Is it this year or next year, when will the hotel turn profitable?

**Pradumna Kanodia:** Yes, so as far as the interest coverage is concerned we have been covering almost 60% over the last six to eight or 12 months in fact and with the winter season coming in and the tourist and the rest of the arrivals improving, the business environment improving our projections suggest that the hotel industry in general should be looking for much better days. Currently in the month of November if I can share with you some specific data, we have been doing occupancies in excess of 85% at very strong ARR. So this month of course we should be able to cover our interest cost as well and the trend should continue for the next four to five months definitely which is the peak season. But having said that, I think the industry is also coming out of the cyclical trends and we hope that hotel industry will be able to command a far better pricing in terms of ARR and occupancy. Sometime early in the last quarter of this financial year or maybe early in the first quarter of next financial year, we will have a new operator coming on board. It is a strong brand and has an international presence and has strong ability to market and sell the product. We are very-very confident that our hotel would be able to definitely cover all the interest cost in the next fiscal year without any doubt. But on the PAT side of course there is an element of the depreciation and the rest of the expenses, so I would give it another 15-18 months for the new operator to settle in. So clearly FY17 is when there will be no losses at the PAT level.

Adhidev Chattopadhay**:** Okay sir. And finally on your Kessaku project, please let us know if we have launched the project and what has been the initial response to the pricing?

**Pradumna Kanodia:** Well, we intend to a full-fledged launch later in December, we have already done a soft launch which is basically word of mouth that spread there and we have got very interesting feedbacks from people. We have also sold few apartments and the current selling price is around Rs.13,500. But we are very selective in our customer profile so Kessaku being a very high end luxury product we really are looking for people who would come in using it for their own use rather than looking at investors who would want to block money. So from day one we have been clear that we want quality names to come and look at acquiring assets. There have been very high profile customers who have come and we have sold around 8-10 apartments. With the December launch the feedback from our marketing and sales team is that there is a very huge pent up demand and we hope to sell a reasonable amount of quantity in the next six months itself. Our belief is that the product has been well positioned and there should be a reasonably good interest towards it.

**Moderator:** Thank you. Next is Gunjan from JP Morgan. Your line is unmuted.

**Gunjan:** Firstly, I am just looking at the trading density across the malls, I mean except for Kurla and Bangalore we are above Rs.1000 a square feet per month. So for Kurla and Bangalore what do you think drives the performance and what do you think is the optimum level that we can get in these two malls?

**Pradumna Kanodia:** Hi Gunjan. So if we look at the numbers and your observations are right, I mean High Street Phoenix we do almost Rs.2500 in terms of trading density and the lower end is our Kurla mall where trading density is at a much lower number. Clearly the fact remains that one needs to look at how the other malls have evolved. Chennai has been star performer for us and that’s the reason why the consumption levels are where they are today. But from Kurla's point of view clearly there is a huge amount of catching up to be done and that’s already getting reflected in the current trends and the way that the last quarter and the last six months have shown in terms of improvement in consumption, we hope to have a number which is probably closer to at least breaching a Rs.1,000 per square feet number soon so it could be a six, eight month or a 12 month journey while we achieve that. And as far as Bangalore is concerned I think the numbers may be appearing in lower than 1,000 but they are very strong, in fact as I see it is 1162 so it is not below 1,000.

**Gunjan:** No sorry Pune, my mistake, it was for the Pune mall because Pune was the first mall we opened right and I mean it's been operational for almost four years now.

**Pradumna Kanodia:** Correct. See what happens is that 986 or 1100 is just a matter of a 5% - 10% here and there but if you have to look at the consistency and the growth, Pune also has shown a year-on-year growth of almost 20% and which is very-very good, I think a high double-digit growth coming in not only in teens but I think a 20% growth is very good and then the mall continues to really perform very well in terms of it's ability to lease the residual space at very attractive prices of 140 – 150 psf per month but the footfalls have been very-very consistent and strong and even the consumption has been very strong, the growth there also has been 23%. So as the consumption grows you will find that the trading density also will improve, there are certain areas which are now coming up for renewal, this will drive the consumption and the trading density. So for Pune and Bangalore I believe that we will continue to grow at 20% and Kurla will be something which can really surprise us going forward where the growth could be even faster. So I would want you to look at maybe a 12 month number and then look at how things are. Clearly Pune has been the mall which opened up the first but it has also been a star performer from our point of view, collections are very strong, consumptions are strong, current rentals and renewals are very-very nice. So from all the angles the mall at Pune is really not lagging behind though the number of 986 may just be a number but clearly at Rs.80 current rental it is not far behind any of our estimates and we don't believe that it is underperforming at all.

