May 21, 2021

The Listing Dept.,
BSE Limited
Corporate Relationship Department
Phiroze Jeejeebhoy Towers
Dalal Street
Mumbai- 400001
Scrip Code: **543287** Scrip ID: **LODHA**

The Listing Dept.
National Stock Exchange of India Limited
Exchange Plaza, C-1, Block G
Bandra Kurla Complex
Bandra (E), Mumbai – 400 051
Trading Symbol : **LODHA**

Dear Sir,

Sub: Q4 FY21 - Earnings Call Transcript

Dear Sir/Madam,

We are enclosing herewith a copy of the transcript of the Company's Q4 FY21 earnings conference call dated May 17, 2021. The transcript is also available on the Company's website i.e. www.lodhagroup.in under the Investors section.

This is for the information of your members and all concerned.

Thanking you,

Yours truly,

For Macrotech Developers Limited

SnRangnekar

Macrotech Developers Limited

Sanjyot Rangnekar
Company Secretary & Compliance Officer
Membership No F4154

Encl: As above.

"Macrotech Developers Limited
Q4 FY2021 and FY2021 Earnings Conference Call"

May 17, 2021

ANALYST: **MR. SAMAR SARDA –AXIS CAPITAL LIMITED**

MANAGEMENT: **MR. ABHISHEK LODHA – MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER - MACROTECH DEVELOPERS LIMITED**
MR. SUSHIL KUMAR MODI – CHIEF FINANCIAL OFFICER - MACROTECH DEVELOPERS LIMITED
MR. ANAND KUMAR – HEAD OF INVESTOR RELATION - MACROTECH DEVELOPERS LIMITED

Moderator: Ladies and gentlemen, good day and welcome to Macrotech Developers Limited Q4 FY2021 and FY2021 investors call hosted by Axis Capital 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 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. Samar Sarda from Axis Capital Limited. Thank you and over to you Sir!

Samar Sarda: Thank you Mallika. Good afternoon everyone and welcome again. For the call today, the company is represented by Mr. Abhishek Lodha, MD & CEO; Mr. Sushil Kumar Modi, CFO and Mr. Anand Kumar, Head of Investor Relations. I invite Mr. Lodha for his initial comments.

Abhishek Lodha: Thank you Samar and thank you all for joining our first earnings call as a listed entity. I hope all of you and your family and loved ones are keeping safe. We at Lodha are quite concerned about how India has suffered over the last six weeks, but we are also glad that at least in urban areas like Mumbai, the pandemic it seems to be coming under control and we are hopeful that with the efforts of the government, citizens as well as corporates, India will soon come out of this very difficult time.

I will start off by taking this opportunity to thank each one of our shareholders for the faith that they have bestowed on our company. The company achieved the major milestone of getting listed earlier this quarter and with the support of our shareholders we believe that we have a great opportunity ahead in India within the real estate space and most specifically in the housing as well as in the industrial and warehousing space.

I will start discussing the highlights of our performance in this quarter and then look forward to taking your questions.

As a company, before I dive into the performance, I would like to update our shareholders on the efforts that the company has made to help mitigate the impact of COVID and provide solidarity and strength to the immense suffering that has happened in India over the last few weeks. The Lodha Foundation opened a 100 bed COVID recovery centre in South Mumbai and that has been very well appreciated and has really helped our South Mumbai hospitals in terms of managing their overall capacity.

We have also rolled out the program for free vaccination for all our employees, their families, all our construction workmen as well as all third-party workmen who have worked with us for a prolonged period of time. We have already vaccinated over a thousand people and we are actively in touch with the various agencies to rapidly increase this number going forward.

We have also in the midst of the crisis made arrangements for oxygen concentrators, which was once again made available free of cost for use by our employees and their families and this again was helpful in their respective recovery. We have also introduced a policy to provide financial help to the family of any Lodha employee who passes away while in the service of the company and the company will be paying a year's salary to the family in case of untimely demise, so that the family's financial security is kept secured in difficult times.

We are also now in the process of setting up eight vaccination centres at different Lodha projects and this we hope will be able to enable the vaccination of not only all our residents but also their respective staff members and give a big boost to the overall vaccination effort in our country. All of this is within the larger philosophy that we operate, "do good and do well" and we firmly believe that as a company and as a corporate this dual focus is the right one for us and will enable us to deliver long-term results which exceed normal circumstances.

Moving forward, now I will be talking about where we see the impact of the second wave. The second wave has been quite different in terms of the impact on our business operations compared to the first wave. In the first wave as most of you are aware, it was very sudden, very abrupt and there was a complete shutdown whether sales, construction, cash flows, registrations everything has shut down in the first wave and the impact for four months to five months was very, very severe.

Thankfully, in terms of the impact on business operations of the second wave, construction operations have continued albeit there was a drop in workforce starting from mid April but now we are starting to see the workforce return back to our sites and we are hoping that during the course or by the end of this quarter, we will be back to 100% of the pre-COVID levels in terms of construction activity.

Material supply is continuing albeit with some minor hiccups but generally there has not been an issue around material supply to our sites. In terms of cash flow generation banks and lenders continue to operate albeit with reduced staffing and they are continuing to disburse funds as well as sanction new loans. The registration offices in the state of Maharashtra are also operating, they did reduce their capacity for some time but slowly, things are normalizing there and that is no longer a bottleneck though it was in the earlier part of the quarter.

In terms of sales, there definitely was pent up and pending demand from the last quarter when consumers had already visited and that was beneficial to sales in April. However, the period from the middle of April to the middle of May has been a period where customers have not been able to visit the site, and this will continue for another two weeks in Maharashtra. We find that consumer is having a very, very high intent to buy, the level of enquiries are strong, the conversation is strong and positive, people are taking steps like identifying their unit as well as securing their mortgage and home loan; however, the pace of final closure has definitely slowed down because any family would like to see their home before they make the final purchase decision.

