Mahindra Lifespaces Developers Limited

Q1 FY22 Earnings Conference Call

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MANAGEMENT OF MAHINDRA LIFESPACES DEVELOPERS LIMITED:

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MR. VIMAL AGARWAL – CHIEF FINANCIAL OFFICER
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Moderator: Ladies and gentlemen, good day and welcome to Mahindra Lifespace Developers Limited Q1 FY-22 Earnings Conference Call. We have with us on the call, Mr. Arvind Subramanian – Managing Director and CEO, Mr. Vimal Agarwal – Chief Financial Officer and Mr. Sumit Kasat – Head (Investor Relations).

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 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. Arvind Subramanian. Thank you and over to you Sir.

Arvind Subramanian: Good morning everyone. Welcome to our Q1 FY-22 Earnings Call.

Firstly, I would like to thank everyone for pre-registering and participating in this conference call. All of you know this but for the sake of record, let me reiterate that many of our key operating entities from our residential business like Mahindra Homes, Mahindra Happinest, as well as our IC & IC business like Mahindra World City Developers, Mahindra World City Jaipur and Mahindra Industrial Parks are not consolidated on a line by line basis. It is customary for me to start with some views on the macro environment.

I am going to skip that since most of you track that far more closely, and I am going to get into the business end of my opening comments so that we have more time for Q&A. Firstly it has been an overall good quarter for real estate in general despite the lockdown, coming from the second wave of the pandemic. The lockdown by and large was managed far more systematically by the local administrations and while we lost much of, all of April and, part of May as well with sales offices being shut down, we did manage to figuratively keep our shutters up and continue to clock sales, even been in that period.

We have ended the quarter with a good rhythm of sustenance sales. What we have not been able to do given the lockdown is to launch new projects in this quarter and that has been pushed out to Q2 onwards. From a construction activity perspective when the lockdown was first announced at the end of March there was a bit of panic among construction labor, many of them feared that the same thing that happened at last lockdown, which was a year prior, would happen now which is long distance trains would be canceled, etc., Many of them immediately within a few days, decided to pack their bags and go back to their villages. But I think confidence builds back when they realize that the Government stayed true to its promise, not to cancel long distance trains. So, we did see a return of labor towards the end of the quarter, and it's built up nicely back into July as well.

I continue to remain very optimistic and confident about real estate. Many analysts, including some of you on the call, have been talking about the country being poised for the next up cycle in real estate over the next 7 to 10 years. But from my perspective let me explain why I say I am optimistic and confident. Three factors on the demand side and three factors on the supply side that, I think plays to this confidence and particularly confidence for players like us. On the demand side, it is very clear over the past year that homes have become more important than not less important to Indian families. The whole lockdown experience where families have been cooped up in their home, 24/7 for weeks at end, months at end, has shown up the compromises that they have been living with, and we are seeing a clear trend towards purchasing a new home. I talk about what those trends are and I see two divergent trends there, but I will come back to that too. That is the first factor on the demand side. Secondly on our B2B business, our industrial parks business, again India is poised to find its space as a global manufacturing hub, taking up the slack from China. Now, is this a done deal? Are we already in that preeminent position? Clearly not, but there is a window of opportunity. Given the shift in geopolitics that India must take advantage of, some of the policy measures are starting to get aligned to capitalize manufacturing investment in the country. Things like the production linked incentive scheme, etc., I am hopeful that those will translate into a surge of interest in India as a manufacturing destination. And third is the formalization of the real estate sector, particularly on the residential side. I am careful to use the word formalization and not consolidation because I do believe there will continue to be a reasonable tail of developers in each of the micro markets, as we have seen in many other global markets. But market share is clearly consolidating with the larger and more formal, professionally run players.

That is a Segway onto what I see on the supply side, which is actually precipitating this formulization. If I think of the three factors of production, land, labor capital, all of these three are migrating towards the formal sector in real estate. Land availability has never been better. We are seeing a good pipeline lots of landowners approaching us every week, with attractive opportunities that we are evaluating. Capital as all of you are aware there is a very significant delta that has emerged between the cost of borrowing and access to capital that players like us have, relative to some of the smaller, local developers. That is becoming particularly given what is happening with the economics of this business, with the IRR focus, the cost of capital is becoming a significant advantage that we can play up. The third is labor, and by labor I mean talent. Again real estate historically has not been a talent magnet, but within real estate it is clear that a strong talent prefers to work with well managed professional organizations, part of large corporate groups like us.