**Gunjan:** Okay. And besides the Bangalore West launch what are the other launches that we are looking for in the next two three quarters?

**Pradumna Kanodia:** We will also be launching our residential development at our Bangalore mall company which is the Island Star so we should be looking at a launch there as well towards the end of December or early January, we'll share the details with you.

**Gunjan:** Okay. And just broadly on the rental portfolio, so we have seen almost 15% plus growth consistently over the last 1.5 - 2 years even after the malls have stabilized. Now that the renewals from High Street Phoenix get over in FY15 how do you see the rental portfolio growth over the next three four year, I mean is this 15% sustainable?

**Pradumna Kanodia:** If you look at the presentation there is a slide which talks about the renewals so High Street Phoenix which you observe the renewals have actually not happened because they are now beginning to happen. We have hardly done any renewals from an area point of view because the Palladium part of the mall is getting to be a five year old product only somewhere in the second quarter of next year. So if you look at the incremental number for Fy14-15 there is a 200,000 Sqft of space which is coming up for renewal and then next year we have another 100,000 and in next thereafter 200,000 square feet is again coming up. So in High Street Phoenix alone if I look at the next 24 month, I believe that over 300,000 square feet of space which is coming up for renewal and which is a very big number. And if that number gets translated in my overall growth and my overall rental portfolio along with the fact that the rest of the market which are also in the third year of journey and some of them will be in the fifth year in a year and a half's time. So while FY16 the number of renewals and expeditions in Bangalore, Chennai and Kurla will be low but Pune will start seeing almost 35% of space coming up for renegotiation towards the end of FY16 which is almost just 400,000 square feet of space. So each year there is a big chunk of area across all our developments. So if you look at an overall space, for example in FY16 across all our five portfolios you would have around 700,000 square feet of space coming up for renegotiation and if we go a year further this is almost 1.2 million square feet. So the next two financial years are very strong in terms of renewals and of course the balance six months also you will find that our rentals will continue to grow. Currently at HSP we are at Rs.250 psf of rent and I think in the next financial year the numbers will be significantly higher, not only for this but across all our development as well.

**Moderator:** Thank you. Next is Puneet Jain from Goldman Sachs. Your line is unmuted.

**Puneet Jain:** So my question is that, now after this quarter what are the remaining payments that needs to be done for various stake acquisitions?

**Pradumna Kanodia:** Well, the fact remains that our stake acquisitions have always been on a staggered basis. We have a long-term payment schedule from each of our private equity friends who exited and who are in the process of exiting.

The number could be closer to around 230 crores over the next 14 to 16 months time frame and that's the current commitment that we have. If we add a few more to this as we move forward the number could be slightly high but it is closer to around 230 crores as of now.

**Puneet Jain:** And this primarily comprises the Kurla stake and as well as the one in Pune?

**Pradumna Kanodia:** If you remember we had done a transaction with ILFS to buy their stake in Pune which was worth some 72 crores and 42 crores for Edelweiss and the remaining for Offbeat.

**Puneet Jain:** Okay. So is there some scope to go up because now the stake is closely to 75% in most of the malls.

**Pradumna Kanodia:** Yes, you are right. We have done these acquisitions because we think that there is a lot of value proposition and we believe that these investments will give us a tremendous return. As you would have seen in one of our presentations in the website that there were a total around Rs.9 billion that we had or we will end up spending on our acquisitions and the resultant value of that is for everyone to understand has significantly improved. So from our point of view these assets which we know very well, these are investments which are really risk free in every nature and going forward the valuations could definitely be significantly better than what we have been able to close the deals at.