We expect that the impact of this two month April and May slowdown will be passing and the sales which have not accrued in this period will come through in the three to four months after the reopening. On a broader basis, we expect this to have a minor but not a material impact on the overall sales for the year. We believe that as an industry while this is a short-term blip, the long-term trends around housing are becoming more and more stronger in India.

On the demand side, the second wave of COVID has further reinforced the need for a better, bigger home across different strata of society and people desire to buy a good quality home has gone up meaningfully.

On the supply side, we continue to see consolidation in the marketplace, the desire for purchasers to buy only from a very select handful of Tier-I developers and these are the same developers who also have access to credit from lenders and therefore the consolidation of supply is becoming more and more pronounced. In this context, with demand moving up and supply becoming more disciplined, more consolidated and coming down, we expect that there is going to be a multiyear upcycle in the Housing Sector which started in late fiscal 2021.

As you are aware, given the strength of our brand as well as now having done our IPO and raised Rs.2500 Crores through the IPO, the company is very, very well poised to take advantage of these opportunities which lie ahead of us. As you also must be aware, our IPO raising Rupees 2500 Crores was the largest IPO by any real estate company in India in the last ten years and also second largest real estate IPO ever.

We are using the funds to deleverage our balance sheet in a significant manner and further some parts of the funds are being used towards disciplined growth capital. In terms of disciplined growth, we continue to see significant opportunities in terms of joint development agreements wherein we are using our brand and our operational capability coming to the project, we make a very small deposit into the land and use the cash flows of the project in our funding to ensure that the project is built in a timely manner and cash flows and value is generated.

We have already signed up two transactions in this quarter using this means- one in the Western suburbs of Mumbai where Lodha has had limited presence and another in Eastern Pune where again Lodha has had no presence. We see in both these projects while the structures are different approximately 20% of the topline will be a margin for Lodha and we believe that these kinds of projects are not only additive from a profitability perspective but also help meaningfully expand our presence and improve our ROEs. We see a strong pipeline of such projects and expect to add several other such projects over the next 12 months to 24 months.

In terms of the performance for Q4, this was one of the best ever quarters for Lodha. We had presales of Rs. 2500+ Crores, our collections exceeded Rs. 2000 Crores, our operating cash flow was over Rs. 1250 Crores and we have adjusted EBITDA margins of 37%. On the back of this strong operational performance, we reduced our net debt by Rs. 544 Crores in the course of said quarter.

We as a business, all the key focus key segment performed quite well, our mid- income and affordable segments which constituted 57% of the sales in this quarter of course continue to perform quite strongly. We also saw very good positive performance in the premium segment which added to the strength of the business performance. We also monetized about 165 acres of land in our industrial parks vertical either through sales or through joint ventures and this included arrangements with Morgan Stanley, FM Logistics French, 3PL Company and a US based pharmaceutical company.

During the quarter, we received a first set of occupation certificates for the upper Thane projects, which is one of our large township projects. This location will now benefit from occupancy starting in the second half of this year and along with some very significant infrastructure road connectivity, which is coming through to this location, we believe that this project will become far more significant in our scheme of things and add to the scale of our mid income and affordable operations. As stated earlier, we target to raise it to between 65% and 70% of overall sales over the next two years to three years.

On a full year basis, our presales stood at just under Rs.6000 Crores and our collections were over Rs. 5000 Crores. Obviously, the full year performance has to be seen in context of the year that fiscal 2021 was with five months from April to August virtually fully lost on account of the restrictions and challenges that the first wave of COVID brought to India. We believe that going forward the performance of the last seven months of the year is what is really effectively reflected in the numbers of fiscal 2021 and this will provide a relevant benchmark for how we will be targeting performance in fiscal 2022 and going forward.

I would also like to provide colour on the fact that the numbers that I am stating are for our India operations and are excluding our investments in the UK. On the back of our upper Thane completion and generally strong sales, our revenue for the quarter came in at Rs. 2610 Crores and we had adjusted EBITDA grow 86% on a year-on-year basis with margins as I had mentioned earlier in the high 30s. These EBITDA margins were raised on account of the land sale transactions and the EBITDA margins of the core residential business are continuing to be in the low 30.

Our PAT for the quarter came in at just over Rs. 300 Crores and we find that we will have opportunity to improve our PAT margins going forward. Going forward our priority would be capital efficient growth as I mentioned earlier the highest and most important focus is moving towards becoming a net cash positive company by FY2024 and all capital expenditure will be subservient to this overarching goal.

We have made very good progress in the course of the current quarter by using our IPO funds as well as the repayment of the promoter debt where the promoters brought in Rs. 400 Crores into the company towards this objective. The promoters have also informed the company that the residual amount approximately of Rs. 1200 Crores out of Rs. 1600 Crores will be paid expeditiously and the company intends to further use that to reduce our net debt.

Looking ahead, we believe that the conditions remain very strongly supportive of strength of performance in the two segments that we are most focussed on i.e., housing and within that not only mid income and affordable but also in premium housing and secondly industrial and warehousing which we believe could be a potential out performer over the next few quarters.

We as a company are continuing to build ourselves up for disciplined growth, we are making significant efforts to improve our capabilities on the technology side as well as on the people side adding capability which will allow us to enter into the various micro markets of Mumbai and Pine where our market share is currently a much lower than in our core micro markets where our market share ranges between 20% and 35%.

In addition, our focus on ESG continues to remain one of great importance for us as a company, we are working actively with Rocky Mountain Institute to chart out our path to become a net zero carbon emitting company over the next 10 years to 14 years by 2035. We of course, are also going to have various interim milestones and will publish a detailed roadmap on the environmental sustainably side over the next couple of quarters.