Let me go back to my comment around the demand and how I see kind of two divergent trends or almost opposite trends happening. I keep getting asked this question by journalists about, are you seeing upgrade behavior. Certainly, we are seeing upgrade behavior we are seeing families wanting to trade up, wanting to get more space, better amenities, better quality of product, better locations. As I said coming out of the lockdown experience, but we are also equally seeing nuclearisation of larger families, which is driving the demand for smaller compact homes as well. The segment that we play in which is the affordable and mid-market segments, I think across that entire span we are seeing very deep and robust demand trends.

Touching on some of the highlights for the last quarter in terms of our performance, we clocked a quarterly sales of 145 crores. Bear in mind this is all sustenance sales and effectively 6 weeks out of the quarter were constrained by the lockdown. I am quite happy with that rhythm of sustenance sales. Within that the mix was roughly 79% of mid-premium projects and 21% of affordable. That means honestly will keep changing, quarter to quarter, depending on what inventory we have, what launches we do in a particular quarter. Mumbai, Pune contributed more than 50% of that value. As I had mentioned in some of our earlier conversations those are our two focus markets for our residential business. In the years to come we want to build heft and depth in those two markets. Finished goods inventory was about 12% of that sales value. The average price realization was just under 8,200 per square foot. We have once again, like we have shown in the last several quarters had a very broad based performance where the entire portfolio, from the lowest ticket size at Palghar to the highest ticket size in Luminare every single project has clocked sales in this period.

We did not do any new launches in this quarter. As I mentioned given the lockdown, it was not an opportune time to do any new launches. But we do have a strong launch pipeline in the coming quarters, starting with next month itself we will be launching a project in Chennai, and then following up with launches in every one of our key markets, Bangalore, Pune, Bombay, as well as the third tower at Luminare in Gurgaon.

Line pipeline continues to be strong. I will preempt a question that I know will come about why we have not announced any new deal in the recent weeks. We are very close to finalizing some transactions. The one learning I have had over the past several months is these legal contracts and particularly joint venture contracts are littered with more I’s and T’s than the general English prose. It is taking us longer to dot those I's and cross those T's. I am very confident that we will stay true to the commitment we have made of acquiring roughly 2,000 crores worth of sales potential, new land opportunities, accounting for 2,000 crores worth of sales potential year-on-year for the next several years. We are well on track and might in fact be slightly higher than that this year.

Collections has continued to be strong. We have collected 204 crores in the quarter, despite some slowdown in construction activity at the start to the quarter. We did pick up pace and managed robust collections in service, and we handed over about 151 units to customers in this quarter. Completions, we did complete, a phase at Avadi as well as Palghar during this quarter. In the coming quarters, fingers crossed, if the third wave doesn't impact us as a country very severely, we should now start seeing a regular completions in quarter-on-quarter.

In the IC & IC business, we leased 6.7 acres for about 14.3 crores during this quarter. Inquiries are strong, the pipeline is strong. The challenge we face there is the restrictions on international travel. Many of our clients are multinational corporations that are seeking to set up or expand their manufacturing presence in India. And for that the international team, it is predicated on the international team, being able to visit the site and evaluate it physically. We are also seeing a growing attraction or growing demand in the IC & IC business from domestic manufacturing clients, and also in the warehousing and logistics segment, which is an attractive of segment going forward. Let me hand over to Vimal to update on the financial performance.

Vimal Agarwal: Thanks a lot Arvind. Moving on to the financial performance for the quarter 22 versus Quarter 4 FY-21, the consolidated total income stood at 154 crores as against 58 crores in Quarter 4 FY-21. The consolidated EBITDA including other income and share of profit from JVs, stood at (-) 17 crores as against (-) 30 crores in Quarter 4 FY-21. The consolidated PAT after non-controlling interest stood at (-) 14 crores as against (-) 27 crores in Q4 FY-21. The Company has a debt of 255 crores at consolidated level as per IndAS. While cash in hand is about 162 crores. Cost of debt stood at 6.95% on consol level, while standalone cost of debt from MLDL stood at 5.9%. Thank you, we can open the floor for further questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. Ladies and gentlemen we will wait for a moment while the question queue assembles. The first question is on the line of Adhidev Chattopadhyay, ICICI Securities.