**Puneet Jain:** Okay. And do you have any long-term plans on business growth once you acquire these assets?

**Pradumna Kanodia:** Well I think there are a lot of thoughts one could have, we always keep sharing when we meet individually. But clearly the cash flows that are visible from both our retail rental as well as our development portfolio, are very-very strong. Going forward the kind of sales that we have been able to achieve with our residential developments is a very-very encouraging from our point of view. The visibility has become very strong for these cash flows to be treated as certain going forward. So it gives us a huge amount of ammunition and comfort in terms of charting our growth plans. So we are evaluating a lot of options in terms of what is the next way forward. We have been discussing opportunities and we look forward to some of these opportunities actually getting closed. The journey in terms of growth will always be there but we will be taking one step at a time, the cash flows remain very strong and buoyant and they will definitely put to very productive use in terms of the way that we see the journey from here to the next maybe four to five years.

**Puneet Jain:** Okay. Also sir last full acquisition was at 2.5 billion, what is the amount you have paid in FY15 till now?

**Pradumna Kanodia:** Can I give you specific numbers off line, I will just need to check that out and I will call you back. Rohini will give you the numbers and call you back.

**Moderator:** Next is Shashikiran Rao from Standard Charted. Your line is unmuted.

**Shashikiran Rao:** My question is regarding the number of stores that you have mentioned in the presentation, there is a sharp rise in most of them. I believe the numbers that you had given previously were for operational stores. What is the discrepancy between this quarter and last quarter?

**Pradumna Kanodia:** Are you talking of any specific slide within that or is it an overall?

**Shashikiran Rao:** In your all your market cities.

**Pradumna Kanodia:** The number of stores probably would have gone up slightly, it may not have gone up significantly but yes we keep repositioning and the individual stores at times get either clubbed together to make for a larger space or a large unit is broken up and made into smaller store. So these numbers would tend to vary slightly from quarter-to-quarter, it does not mean that they are fixed numbers but the variations would not be very significantly large. There could be a gap of 10 to 15 units if I were to make a rough estimate, I may be not out of rack if I were to say that the gap could be in that range but is that something which…

**Shashikiran Rao:** For Chennai you had mentioned a number of stores trading last quarter like I think 227?

**Pradumna Kanodia:** Yes.

**Shashikiran Rao:** And you have mentioned number of stores is 259?

**Pradumna Kanodia:** Yes. So that is the total stores, so this time I think the presentation does not talk about the number of stores trading so while the 259 number remains correct and corresponding to 227 I think the number could be 248 or something. So if you look at the occupancy, there is a 96% trading occupancy so that translates into roughly that much. Probably we have deleted that one row because these assets have become mature and they are really performing at a very high level of occupancy. So the number of trading stores, we have removed that part of information but those numbers can only be better than what it was last time and not worst then.

**Shashikiran Rao:** Okay. So how do you classify these trading stores and these stores would also be paying rent?

**Pradumna Kanodia:** Yes, what happens that the trading stores are the ones who are actually doing business and they are paying us the rent, so while some of the stores maybe under fit outs and some of them may be leased but no fit out has started. Out of the total stores only an x number of stores are actually doing the trading and it's just a way of analyzing the occupancy. In the last presentation 227 stores were at 90% mall occupancy for the total area of 980,000 square feet. This number of 227 now has improved and is a reflection of how many stores are actually doing business at the center.

**Shashikiran Rao:** Yes, I would request you to give number of trading stores as I think that is more relevant.

**Pradumna Kanodia:** We will share information on the number of stores trading also. Of course Rohini will be sending you a small email with data as well and we will update the presentation also for that.

**Shashikiran Rao:** Okay great. And in terms of debt commitments, I see that your debt has marginally gone up at a consol level, can you give the picture of how do you expect it to evolve over the next few quarters and give subsidiary by subsidiary details on where you would be repaying debt and where you would have further investments?