We are also engaging with the likes of the Dow Jones Sustainability Index and GRESB to assess and rate our sustainability practices which will allow us to communicate more effectively to our external shareholders and other stakeholders and also allow us to make very clear steps towards improving our performance around ESG.

At this stage, in terms of our guidance for the full year, we believe that sales of Rs. 9000 Crores is something that we will be able to deliver on in spite of the challenges that have been posed by these losses of six weeks to eight weeks on account of the second wave of COVID. We obviously are expecting this projection is on the basis of the fact that we expect normalisation from the first week of June in Mumbai and Pune and we are also building in that there will be no further significant disruptions on account of COVID.

With this, I conclude my remarks. I would once again like to thank all of you for joining us on this conference call and would be now happy to take any questions or any suggestions that you may have. Thanks again.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Adhidev Chattopadhyay from ICICI. Please go ahead.

Adhidev C: Good afternoon everyone. Thank you for the opportunity. The first question is basically on our cash outflow budget for FY2022, If you could just break it up into how much do you intend to spend on construction spend, our overhead cost and considering whatever is the likely debt reduction, how much would be our interest cost roughly for FY2022, considering any refinancing which will you undertake? Thank you.

Abhishek Lodha: Thank you Mr. Chattopadhyay for the question. In terms of our budget for the full year, we expect to be spending about 2800 Crores on construction, we expect our interest cost to be between 1200 and 1400 Crores and we expect our SG&A to be between 800 and 900 Crores.

Adhidev C: Second question is on London business now with the London things opening up over there in the UK, how do you see the traction in terms of the sales considering that we have a lot of finished inventory in that market?

Abhishek Lodha: Right, you are correct, in the fact that the UK has started opening up quite significantly. They have a very hard lockdown from mid December to mid April and at that time business activities on the sales side was completely suspended. We have had good feedback and some, what they have called over their reservations or booking as you may call it, after the reopening and we are starting to see some good traction, obviously these are early days right now. It would be important to watch the whole quarter but so far, we see positive sign especially in relation to the Lincoln Square Development.

Adhidev C: Okay, fine. Thank you, I will come back in the queue with more questions.

Moderator: Thank you. The next question is from the line of Saurabh from JP Morgan. Please go ahead.

Saurabh: It is a good quarter. I hope everybody is safe. I had a few questions. One is Abhishek, the sales guidance of 9000 Crores, this includes everything right? Residential, your land monetisation, industrial parks and I mean any office sales that you might do?

Sushil Kumar Modi: I hope you are keeping well and everybody of family is also well. Yes, the 9000 Crores guidance takes into account the impact that we foresee from these two months and that number is a comprehensive number covering all forms of our sales.

Saurabh: Second is obviously the 8000 Crores odd of ready to move an inventory which you have, I mean most of this is obviously concentrated to Lodha Park, World Towers and New Cuffe Parade, so in the last two quarters specifically in World Towers and the Park development have you seen any pickup in sales and if you can just tell us about the presales in these two separate projects?

Sushil Kumar Modi: Our investor presentation lays that out quite clearly. The level of sales in South and Central Mumbai that you saw for the full year was 2255 Crores for the full year and it was 858 Crores for the quarter, therefore, it is very clear that with 2200 odd Crores of sales in seven months and with RESI unsold of 4600 Crores that is looking quite promising.

Saurabh: Specifically, on these two projects, what will be your velocity understand to figure out whether the 4600 can be monetized in the next two years or how much time will it take?

Abhishek Lodha: Out of the 2200 odd Crores that you saw has precious in South and Central Mumbai at largely comes from three projects which are World Towers, Park, and New Cuffe Parade and in terms of the numbers for the full year, the Park delivered just under 600 Crores, World Towers delivered a similar number and in terms of New Cuffe Parade, we again had a similar-ish number, so all three of them are coming around the same line of between 550 Crores and 600 Crores for seven months period. Our expectations for the full year, this year would be on a proportionate basis and therefore between those three projects, we will be looking at achieving somewhere between upwards 2500 Crores and 3000 Crores for the full year and that will of course other projects in South and Central Mumbai.

Saurabh: Third one, is essentially on this interest rate reduction, given the IPO, given the balance sheet has improved and you have obviously paid 400 Crores, are you seeing any resets of your MCLR from the bank and especially on the ratings, are you in conversations for any of that stuff and just a follow up on that on the UK bond, is there any conversation on refinancing it?

Abhishek Lodha: Obviously we are deeply engaged with various rating agencies to get to the deserving rating for the company having completed the IPO as you rightly pointed out while their engagement is on but just considering the COVID second wave that has come in that perhaps is little bit putting the rating agencies wanting to wait but still we are quite hopeful that sooner we should have a significant upgrade in our rating and thereby the significant reduction in our interest rate.

Saurabh: Okay, so this 1200 to 1400 factors may be 11% to 12% blended rate which is your current run rate?

Abhishek Lodha: It does take into account conservative view on the interest cost. We have already gotten interest rate reduction from two lenders in the period from April 15 onwards when the IPO closed, so that process is ongoing and we of course as Sushil mentioned are not to be engaged with the rating agencies but also with the lenders to see how we can most effectively produce our cost for it.

Saurabh: And the bonds issue, the UK bond?

Sushil Kumar Modi: On bond that current maturity in any case takes them to FY2023, so the way we are seeing it as it stands as the UK is more or less kind of out from the lockdown reasonably speaking and perhaps from June there will be completely out, so thereby the sales and the cash flow from there and in particular from the Lincoln Square would be significant which in any case will enable us to significantly prepay the bond. That is why we are not kind of right away thinking around the refinancing because we see the good visibility in terms of potentially prepaying the bond, so potentially it is more towards the end of the calendar year is where we would once again reassess looking at the performance at the UK if there is any need at all in terms of looking for refinancing.