Adhidev Chattopadhyay: Firstly, I would like to congratulate you on announcing the bonus issue. I have a couple of questions. The first question is for a launch plan for this year, you had mentioned that you would be launching in almost all our markets where we are present. Have you frozen on the area you would like to launch for the year, cumulatively as a whole, across these projects?

Arvind Subramanian: Yes we have. I don't have the number off hand, but we can put it together and share it with you. The first phase of each of these new developments would normally be between 30% and 50% of that total saleable area in those projects. In places like Luminare, for example, is the third tower out of, 3rd and last tower, so it is one third of the overall saleable area, but generally between 30%-50% of the saleable areas will be brought to market together.

Adhidev Chattopadhyay: At least it could be 1,000 crores value of the inventory, which we will look to launch?

Arvind Subramanian: Yes actually in excess of that.

Adhidev Chattopadhyay: This is a question for Vimal. What I was referring to your presentation on slide 35 for the segmental performance, your gross margin for the residential business seems to be low a t7% for this quarter. I understand you are fall in completion. Any specific reason why it is appearing low?

Vimal Agarwal: No there is no absolutely specific reason. What happens is, this is the one of the tower which we has completed in one of our Pune project, that total profitability of that project is upwards of 20% gross margin. Largely driven by the allocations which we keep doing, but at an overall level this project will deliver a gross margin profit of upwards of 20%.

Adhidev Chattopadhyay: Why is it appearing at 7%?

Vimal Agarwal: What happens is usually because it is a large developments and I am talking more specifically for NCR project, because it is a large development there are common infrastructure which you end up developing and the allocation is not completely in sync at tower-by-tower level. The project once completely is developed and handed over will give us a return of 20%-22.5%. This specific tower is kind of low on account of elevation.

Moderator: The next question is from the line of Rohith Potti from Marshmallow Capital.

Rohith Potti: What I understand is that at the Government level they are looking to unlock the vast tracks of land that is available with PSUs is currently, and there is talk of setting up SPV, etc., And most of these lands are at prime locations in the metros that we are operating as well. Just curious to know do you think the supply of land could reduce prices and is there any risk from that end, and are we looking at these parcels aggressively also?

Arvind Subramanian: As I mentioned in my opening comments land supply is only growing, the PSU divestment is one source of that, but there is also a lot of stuck assets with NBFCs and banks that are coming into the market. Landowners themselves are realizing that the surety of working with the larger developers that they get, in transacting with us is kind of attracting them to approach us with their land rather than try and either develop it themselves or with local developers. So, on multiple fronts, we are seeing a very strong supply side on the land side. We have to pick and choose, what meets our needs and what we want to focus on. As I had laid out, earlier our focus markets are Mumbai and Pune for the next 3 years, we want to double down on these markets. We also wanting to pick up land which is ready to market. We are not looking at things that are futuristic demand centers.

Our entire operations economic engine is geared towards acquire the land, bring into market quickly, sell quickly, construct and deliver quickly. So, the entire cycle, accelerate the cash cycle. Therefore we have to view these opportunities with that lens. If it is a very large land parcel we will be more cautious. I am not saying that we will sit out of large transactions. We are evaluating them very selectively, but it needs to make sense from a strategic perspective and fit with our economic model. We not going to go berserk trying to land bank just because land is available cheap.

Adhidev Chattopadhyay: So, just small follow up. There a risk to price? I mean price correction in, if this land supply comes, do you see a price correction in housing units because of this huge land supply, which can reduce the cost of land?