**Pradumna Kanodia:** Shashi, if you permit I will give you a macro view right now and specific details on specific assets maybe we will send you a separate presentation or a separate sheet for you to understand it better. But to give you a sense out of the approx 3,200 crores of debt which you see on a consol number, almost 85% of that is like LRD or equivalent to an LRD. So these are self liquidating in nature against the lease rentals of each of the mall so our four market city mall and High Street Phoenix put together is our rental portfolio and majority of our loan is against these assets and these are on the basis of a normal LRD that one would see in the market. The repayments are all over the period of seven to nine years depending on how the loans have been structured but typically they are seven to nine years in terms of their tenure. The cash flows from the rental business have been growing significantly year-on-year, the surplus cash which is available of course is there but the loan repayment as I said stagger over the next seven to eight years so you will see a consistent repayment happening as the numbers have already been agreed upon. So clearly it is our desire to keep the debt at an optimum level, this allows us to also use the interest as an advantage towards our tax planning because clearly there is a lot of tax leakages if the company is not leveraged to a reasonable level. So given the fact that our debt is mostly LRD, we are very comfortable and we will continue to use the debt in a reasonable manner. In the development portfolio there is very limited exposure, our construction loan across all our portfolio today if I look at it could be less 575 crores.

**Shashikiran Rao:** Okay. And your construction cost on the development projects would be equivalent to your collections?

**Pradumna Kanodia:** In case of Bangalore, while there is a credit line available of 125 crores we have not used a single penny out of it because the cash flows have been very strong and there has been no need for us to draw down. While we have done a small draw down in our Chennai residential projects and a small draw down at our Kurla commercial office project because there we don't intend selling a part of it. It will form part of the lease portfolio and towards this we are using the construction loan.

**Shashikiran Rao:** So in terms of your construction cost overall -- what do you expect because I think you have 700 crores odd receivables, some sales that you are already in.

**Pradumna Kanodia:** Overall if I look at the development portfolio I think the cash that we collect will be more than what is required for our construction and also for our repayment and other interest obligation. There will be a surplus which gets generated across our development portfolio. In Kurla, as I mentioned that we are looking at partly retaining the asset as a lease model, the cash flow that comes out could be partly or equivalent to the construction cost. But overall if you look at across all our geographies then on a combined level the cash flows will be more than what is required for the construction proposes In our development portfolio.

**Shashikiran Rao:** So Kurla, you are retaining in Phoenix or Orion Park??

**Pradumna Kanodia:** In the Orion Park we have currently sold around 400,000 square feet of space so we are looking at retaining the part of the balance as our portfolio in that company and also in the Phoenix Paragon Plaza part of the retail space and the office space that is available will be held on as on rental model and part we will liquidate so as to just knock off the loans that are there and probably we will have a small portfolio in terms of rental income coming from those two assets as well.

**Shashikiran Rao:** Okay. And both of them are combination in terms of small offices and retail

**Pradumna Kanodia:** No, the Phoenix Paragon Plaza is a mix of that but the Art Guild House is a pure play commercial office space and there is no retail that we have built in there.

**Moderator:** Next is Tejas Seth from Emkay Global Management. Your line is unmuted.

**Tejas Seth:** Sir just wanted to understand, when you look for this negotiations of the renewals, what are the three parameters, criteria or ratios you really look at while negotiating and what does even the client side looks at?

**Pradumna Kanodia:** See, there are several factors, this would have been an answer better given by my leasing head than me but since I have been in the company for so long I can probably share my thoughts around how this happens. We believe that we are the most favored destination as far as every retailer is concerned. Today we are the number one mall in Bombay, the number one in Pune, Bangalore and Chennai. This gives us a huge advantage. Newer brands are coming into the country, a lot of new brands from across the globe have chosen India to be the destinations and these brands have chosen our MarketCities and our malls to be their most preferred destination. So whenever a new and international brand or a brand of great name and strength comes, we by default become their first choice because they know that our centers are the best performing centers, the consumption at our place is the best, the kind of property that we have delivered in terms of circulation, in terms of look and feel, in terms of experiences, clearly not easily found across any of these cities. Our huge advantage is our understanding of the retail business. We have been in this trade for almost close to 15 years now and hence our understanding of the business is very high. We clearly have a advantageous position when we sit down for negotiations. The rents also have moved up significantly, what was leased out three four five years back when markets were at their lowest, today we are looking at a very different business environment with the new government in place. Most of the leases were done in 2008/2009 when environment was very different, there was a global slowdown, now the rents have to be aligned to the current market rates. We have very strong relationships with retailers and we continue to drive a premium. This trend should continue as we go forward.