Saurabh: Okay but interest cost is consolidated on the P&L recently higher cost bonds that is what?

Sushil Kumar Modi: True and henceforth obviously there is a significant merits in getting it refinanced but equally we need to bake into the equation that gives the visibility of wiping that out is significant and you need to balance that out with that set.

Saurabh: Okay and one last question Sushil, again on this operating cash flow of 1260 Crores, so you have achieved 2000 Crores collection assuming presales, I think you guys are going good, so 9000 Crores and collection will be 8000 Crores to 8500 Crores, so should we broadly see that run rate sustain or is it just being boosted by a lower construction spending right now?

Sushil Kumar Modi: Actually as Abhishek pointed the construction cost in any case will be more to the tune of 2700 Crores to 2800 Crores handle. So thereby the significant uptick in the overall sales for a year as a whole that we see in FY2022 will be more resulting in pass through in terms of the operating cash flow and to that extent, we should give the significant operating cash flow enabling us to deleverage further. Thus reduce down the debt, not only from the IPO and promoter money that the promoter has committed but equally from the operating cash flow itself and the trajectory is already there to see in terms of the Q4 performance where we could reduce net debt by 544. So obviously we clearly see that on a year as a whole this number will be significantly higher than just the number of this Q4.

Saurabh: Okay, I will join back the queue. Thanks Sushil, thanks Abhishek.

Moderator: Thank you. The next question is from the line of Manish Agarwal from JM Financial. Please go ahead.

Manish Agarwal: Thank you for the opportunity, my first question is on Palava and Upper Thane, if you can just talk about your township projects, how much sales has been done this quarter for both these projects and going forward what sort of outlook do you have?

Abhishek Lodha: In terms of our township projects, we had presales of about 350 Crores in Q4. In terms of our outlook for the fiscal year- This is a segment of our business which we are counting from a perspective of delivering significant improvement in performance. In terms of overall sales for the year, we on a full year basis reported just under 1000 Crores of sales and for the full year in our township projects and we expect that number will at least double for fiscal 2022.

Manish Agarwal: Sure, second question will be on the JDA which you have entered, if you can just talk about a bit on the straightaway topline share or you are getting a certain proportion of the area, if you can just talk a bit more and how is the cash flows pan out over the years?

Abhishek Lodha: The two JDAs that we have entered into our revenue share arrangements. They are not area share arrangements. We will end up with a percentage of the topline as our margin and this percentage will be in the range of 20%, it will plus minus 2% but 20% is the broad average and the in terms of the cash flow generation from the projects, we expect the first 18 months to be up to duration reinvestment of the cash flow generated from sales into the project construction and other costs and then starting from month 19 to 21 onwards, you start seeing surplus cash flow distributed to us as a developer.

Manish Agarwal: This will be the preferred method going forward also for other JDAs?

Abhishek Lodha: We do believe that this is the method which works quite well wherein the focus is on for expediting the project and therefore all the project cash flows are used to speed a project and then as the project reaches a point of moderate maturity then the distribution starts to us as well as to the landowner. We find that this is likely to be a preferred mode but obviously these are early days, we have only done two JDAs and therefore, we will continue to evaluate how landowners are reacting and what different structures could possibly be on the table but yes as it stands right now, revenue share model backed with cash flow distribution starting in the second half of the second year is probably likely year.

Manish Agarwal: Okay and last question from my side, on the land monetisation plans, so both on the industrial front as well as land sales also, so what sort of run rate are you looking for FY2022?

Abhishek Lodha: In terms of our land monetisation as you saw, we monetise about a 165 acres of land through the industrial park route and while the value of that monetisation is over 500 Crores, we are yet to receive a significant chunk, all of which will come in fiscal 2022, so a large part of the we are going to get a significant cash flow from that sales already locked in, in fiscal 2022, broadly in addition to that we will have additional sales happening and we expect from the industrial park vertical about 700 Crores of cash flow to come in the course of this fiscal. In terms of other land monetisation, that number will be between 100 Crores and 250 Crores..

Manish Agarwal: Thanks a lot. I will come back in the queue. All the best.

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

Biplab Debbarma: Congratulation Sir for the excellent performance and thank you for the opportunity. Two questions, first question is on the logistic park, you have been 3500 acres, I just wanted to understand you come from million square feet, what will be the five year absorption of those logistics hub because we have another logistic hub nearby beyond the area, so I am just trying to understand how much you expect in terms of million square logistic hub?

Abhishek Lodha: Sure, this land holdings that we have totaling about 3500 acres are very strategically located partly in Palava and partly in Upper Thane which is not far from Bhiwandi. Palava of course as you know is very close to JNPT the India's largest port as well as the new international airport in Navi Mumbai and Bhiwandi of course as you mentioned is the current logistics hub for the entire Mumbai region, in terms of the your specific question on how much area will this lead to in terms of development that approximately is 7 million square feet developable area and while you are looking it from a warehousing perspective, I would like to bring your attention that our business plan is much wider than warehousing, it is an industrial parks focus which includes warehousing a logistics includes data centers includes cold chain and includes land for direct industrial use and therefore when you look at the 7 million square feet kindly take into account that it is serving a variety of different sub-asset classes not just warehouse.

Biplab Debbarma: Thank you. Second question is on the net debt. Do you have any numbers net debt in the next one-year target this will be say Lodha's net debt at the end of FY2022 and that is the target what will be your source of funds in reaching the net debt?

Abhishek Lodha: Our target on net debt is to be 9999 Crores or below, four digits.

Biplab Debbarma: 1000 Crores below?