Arvind Subramanian: Actually, at the markets that we operate in, which is in the city of Mumbai, we operate in suburban markets, in Pune all over the city. Land cost is typically 15% to 25% at most of the top line. Even if land cost reduces by 20%, you are talking about a 3%-4% difference in margin. I don't think, I think this is a misnomer and a myth that land cost drives prices. It is much more about design, a speed to market and the carrying cost of the land rather than the cost of land itself. If I buy large tracks of land which I can't take to market for four or five years that is where cost builds up, and the pressure on pricing comes in. Today given what is happening on the input prices, commodity prices, steel, cement, copper, plastics, etc., the conversion cost of land in the final product is where we need to pay far more attention than the cost of land itself. None of this is to take away from the fact that we need a good deal on the land, but that is no longer to my mind, the single most important swing factor that determines pricing and viability of projects.

Adhidev Chattopadhyay: My second question is in some mature markets like, US many of the home builders shifting to, they fix the price in the beginning, they take 10% upfront and they take the remaining, let's say 80%-90% towards the end, when the project is completed. I think one or two developers in India that large developers are also sort of bringing in that model. Can you speak about that?

Do you see that as a risk to our IRR, approach that we are taking right now and do you see anything like that happening in India on a larger scale?

Arvind Subramanian: That is a very important driver of how the economics of this segment will play out. Now historically as all of us are aware, residential real estate has been funded through customer advances. And therefore the construction link payment plan is very important, how much you can construct, how quickly you can construct and demand that money from the customer, it drives your economics. Combined of course with your sales, you would have to have sold it to be able to demand. If that changes to a lot more of the backend payment plan, the 20/80, 10/90, etc., it brings into question the very economic engine of the residential real estate business in India. We are seeing that happening particularly in the higher ticket size segments. In the luxury market, the pipe growth, plus there is a tendency for customers to demand that as well as the developers are setting up those kinds of payment plans. We are still not seeing that as a very prevalent trend in the segments we operate in which is roughly 30 lakhs to 3 crores. I think customers they are still willing to live with construction lead payment plans. They realize that if we do it with 20/80 it will come at a higher price and given that mortgage rates have come down, customers are making the trade-off, it is also about them splitting their cashflow over the three or four years of the construction period, rather than having to cough up everything upfront.

So, far we are not seeing this as a big drain. That being said I think your point is very important. It is something we constantly evaluate, which is in the mid to long term if the shift happens at, more broadly in the segments that we operate in, how do we need to retune our economic engine, to still be making good IRRs and margins in that environment.

Adhidev Chattopadhyay: My last question is, could you give us a broad breakup of the three major cost heads that we have in each of the projects, which is, I believe land, labor and material cost?

Arvind Subramanian: The land is roughly between 15% and 25%. If you add approvals to that, the various premiums, etc., it will be between 25%, very rarely doesn't even touch 30%. Construction again depending on the segment, and location would vary between 30% to 40% of the top line. And the rest is in gross margin and overheads.

Adhidev Chattopadhyay: Of the construction, what would be labor and what would be material?

Arvind Subramanian: Labor is about 40%, material 60%.

Moderator: The next question is from the line of Himanshu Upadhyay from PGIM Mutual Fund.

Himanshu Upadhyay: My one question was on the land bank in slide number 29. We have talked about the SEZ of Mahindra World City, Chennai residential zone. Any change you are seeing on Jaipur side? Because we have not discussed here. There is also a large component of residential and social on Jaipur. And how far away is that from getting launched or we starting to do something residential or something on that land in Jaipur. Can you give some light on that?

Arvind Subramanian: Yes, the social and residential zone of Jaipur we are hoping to bring to market in the next financial year. We have started some planning on that, but it will really depend on how Jaipur as a residential market plays out. It will be a new residential market for us. We have not done residential developments there. We are studying the market carefully to understand what kind of product to lead with so that we establish the location, establish a certain clientele for that location, because this is a suburban location from a Jaipur context. We want to create it as an attractive residential destination. We need to lead with the right product segment. So, that work is underway, hopefully in the next financial year we will start making the first set of launches there.

Himanshu Upadhyay: We were earlier saying that we want to be in Bangalore, Pune and Bombay. In this call what we are saying is that the only Bombay and Pune are the markets where we want to focus on, is that right?