**Tejas Seth:** So where I was coming from, have we ever compared a retailer who has presence in your mall as well as a similar kind of presence in Linking road side and how would be the consumption density differ and what would be the rental difference?

**Pradumna Kanodia:** Yes-yes, clearly. So if you look at the slide in the presentation that we have on this specific subject, there is a comparison where you see the same store sales of five or six different retailers on a pan-India basis. So while the average growth in McDonalds, Dominos, Pizza Hut, Big Baazar or a Pantaloon has been 42%, 16%, 34% in our MarketCity malls the same brand across India have grown at -6% of a +2% or a +6%. Clearly it may not be a true reflection because in a growing environment some stores will take their time and some geographies will be poor but we introduced this slide just to give you a perspective. The reason why retailers continue to flock our malls is because they have a better chance of showing growth and improved performance as compared to opening up somewhere else in the country or maybe somewhere else in the city. We do track how consumption and other patterns are there in some of the other malls, but those are very micro market specific but from a macro level this slide helps to understand clearly our positioning and our performance at our MarketCity malls.

**Tejas Seth:** Would there is a huge gap in the rental to consumption, or rental to sales ratio and Linking road to your HSP or… what I am trying to draw is, is there a huge room for rental growth because when we hear that Linking road charges anywhere between Rs.800 to Rs.1000 a square feet rental and while we are still at Palladium level will be at Rs.400 to Rs.450, I mean is it something where you people can really increase the rents.

**Pradumna Kanodia:** One has to also understand that these are one off numbers which you are talking, if you look at our numbers also the 400 number that we talk about Palladium clearly there are retailers like luxury brands who land up paying us Rs.1100 a square feet; so clearly there is the ability of higher performing retailers to be able to pay you a much larger rent as compared to what you see as an average here. There is a lot of room to increase our rents and mark them to market across all our MarketCities and also high street phoenix. There has been high growth in trading densities and the consumption. If you look at Chennai for example, the trading densities have grown 21% on a quarter-on-quarter basis and similarly for the rest of the malls it is around 25%. This will translate into higher rents. Our contracts are structured in such a manner that there is a minimum guarantee in terms of rental outflow from the retails point of view plus there is a percentage of revenue which we are entitled to. Higher the consumption the better the trading density, the better is our ability to look at rentals. Our rental should be close to almost 18% of the consumption at the center on a very average and a macro view.

**Tejas Seth:** Okay. And has the occupancy in Market City Pune improved in this quarter because it has been struggling for last four quarters?

**Pradumna Kanodia:** No, it is not a struggle in that manner because there was some space which is under some sort of a renovation. We are in the process of adding new tenants and placing them in the most appropriate places. The rents have improved, they are at Rs 80 as compared to maybe Rs.75-77 in the last quarter. In a period of six months, I think the total leasing area and the leased out area will be much higher and of course the rents also will move up correspondingly, there is no struggle, Pune is a very-very high performer for us and we are very happy with the way things are currently with Pune.

**Moderator:** Next is Sandeepan Pal from Motilal Oswal. Your line is unmuted.

**Sandeepan** Pal**:** Sir, I need your thought about probably your future foray into any projects going forward like now EWDL is not working, what's your outlook on the tier 2 market? And Secondly is that, what about the fourth phase of the High Street Phoenix, when we can see another asset coming up over there?