Abhishek Lodha: No, I said 9999 Crores or below so below 10000 Crores is our target on net debt by the end of fiscal 2022, a four-digit number.

Biplab Debbarma: Sir, what will be the source of funds, if you have any clarity on that or entirely through internal accruals that you will be reducing the debt in the next one year?

Abhishek Lodha: So, the repayment sources for the debt are going to be largely internal accruals plus the promoter debt repayment of Rs.1200 Crores which is still to come.

Biplab Debbarma: Thank you, I will come back in the queue.

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

Sameer Baisiwala: Thank you very much. Good afternoon everyone and congratulations on a great IPO. Actually, my question has been asked by last couple of participants, on the roadmap for net debt reduction, but just one more on this, what sort of operating surplus do you think we need to generate, not only for one year but I think the target is to go net debt zero by fiscal 2024 or close to that. So, what kind of internal accruals do you need to get to meet that target?

Abhishek Lodha: Sameer, thank you for the important question. On an annualized basis over the next three fiscal years, we look at reducing net debt by an average of Rs.3000 Crores per annum from operating cash flow and obviously the equity raise as well as the promoter debt repayment are in addition to that.

Sameer Baisiwala: Alright, that is great and also you will get Rs.1500 Crores–Rs.2000 Crores repatriation from London as shown in your presentation, I guess?

Abhishek Lodha: That is correct. After the repayment of the bonds the bond will also be repaid from London and then addition to that a sum Rs.1500 Crores to Rs.2000 Crores would be repatriated back to India in FY2023 and FY2024.

Sameer Baisiwala: Alright great. The second question, Abhishek is on, how do you think about the holistic development plan for Palava over next say three year to five years and the commercial set in over there it is about building 5 million square feet or 10 million square feet of back office or whatever would have given a lot of energy to that ecosystem, so your thoughts on that?

Abhishek Lodha: Sameer, it is a very important question and as I had mentioned in the different context creating economic activity around Palava is very helpful for the residential developer. We believe that the industrial park which includes industrial set ups, logistic setup and so on will be a big booster to the residential demand, because you create very large number of jobs and consequently housing demand both for the managerial cadre as well as for people below that. Separately in terms of office demand, we have already completed two office buildings and we have a third under construction and we have some good quality tenants over there including Axis Bank, HDFC Bank and a few others and we are considering to try to attract office tenants over there too. Having said that, even what has happened with office demand over the last twelve odd months on account of COVID, clearly I think the jury is out on how the office strategy of different corporates will play out and we will continue to keep a close watch on that, but we feel far more bullish about the benefit to the residential from the industrial parks vertical.

Sameer Baisiwala: Great. One final question if I may, what is the outlook for pricing for RESI verticals, I am referring to South Central Mumbai, Thane and also Palava as the demand comes back as volumes go up, how are you thinking about pricing?

Abhishek Lodha: We believe that affordability in India is very, very good right now and as the industry leader we will do our bit to make sure that at least affordability continues to remain good so that volumes can go up substantially. In line with that thought process we would like to keep our price growth just below wage growth so that affordability remains quite strong. We expect for the fiscal 2022 price growth to be 5% or there about and we are of the view that this could continue in fiscal 2023 also.

Sameer Baisiwala: Thank you so much.

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

Murtuza Arsiwalla: Sir, congratulations on the numbers and a successful IPO. Couple of questions if you could highlight the margins in this quarter, the revenue recognized margins are much higher than what we have seen historically for the India operations. So, any particular project which would have contributed to those margin, number one? Number two in terms of the overall sales could you break that down between sales from completed units and those from the under construction and towards that end if you could help us, slide 30 talks about surplus cash flows of over Rs.19000 Crores. So, can you help us sort of reconcile as to over what period do you think this would be realized?

Abhishek Lodha: Murtuza, I hope you are well. Thank you for joining the call. We will just dig out those numbers in a minute.

Sushil Kumar Modi: Murtuza, coming over to the margins, our gross typically is into the circa of around 40% plus and that continues to be so as we speak to, obviously the land to the extent whether under the industrial park or otherwise any land monetization takes place to that extent the margins do get a leg up. But more sustainable number continues to be in the circa of low 40% that is how the margin and which is what we had performed even now, the Q4 was around 44% but that is to do with some bit of land uptick which otherwise would be more around 41%-42% and so is what we have seen in the past too, if any of the one off items are being taken out then the number on adjusted gross margin remains around 40% - 42% and the adjusted EBITDA margin continues to be in low 30%'s as Abhishek pointed out earlier.

Murtuza Arsiwalla: It is more or little bit of land sales is there in this quarter which would have set it in that, and Sir, if you could give a breakup on the sales number between the completed inventory which should have been sold versus the under construction?

Abhishek Lodha: Yes, Murtuza, that number is about 50% coming from RESI inventory, from a value perspective this quarter and I am talking about the residential number and the balance is coming from under construction.

Murtuza Arsiwalla: Okay, and if one looks at slide 30 not able to reconcile, slide 30 with slide 21 in terms of the cash flows, for instance slide 30 talks about RESI inventory of about Rs.6800 Crores, slide 21 talks about Rs.7800 Crores odd?

Abhishek Lodha: Yes, if you see the headline of slide 20 that is the summary of the for sale segment of our business and slide 21 you will see that in addition to the for sale segment you have the office and retail for rent which is a Rs.1025 Crores under the under RESI to be sold. So, you have to deduct office and retail and industrial when you are looking at the for sale business.

Murtuza Arsiwalla: Thanks. In terms of again coming back to slide 30, if I just look at the residential there, so when the reconciliation is done what period would you expect to monetize this surplus cash flow of Rs.19000 Crores any broad targets?