Arvind Subramanian: Let me clarify that, I said this on the last call as well. Bombay, Pune are the markets where we will have portfolios of projects, multiple projects at a point of time. We do like Bangalore. We have done a very successful project there, Wind Chimes, which is now completed and fully sold out. We are doing another launch there in the coming months. Bangalore, we will for the next two years treat as kind of a beachhead market. It would be very likely the third market in which we would like to build a broader presence. Therefore we don't want to vacate the market. We will continue to do perhaps one, at most two projects at a time in Bangalore, versus Mumbai and Pune, where our intention is to do dozens of projects. That is the distinction.

Himanshu Upadhyay: One of the competitors who is being very bullish on the NCR market. Are we seeing any traction in our Luminare, which is a high ticket item? Can we launch also the next phase of Luminare in this year? Anything on that Luminare project?

Arvind Subramanian: We do intend to launch to the next phase, which is the last phase, actually the last tower later this year. We are seeing good traction on sales. In the last financial year we sold out tower A, and we are making good progress on tower C as well, which is the second tower. We have now applied for OC for that tower. As soon as OC comes, we expect to convert a lot of the inquiries into actual sales.

Himanshu Upadhyay: This Mahindra World City are we seeing any traction because on the manufacturing side? Last year also in the AGM we stated that business we see should show a decent traction. But in terms of inquiry and all those things, what traction are you seeing? Because we see some amount of travel has also started, and vaccination and all that. But on ground are you feeling that business what we were expecting to do last year, is now getting the traction and we can increase the sales multifold from here on in that?

Aravind Subramanian: I will say yes and no. Yes because I would like it to be many times larger than it currently is. But I do recognize, and we must all recognize the challenges that business has. It is a B2B business. The sales cycles are very long, and it takes nine to 12 months to convert an industrial client who is trying to buy a factory location. We have a reasonable pipeline of inquiries, conversions have been constrained because of international travel being limited. The domestic clients we are still able to convert, but that is a smaller proportion of our business so far. Going forward that too will change. As we see the demand for warehousing logistics picking up. We are seeing a lot more domestic business in the pipeline. We have also recently brought on board a new leader for that business, Rajaram Pai, the Chief Business Officer for our industrial business. That is a signal of our kind of intent and commitment to grow that business.

Himanshu Upadhyay: This Ghodhbunder Road What are the pending approvals there? And do we expect that we can launch in FY-23 onwards? Just update on this land.

Aravind Subramanian: FY-23 is the target to bring it to market. There are multiple tactical approvals. There is zoning change. There is any conversion. There are a sequence of steps we need to go through. Most of them are procedural. We don't see it as being a significant bottleneck, but they take time. They need to be done sequentially. That is why FY-23 would be our target to bring that to market.

Moderator: The next question is from the line of Parikshit Kandpal from HDFC Securities,

Parikshit Khandpal: Our first question is on the industrial land. So, you have added the Gummidpundi land of Origins Chennai Phase 2. Just wanted to understand which all industrial land you are looking to add or expand, given that you are seeing a robust pipeline there, and as the travel opens up, the traction could build up.

Aravind Subramanian: Industrial locations are, for established locations, which is the two cities, and the two origins. As we have mentioned in the past we are aggregating land near Pune for another origins up there. Beyond that there is no other plans to create new industrial parks at this point of time.

Parikshit Khandpal: Within Pune is more of an urban entity operation do you think that potentially if it is 500 acres there, part of that can be converted to residential, do you see a potential and maybe give us better yield?

Aravind Subramanian: Not in that location. I mean, that is an industrial location. There will be some small amount of affordable housing. One can do there to service the manufacturing workforce there. I don't see that as an attractive residential location for the next few years.

Parikshit Khandpal: In terms of pricing of these industrial land are there significant premium to the government allocates to industries or how do you benchmark the pricing here? Do you think with the demand going up, there is a potential that our land is undervalued and maybe something we can do to get on the pricing side?