**Pradumna Kanodia:** I think in the fourth phase, if I were to take the liberty and answer that question, we really have a lot of work going on across all our market cities, if you look at our development portfolio we currently are executing over 7 million square feet over the next three to four years time and that needs is the priority. Now with the new government in place maybe we will be able to have more clarity around how the approvals and what is the best suited development for that additional piece of our parcel of land in High Street Phoenix. We may not be in a hurry to do anything with that. Give us another year at least before we look at announcing certain plans on that. We are looking at various options but we are not frozen on to anything, minimum of a year to 15-18 months before we crystallize some thoughts around that, we will share with you as and when it happens.

And the other question regarding your Tier-II cities and the reference of Entertainment World, I think wherever we have seen our malls we have become the number one mall operator and owner across Pune, Bangalore, Chennai. We want to keep our positions that way, wherever we go whether it is a tier-II town or a tier-I town, we need to maintain our leadership position. Greenfield projects we have seen in the past have taken six seven years to complete and deliver. This will be the case for anyone to come and build from a grass root level. But there are in this environment a lot of opportunities which keep getting bounced to us in terms of ready assets, so not that we have identified or crystallized anything but if there is an opportunity where we believe that we could become the number one mall of a particular city and we believe that mall has our kind of thought process in terms of look, feel, experience, etc, we may be interested. There is no rush but clearly there those options also remain and if something materializes definitely we will share with you.

**Sandeepan** Pal**:** Okay. And secondly on the development side sir, I can see the execution is going on very steadily. Some of the projects are nearing completion like in Chennai and the inventory level is still high. Now question is that, I think almost all our projects are currently creating a Rs.10,000 per square feet plus, so is there any challenge which needs to be faced or you feel once the inventories are ready then selling is just a matter of time?

**Pradumna Kanodia:** No, I think lets break it up into different cities, because what is relevant in Chennai may not be relevant in Bangalore and vice-versa, so Bangalore if I were to speak, today the first phase of our One Bangalore West whatever residual apartments are there are selling like hot cakes and we are able to price that Rs.11,500. Bangalore portfolio continues to have strong numbers on a quarter-on-quarter basis and as we launch our phase-II and the luxury product the traction should be good and our marketing and sales team gives us the reason that our products clearly have a lot of edge and of course when we share the numbers then only you will come to know about it. Chennai project was initially launched at a sub Rs 6000 psf level almost three, three and a half years back. It's been a long journey but the cash flows of the mall have been so strong that there has been the ability of the company to really keep the price at a point where we believe we can market and sell the products. So the inventory which is left out is sub 20% - 25% and clearly there is no pressure on us to sell it out and liquidate because the cash flows are such that we are able to complete the project and hand it over in the next six months time and there is no need for us to decrease the price and sell the product because there is enough cash available from our existing sales and also the other sales that are happening. Once the product is ready and people start using it, you will find that the balance inventory in Chennai will get sold off pretty fast. But apart from that Bangalore as I mentioned is already doing well, Pune has been a recent launch, so things are moving there as well.

**Sandeepan** Pal**:** Right sir. And just one final one, it's a small clarification, probably a continuation from the previous question from Tejas, when you price I mean the minimum guarantee is it always higher than the existing tenants, effective rental what is currently giving in the form of minimum guarantee plus revenue share.

**Pradumna Kanodia:** Yes, so when a space comes up for renegotiation, if a retailer is effectively paying Rs.100 the new negotiations would definitely be not lower than those numbers, there could be aberrations here and there but otherwise clearly this is the standard. In one of our earlier presentations we had given the chart on revenue share and the minimum rentals, how the graph moves very differently and then it converges on to a single point and then starts the journey all over again. Yes you are right, when we set up a new agreement the threshold would be almost equal to what you were seing in the earlier avatar and then it starts moving up from there.

**Sandeepan Kaul:** So basically revenue share has to be kicked in again gradually after that?

**Pradumna Kanodia:** Yes, obviously. You cannot leave too much space on that front.

**Moderator:** We have the next participant. Your line is unmuted.

**Participant:** Hi guys, I have three questions. The first question is on your residential development, just wanted to check in terms of revenue recognition because we know that you have recognized revenues for One Bangalore, so I just want to understand for the rest of the year what kind of revenue recognition are we looking at for this particular project?