Abhishek Lodha: Murtuza, I think if you look at the fact that we are delivering or aiming to deliver the numbers that if you look at the annualized version of Q4 FY2021, then as we had predicted these are sales of about two and half years as we discussed during the IPO and we expect that it will be around two and a half years at the better end of the curve to a maximum of three years.

Murtuza Arsiwalla: Sure. Thank you so much Sir.

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

Puneet: Thank you so much and congratulations on a good IPO. You talked about presales target of Rs.9000 Crores versus close to Rs.6000 Crores what you did in FY2021, where do you think is the delta of Rs.3000 Crores is going to come from and for Palava specifically or the townships you talked about Rs.1000 Crores sales going up to Rs.2000 Crores, what in your view is going to drive the doubling up of the sales momentum? Thank you.

Abhishek Lodha: Thank you. The way to look at our numbers for fiscal 2021, as I had mentioned earlier is to take into account the fact that these are probably reflective of seven to eight months of performance and not twelve months of performance so, even if you look at your specific question on townships, what would Rs.1000 Crores look like on an annualized basis that number that number is probably closer to Rs.1500 Crores to Rs.1600 Crores on a full year annualized basis. In terms of what do we specifically intend to be doing differently on the townships business? It is an area which has been an area of focus for us in terms of improving performance and we have taken a number of operational steps to help drive that performance further. We also intend to launch a new parcel to opening it up for sales which will provide the freshness of a new launch within the larger townships business, also the operationalization of the ESR Park, the first few tenants in the ESR Park operating will help support sales in the Residential segment in Palava. Last but not the least of course the OC which has come in Upper Thane recently plus the big piece of infrastructure which has come up at Upper Thane the road is now quite motorable and will be connecting to Dombivli Station in the next twelve months. All of these pieces, we believe will further help the townships business go back to its performance which used to deliver up to fiscal 2019, so this really is getting back to where it used to be as compared to a situation where we are trying to do something which is far beyond what has done in the past. So, over the last two years township business has underperformed.

Puneet: Okay, got it. That is useful. Secondly, if you can comment a bit more on what you are seeing on the buyer behaviour in buying new launches versus completed projects?

Abhishek Lodha: I think there is a wide variety of discussion and literature on this subject, what I would share with you is hard assessment and this is partly market research based and partly anecdotal. We believe that the buyer is quite driven by having as low a level of risk as is feasible in his home buying decision, it is not a risk buyer and therefore the buying behaviour in markets where ready supply is available is obviously towards buying ready supply because you can get the upgrade here and now. In markets which are more constrained on ready supply they are happy to buy from select two to five developers in MMR when the prelaunch or launch happens, because at least they believe that there is no risk from a construction perspective, and they get good choice of inventory. Because otherwise those markets may not have too much good quality inventory that they could buy from.

Puneet: Have seen some change over last few months, or is it largely similar to what we used to see in FY2018, FY2019 and FY2020?

Abhishek Lodha: I would say that the change is very significant towards the attitude towards home buying. I do not think the change is in whether I buy underconstruction or ready. I think the attitude towards home buying in terms of the centrality of the home to a person’s like to a families like, the home being and the anchor in these turbulent times, the homes people understanding slowly not fully yet but slowly that supply has come down meaningfully and therefore prices are rising and will further rise. All of these factors are leading to people buying with much more conviction and shorter cycles than was the case in say FY2018 or FY2019.

Puneet: Okay, understood. Thank you very much. That is very useful. Thank you. All the best.

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

Nilang Mehta: Just follow up so, this quarter we paid part of promoter loan when we expect to complete the balance with as you said it has got imminent, if you could give some timelines?

Abhishek Lodha: Nilang Bhai, we do expect that the company should receive those funds sometime next quarter.

Nilang Mehta: Just from previous guidance I think lot of people asked some questions on that is maybe it might be repetitive, but if you could just give the breakup Rs.9000 Crores between residential, commercial and your land the way look at it from next year, if you could give some broad breakup?

Abhishek Lodha: Obviously we are being a little circumspect about the exact breakdown given the uncertainty in the external environment. Having said that I will just give some ranges we expect the RESI numbers to be between Rs.8000 Crores and Rs.8500 Crores, we expect the land number to be in the range of Rs. 700 Crores odd and we expect to do a sale of a leased asset which would get us about Rs.300 Crores to Rs.400 Crores.

Nilang Mehta: You mentioned cash flows from land sales you did this will be coming next year and you said total sales you are expecting Rs.700 Crores, so you are expecting cash flows from land in next year Rs.500 Crores plus Rs.700 Crores or it is going to be Rs.500 Crores plus Rs.200 Crores?

Abhishek Lodha: That is a little difficult to know because lot of the sales of land in the last fiscal happened in the last quarter, just given how last year was, we do expect that the sales in this year will be a little more evenly distributed and therefore we expect to collect obviously Rs.450 Crores–Rs.500 Crores balance from last year plus I would say it about two-thirds of the sales from this year. So, if you were to add that up the cash flow from the land will probably be in the range of Rs.850 Crores–Rs.900 Crores.

Nilang Mehta: On the RESI sales of Rs.80 billion, do you have some high visibility launches which is planned, which would be contributing a large part to this?

Abhishek Lodha: Yes, we do have a good pipeline of launches this year, as I mentioned earlier, we have one large launch in the townships business in Palava which is the new part of the land we already have. We have another launch in Upper Thane, we have launched the Crown segment, affordable housing we are doing a launch in Thane, we expect to potentially launch one or two towers in South and Central Mumbai. So, these are from our own land plus we have potential launches in Tardeo and Walkeshwar also. So, we will have, I would say more of launch activity in this fiscal year then we have had in FY2020 which was probably be the last comparable year.

Nilang Mehta: That is all from my side. Thank you so much. Best of luck.