Aravind Subramanian: No in fact at the four existing parks if I were to take the pricing, it is significantly higher than the government land. Whether it is SIPCOT in Chennai or GIDC in Ahmedabad, or RIICO in Jaipur. But the proposition is very different, and clients are able to see the nature of shovel-ready land with infrastructure done, green certified. I think that is becoming very important for many of the clients that the facility is sustainable and green. We have been pioneers in that for many years now and not just paying lip service to it, but Chennai for example, recently got a zero waste to landfill certification. It is the first large development to have that in the country. Jaipur is on the C-40 cities list. These are things that are part of a world, at the time far ahead of their time, but today are becoming almost gating criteria for clients to make their investment decisions. I think therefore they are willing to pay that premium. If one were to step back and see what is the cost of land as a proportion of the overall establishment cost of a new factory or a new business in India, it is not that large. While every client of course will want to negotiate to get slightly cheaper land, it doesn't swing the economics as much as many of the other things about, will I get my approvals in time? Is the infrastructure ready? How quickly can I go to market? I think those are bigger decision criteria.

Parikshit Khandpal: One question for Vimal. You have been reporting losses for multiple quarters now. When do you think we can come back in the black, from which quarter or from which financial year our EBITDA will turn positive?

Vimal Agarwal: I am sure you have seen the overall assets which we have in the balance sheet, and from that perspective, I will take it in two parts. One is the do ability per say. We strongly believe that is definitely achievable in the short term. One example which we just spoke about, Aravind mentioned about it, the Ghodhbunder land. Now it has got multiple layers of approval, but the pace at which we are moving is very comforting. What it means is we are definitely heading towards better times. Now in terms of red or black, I will say that it can be a black very soon. Consistency and uniformity is what we should be focusing on, that is the key point for us.

Aravind Subramanian: We have talked about this in the past and the last call as well. I think it is important that we build this in a sustainable and steady manner so that it moves in one direction. What I don't want is a flash in the pan one quarter, we suddenly show some bumper profit, then again slip into loss, etc., That being said in the next few quarters we will definitely be looking to turn around the business into the black.

Parikshit Khandpal: Just a last question on the land aggregation side. We have been hearing enough earlier today in the call, you said that we are in excess of 2,000 crores we remain committed to closure of the land. So, have you seen MOUs already in place for this because the last date that the first payment goes out to the landowners, then you announce it. In terms of timelines, we take 3-4 months away from these, and second thing is in terms of overall pipeline, have you seen what draws market value of landmine deals, which you are pursuing? So, has it been swelling up over the last few months, given that you said that you are seeing a lot of land coming to the market? So, beyond this 2,000 have you already started working on the due diligence and initial deliberations on for the next step?

Aravind Subramanian: In all our competitive exams we had always multiple-choice question and the last choice was always all of the above. I will say all of the above as an answer to your question. Yes certainly we are seeing a strong buildup in land inquiries that we are getting, and therefore the GDVs that we are evaluating is actually far in excess of 2,000 crores. What I want is to make sure that we get 2,000 crores, a very attractive, ready to market land that meets all the parameters that we want. Therefore we will always have a hopper that is much larger than that. But I do expect that we will end up a little bit North of 2000 crores this year. There are some very nice deals that we are in advanced stages of. We do have MOUs place. As I had mentioned in some of our earlier calls I don't want to jump the gun and announce those until we have signed definitive documents, which is why it has taken a little longer.

Parikshit Khandpal: On the bonus part lastly, congratulations on announcing it, just wanted to understand your thought process because this is our maiden bonus which we have announced. What has gone behind the thinking of announcing it? What was thinking behind it

Aravind Subramanian: I link it back to the earlier question you asked about trajectory on profitability. The thinking is very simple. It is to signal to the market, to investors, to all of you that we are confident that they will be good times coming very soon, and we are able to service therefore a larger equity base. Because the last few quarters we have been reporting a loss, there has been no dividend distribution on account of that, we felt it is important, and we have a very large results to paid up equity ratio. We felt it is important to give our investors' confidence that we see a brighter future. That is the primary driver of the bonus issue. Tactically there was also feedback from several investors that the liquidity in the stock was constrained. Investors were not finding enough liquidity in trading. Hopefully the bonus issue empirical evidence has shown that should also increase the liquidity in the stock.

Moderator: The next question is from the line of V.P. Rajesh from Banyan Capital.

V.P. Rajesh: First question is on the land prices, are you seeing them moving up in comparison to let us say 6 to 12 months ago?