**Pradumna Kanodia:** So, while we refrain from giving forward-looking statements because clearly the idea is to deliver and then talk about it rather than talk and then delivery. So on our revenue recognition if you look at One Bangalore West, the pictures itself speak a lot because the buildings are in a very-very advanced stages of completion, the civil work is almost done and now we are on track for on time schedule of delivery for this project. In fact one of the few developers today who can boast about on track performance, so in the current six months if you look at our incremental percentage completion in the first six months cumulatively we are at around 64% so we had a 10% to 12% incremental completion this first two quarters. I think in the next two quarters if I were to give you a very rough estimate, a 15% completion additionally would be achieved. So by March I would be surprised if we don’t achieve 80% completion as far as One Bangalore Phase-I project is concerned.

**Participant:** And maybe can I just touch on, on HSP, there is a sharp increase in OPEX as well as the Kurla mall as well as hotel. Could you just comment on the OPEX -- for these three properties?

**Pradumna Kanodia:** I was slightly caught up in few other things while your question was getting repeated because I was flipping through few pages. May I request you to repeat your questions please.

**Participant:** Okay. For example the High Street Phoenix mall, on a standalone basis the OPEX has increased, year-on-year it is like 20% growth and so --

**Pradumna Kanodia:** I understand. So basically the operating expenses at times are also having certain sort of numbers which are particular to that quarter and payments relating to property tax become part of that expenditure. So property tax though it is evened out and we provide for it on a regular basis based on our estimates but at times when we receive the invoices from the government and there are certain changes that needs to be factored in. So there has been a little cost which gets built in. For both our Bombay properties at Kurla as well as our High Street Phoenix, the operating expenses to that extent have gone up slightly and that's why you have seen that the EBITDA margins are slightly lower than want they were as compared to last year but if you look at Q1 and Q2 of the current fiscal year, my EBITDA margin have been pretty much at 65% and 66% for High Street Phoenix. In terms of Kurla the EBITDA margins have been slightly less more so because of the fact that in the Kurla property there have been certain provisioning. This was required because the mall in the initial stage when it opened, the billings were not able to recover the entire money and after much negotiation we have given some credit for the initial part of the billing that we had done two years back and part of that provisioning expenditure also sits into our operating cost. This is why in Kurla you see that operating expenses have been on a higher side as compared to the previous numbers.

**Participant:** Could you also comment on Hotels side as well

**Pradumna Kanodia:** Yes, in the hotel part also the property tax on the hotel has come for the first time so there has been an impact of almost Rs.50 million in this quarter. Also the increase is due to the fact that some new restaurants and new F&B outlets have opened. In the initial part of the journey when new restaurants and new F&B outlets are opened there is a tendency for expenses to be higher as compared to normal standardized operating returns. These two factors are an aberration, when you go forward in Q3 you will again find that the operating expense numbers have become better along with the margins. If I look at Q1 of the current fiscal year the EBITDA margin was 13% which fell to 6%. Going forward we should be able to have a much better EBITDA margins, better than 13%.

**Participant:** Right. And just one last question from me. The interest rates may now reduce and the inflation is coming down now. I just want to understand your interest exposure.

**Pradumna Kanodia:** Fortunately for us we had kept all our interest rates on a floating basis, the ability of the company to take advantage of the downside curve which we expect to happen very shortly will be there. We are already seeing that the short-term interest rates across the country have come down, of course it is not directly impacting us but it's a precursor to the fact that long-term rates also are likely to come down. We are hopeful that in December and January when the Reserve Bank of India will announce their policies, they will be very reducing these benchmark rates so that overall cost for us will come down. Since we are on a floating rate we stand at a advantage and we get the benefit immediately once the announcements are made.

**Moderator:** At this time there are no further questions so I would like to now hand over the floor back to Mr. Kanodia for the final remark. Thank you and over to you sir.

**Pradumna Kanodia:** Well, I thank you one and all for taking time out and spending this hour with us. We hope to be in touch with you on a regular basis.