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

Abhinav Sinha: Good performance for the quarter. Couple of quick questions, so one on the construction cost when we are looking for a near doubling next year versus FY2021.What is driving that?

Abhishek Lodha: Abhinav, this is actually the restoration to the mean. I think we all have to see that FY2021 numbers with some circumspection again as I mentioned because it is really seven months of performance. So, this is also in that sense seven odd months of construction cost and our run rate of about Rs.2700 Crores–Rs.2800 Crores is what we expect to have on a full year basis and in general, we would expect our construction cost to be ranging at approximately 30% of our residential sales.

Abhinav Sinha: That is helpful. Secondly, just wanted to know your thoughts on when the incremental pricing benefit that you are seeing, does it start translating to higher land prices as well for you?

Abhishek Lodha: I think we are going to have for some time a Goldilocks period, you are going to have increased demand for the end product, but you are not going to have the increased demand right away for the land because there is a lot of consolidation of supply happening and the number of developers who are capable of developing projects and getting the financial closure for them and selling them underconstruction is quite limited. So, we think we could have quite a good Goldilocks period which could lead to margin expansion over the next two year to three years.

Abhinav Sinha: Thank you.

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

Kunal Lakhan: Good afternoon everyone. I am just trying to reconcile the Rs.10000 Crores in net debt target by FY2022, will the Rs.3000 Crores of operating cash flow surplus that we plan to generate per annum. Where will the incremental, because it is almost Rs.6000 Crores, reduction in this year itself, so how do you reconcile that?

Sushil Kumar Modi: I will just layout. For this fiscal year we have Rs.2500 Crores of proceeds from the IPO, Rs.1600 Crores from the promoter debt repayment and a minimum of Rs.3000 Crores there is a possibility we will do better than that but a minimum of Rs.3000 Crores from operating cash flows towards debt reduction. So, we start the year at Rs.16000 Crores and when you take off these three numbers that is approximately about Rs.7000 of reduction and therefore we expect to close between Rs.9000 Crores and Rs.10000 Crores at the end of the fiscal.

Kunal Lakhan: So, what will be the current debt today?

Sushil Kumar Modi: At the end of Q4 it was Rs.16075 Crores.

Kunal Lakhan: My second question was on, we being the market leader in Mumbai market, just wanted to understand your outlook on the market and we have seen a fair bit of buoyancy in the last six to seven months driven by pent up demand, decline in mortgage rates and probably some relief from the state government also in terms of taxes. But most of these drivers seem to be rolling back, like state government has already rolled back those duty cuts, mortgage rates seem to be bottoming up. So, how do you look at the cycle going ahead, do you expect the same level of buoyancy continuing over the next two to three years that we have seen in the last six to seven months?

Abhishek Lodha: We are of the belief and I have stated this in my opening remarks that they are at the start of multiyear housing upcycle and we believe that demand is only about getting started. Indians have been very heavily under invested in housing over the last five six years on the back of the belief of price falls and as prices have first stabilized and now started to rise, a large number of people are coming back into the market. Obviously, COVID has significantly enhanced the centrality and value of the home to a family and that will further augment demand. Affordability continues to remain very strong whether rates have bottomed out, mortgage rates or not, even if mortgage rates were to go up by another 50 to 70 basis points we expect that home buying demand continues to remain quite strong. The biggest thing which I think most analysis does not take into account is supply, the down cycle in crisis and demand realization over the last few years was driven by oversupply leading to perception of supply glut and price falls. As the supply has come to significant reduction after the IL&FS crisis and the consequent NBFCs withdrawal from the housing markets, we believe that the market is very, very well poised on the supply side, supply being disciplined and consolidated and therefore there is going to be quite a long-term cycle on housing this time in the positive direction.

Kunal Lakhan: Sure. Thank you so much.

Moderator: Thank you. The next question is from the line of Saurabh from JP Morgan. Please go ahead.

Saurabh: Thanks for this follow up. Abhishek, question maybe more for next year, but this is one of the concerns to keep hearing that if you look at your South Mumbai project, you have currently a situation where obviously you are executing but they are very late stage and at some point you may have to replenish the assets here because it is almost one-third of your sales and then in the point at which you replenish, then again you need to buy land and now that have given a zero net debt guidance, how does that capex plans play out. The simple point is to maintain a Rs.9000 Crores and let us say going ahead you will have to do Rs.10000 Crores–Rs.11000 Crores, you need to keep replenishing in the South Mumbai parcel maybe it can last you for another two year to three years but at some point you need to buy new land and at that point the debt go up and in that respect it is like a zero debt a very aggressive guidance? Thank you.

Abhishek Lodha: I recognize the fact that our first goal is to get to being a net cash positive company over the next three years and we are clear that any capital investment would be secondary to this goal. We obviously recognize the fact that as business while doing these significant levels of sales we will be generating significant amount of free cash and if not that at the end of three years the free cash generation will stall or stop and therefore, we will have adequate funds available for investment where we need to invest. You of course are aware of the fact that we also will have to do significant equity raise in three years' time on account of the minimum public shareholding requirement of reaching 25% whereas our current free float is 11.5%. So, when you take all those factors into account the very fact that our company will be generating on an average upwards of Rs.4000 Crores to Rs.5000 Crores of operating free cash flow each year plus the equity dilution, we believe plus the fact that the land buying market is quite consolidated and therefore both JDAs as well outrights are feasible we do believe that we will have the opportunity to maintain our presence in the micro markets, we are already strong in as well as grow it into the other market as we have demonstrated already through the JDAs in Malad as well as in Pune Eastern, while keeping first and foremost our goal of bringing our leverage to very, very low levels.

Saurabh: Sir, low levels is fine, but does that even given a zero debt target that is, but pointing on the equity raise, but the zero debt target in that context becomes slightly stressed because the land market in South Mumbai I am guessing will be, these are expensive targets given to buy, so that is the limited point. Thank you.