Aravind Subramanian: No quite the contrary actually. I am seeing land prices softening because there are fewer buyers in the market, particularly on outright transactions. There aren't too many developers who are ready to put payment upfront. Therefore for us, we are seeing more attractive deals in the market. As I have mentioned in some of our earlier calls, we are actually seeing land transaction that we had lost a year, year and a half, two years back, coming back to us on more favorable terms today.

V.P. Rajesh: On the selling of apartments because the commodity prices have gone up are you guys thinking about increasing the prices or how are you thinking about passing on that cost?

Aravind Subramanian: We are putting in a discipline where we will increase prices across our portfolio. Of course, the extent of increase varies, depending on the specific micro-market, how a project is performed, what is the competitive intensity, etc., But even separate from the input costs inflation, we are on a steady path to increase prices, quarter on quarter. I think that is very important from our perspective of how our economics are set up. If we want customers to buy early in the project, either pre-launch or launch, the only economic rationale for them to buy early is if the price goes up. Right? So, we need to be able to price it at the level where we can have a steady increase, quarter-on-quarter, year-on-year. We have demonstrated that across our portfolio, even through the last year in the last five quarters.

You asked about pricing. There are two aspects of pricing. One is certainly, how do you take care of the input costs and therefore the cost plus approach to pricing, but there is also a market based approach to pricing and from a market based approach, what we are wanting to do, and we have set ourselves up for is quarter-on-quarter across every project we do want to increase prices. It may be smaller, it may be larger, depending on the specifics of the micro-market, and how our project is performing, what the competitive intensity is. It is heartening that over the last year, the last five or six quarters actually, we have been able to do that. Even in a tough year like last year, were able to increase prices anywhere between 2% to 8% across our portfolio. Not a single project have we had to cut prices. We have been able to maintain that discipline. Now there will be an additional factor as you mentioned about input costs. That will also drive us to continue to steadily build up price.

V.P. Rajesh: My last question is on the Gurgaon markets. After the success that we had with the current projects are we looking to vacate this market or are we going to build more?

Aravind Subramanian: For the time being Luminare will be our only project. As I mentioned, we are launching the third tower that will take us probably 3 years to construct and complete. So, for that period, we have continued to stay in that market, then we will take the call. The idea is to focus on a few markets and build depth. So, those are Mumbai and Pune and we will maintain our beachhead in Bangalore. Gurgaon we will come back to in three years' time, once we are closer to completion of the Luminare project.

Moderator: The next question is from the line Prem Khurana from Anand Rathi.

Prem Khurana: Two questions. First one was on the Mumbai real estate market, if you could share thoughts on the way the market has been behaving after the stamp duty benefits have been taken away. If you could kind of link it to your projects and how has the footfall been after the stamp duty waiver has been taken away? Registration numbers come off significantly

Aravind Subramanian: I was also worried that once the stamp duty benefit gets withdrawn end of March that there will be a certain drop in sales. And unfortunately, that did coincide with the lockdown, so April, May was slow from an enquiry perspective, but it has built up nicely since then.

Second half of May and into June sales are built up very nicely, which indicates that the market has moved beyond that stamp duty reduction. Also from an actual economic standpoint if you look at it that 2% stamp duty reduction, many developers were offering those kinds of discounts across the table. Rationally it should not make a difference to buying behavior. Of course there is a large signaling value when the government reduces stamp duty it does create an impetus for customers to buy and buy quickly because there was a deadline to that. Whenever these things have happened in the past it takes a few months to unwind itself which we are clearly seen. I don't think any customers have that overhang now that stamp duty used to be low, is there an expectation that again there will be a cut. We are not seeing those conversations from customers, or those expectations from customers.

Prem Khurana: Are you happy with kind of response you have seen for Alcove I understand April, May would not be right months to look at, but given the fact that we have already had June and then spend some time in July as well. The way the footfalls have been, or the walk-ins have been at, are you happy with that Alcove?