Abhishek Lodha: Right.

Moderator: Thank you. The next question is from the line of Parikshit Kandpal from HDFC Securities. Please go ahead.

Parikshit Kandpal: Abhishek, congratulations on good set of numbers for this quarter. My first question was over the next two three years what kind of JDA additions you are looking through this route wherein you can have tie up in place and what percentage it could add to your overall presales, as we can get some sense on that?

Abhishek Lodha: Over the next three years, we expect our already own lands to contribute on average around Rs.9000 Crores of annual sales. We expect GDV addition from the Joint Venture route the two transactions that we done so far first to ones are about Rs.1500 Crores and our guesstimate because of course the each transaction comes with its own matrix, our guesstimate is that we will be able add upwards of Rs.15000 Crores over the next twelve months to twenty four months in terms of GDV through the joint ventures. We expect that in FY2024 our joint ventures will contribute in the range of Rs.3000 Crores to Rs.4000 Crores of annual sales.

Parikshit Kandpal: Second question connected to it that lot of other players your competitors are also looking to add JDAs through this route. So, have you started in some initial aggression and maybe bargaining power of the land seller increasing, if you can give some sense on that because some of the other players are also looking into take that route of JDV addition?

Abhishek Lodha: I think it is nothing we have seen yet in terms of any pressure on the land side. I had mentioned that in a response to an earlier query too. Obviously, we will watch that closely. In terms of other players that scale their ability to execute all of those will be taken into consideration by the landowners as they decide who the preferred partner is.

Parikshit Kandpal: Just last question on the raw material, so do you think the demand is now stable enough that we could start taking price hikes, have we started doing that already because raw material is one thing which is in the last three to six months have really taken a big uptick, so all these things steel, cement and the materials which will have a cascading impact on other inputs which goes in to real estate so if you can just correlate it with the pricing whether the market is ready to take that kind of price hike and you will be able to protect your margins?

Abhishek Lodha: We are cognizant about some of the commodities which are leading to cost pressure and parts of the construction cycle. We are of the view that construction costs on a like-to-like building compared to our fiscal 2019 start to a fiscal 2022 start, given current prices is up around 6% to 8% in terms of construction cost, but then construction cost tends to be about 30% of the sales value. So, that is effectively in the range of 2% of sales value. We expect prices on the sales value side to grow at least 5% annually and we therefore believe that margins should be protected.

Parikshit Kandpal: Thank you. That is all from my side.

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

Nikhil Dawda: Thank you. Thanks Abhishek for this fantastic presentation and congratulations team Lodha for the fantastic results and the IPO. Couple of questions, firstly more on the qualitative side, we have done fantastic so far. Just want to understand apart from this COVID risk which you penned down to let us say from first so many things open up should not be a problem for you to execute the business plans. But let us say do you foresee any risk apart from extended lockdowns in executing this?

Abhishek Lodha: If we are looking out for fiscal 2022, we see very limited other risk other than those that are there in the normal course of business. Obviously, COVID potential future waves or anything of that sort is the big risk. This quarter will definitely get affected by the impact of this current second wave, but overall, for the full year we expect the impact of this second wave of lockdown to be minimal and if there is no further such big COVID related events then it will be we are not seeing any big risk to executing on this plan.

Nikhil Dawda: Second question is on the stamp duty with Maharashtra has the benefits which helped lot of real estate companies active in Maharashtra to see lot of stamp duties paid by customers. I want to understand in the sales that you achieved in this quarter if you can quantify what percentage was from new sales and which were those existing ones which took advantage of this stamp duty and how this service done?

Abhishek Lodha: The sales that we report our all entirely new sales. Ours is not registration timing driven reporting. So, the sales that we have reported are the fresh sales done in this quarter.

Nikhil Dawda: Just on stamp duty Abhishek, do you foresee that withdrawal of stamp duty would result in lesser offtake by customers and second question to the strategy that you laid down for Pune, where you are negligible presence today and your otherwise ability to garner 20%-25% market share when do you see that kind of market share in Pune as well as a part of overall strategy? Thank you.

Abhishek Lodha: Right, we are not stating that we will get to 20% or 25% market share in Pune. We do think that our market share in the micro markets that we are not present in, in Mumbai will range between 10% and 15% and in Pune we are aiming for a 10% market share over the three year period up to fiscal 2024.

Nikhil Dawda: Okay, and the stamp duty part?

Abhishek Lodha: Stamp duty I think as I had mentioned in context of earlier in the call, the demand growth in housing has been global and even in parts of India where there has been no stamp duty cut there has been quite reasonable buoyancy in terms of housing demands. Housing demand in our view has gone up on account of factors including affordability as well as the importance of a home in these current times and the fact that COVID is likely to be around for quite some time it is not something which will go away, and life will go back to pre-2020 normal. So, I think the demand factors in India are very-very strong and resilient and stamp duty cuts definitely helped in Maharashtra, but we do not believe that it will have any significant negative impact because the government had anyway introduced a 1% further reduction for lady buyers. Our townships business already has 50% stamp duty so that benefit we can continue offering to our buyers. So, a variety of such factors are there to offset this stamp duty cut being no longer applicable.

Nikhil Dawda: Thanks so much.

Moderator: Thank you. Ladies and gentlemen, this was the last question today. I would now like to hand the conference over to the management for closing comments.

Anand Kumar: Thank you to all of you for participating in the first conference call on the quarterly performance for Lodha post listing. Needless to say some of your insights are very helpful to us and we will work taking all of your feedbacks further into account as we go forward in terms of our quarterly information, disclosures and looking forward to interacting with all of you in times to come. Thank you.

Moderator: Thank you. On behalf of Axis Capital Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.