Aravind Subramanian: I am quite happy, let us take a specific example. Alcove, we are currently sitting at about 50% sold of the phase that's launched. Now we also have to bear in mind that our portfolio will comprise different kinds of projects. Not everything will be Tathawade or Kalyan, or Palghar. There will be projects that will be very high velocity upfront. There will be projects that we have to steadily work through. Alcove is one such project, which we know is a similar project. We are seeing week on week walk-ins, we are seeing conversions happening every week and we have to be a steady in how we build those kinds of projects. Particularly Alcove is a very sharply targeted, kind of product. Our audiences are largely from that pin code itself. It is a very narrow geography which is the addressable market. We have sized the project appropriately, and therefore have no worries it is tracking to our investment case.

Prem Khurana: Given the fact that there are too few a buyers these days for land parcels at which time you are getting more transactions come your way, has that changed? I mean the way in which we approach the new project, and the way we kind of underwrite these projects in terms of IRRs or in the terms of gross margin, the project level margin that you would expect or still working the same numbers that we used to have earlier?

Aravind Subramanian: We have inched it up to be honest, given that we are seeing more supply of land in the recent months, we have taken out hurdles up, from where they were a quarter back. It is not a dramatic change. It is not like we have doubled our profit expectation. It is few percentage points increase. We will keep refining that, it is always a balance between what we see our supply, how we see the marketability of those projects, etc., I think today we have the confidence of setting slightly higher hurdles than we did three months back.

Prem Khurana: When I speak to people in market, we have been talking about seriously big numbers in terms of a scale right? We are right around Rs. 1,000 odd crores today in terms of sales, we are targeting 2,500 crores, and some of our peers have similar kind of targets in terms of growth prospects. If most of us are looking at this kind of number we would be required to buy a land, there will demand for more land, right? And then at the same time, we have been talking about no change in land prices, rather softening of land prices. When I look at the CITCO auctions, you get to feel there is still a competitive intensity in the market wherein people are willing to pay top dollar to be able to buy a city centric land. We are looking at the city-centric land parcel, right? Because the idea is to kind of reduce land to launch time. How do I marry these two things? Essentially I am looking at higher underwriting threshold and at the same time, there is demand for more land because most of us have been talking about seriously big numbers in terms of scale.

Aravind Subramanian: Interesting dilemma you have posed there. I do understand where you are coming from. First, with all humility, we are a fairly small player. For us to grow from where we are to 2,500 crores I don't think supply or market size is the constraint. It is our internal stability and our conviction, our discipline to build the business in the right way that is going to be the determining factor of that. Whenever my team or others come to me and say, but market has grown by so much, shrunk so much. When you're a single digit market share player honestly you are not driven by how big the market is and whether that has grown. Similarly on the land side, all we are looking for is 3 or 4 land parcels aggregating to 2000 crores. We are seeing deals which are several multiples of that. I don't see any reason why we can't execute 4 land parcels worth 2,000 crores.

Prem Khurana: Just one last book keeping question, can you help me with the revenue break up, project wise break up if you have? From the top 2-3 projects.

Vimal Agarwal: You are referring to the residential side of our business, right?

Prem Khurana: Yes, the 150 odd crores of revenue that were booked during the quarter, the income statement number.

Vimal Agarwal: About 70% is coming from our Pune project and balance 30% is split between 2-3 sites, one is Avadi and one is Palghar in equal proportions roughly.

Prem Khurana: Palghar, would that form a part of top-line? I thought it is a part of associate Company

Vimal Agarwal: you are referring IndAS number It is only the Avadi that would come there. And other finished goods, transactions that would have happened but that is a small portion of the entire number.

Moderator: The next question is from the line of Anish Jobalia from Banyan Capital Advisors.

Anish Jobalia: Just wanted to continue from the last quarter when we were kind of thinking about launches being to the level of around 2 million square feet, are you on track to do this? What is the kind of expectations of the sales that you have penciled out for this year? If you could provide more color that will be helpful.

Aravind Subramanian: We are on track for all the launches that we had planned for this year. As I mentioned there was a launch planned in Q1 which got pushed out to Q2. We have of bunching, between Q2 and Q3. We will manage that and make sure that all those planned projects get launched. I won't share a guidance for sales for this year. I prefer to share midterm kind of targets, which is 2,500 crores by FY-25. I mean you can do the interpolation from here to there.

Anish Jobalia: In FY-19 our launches were around 1.55, and this year launches I expect to be higher than that. Can we kind of expect to kind of cross the FY-19 sales number in the year itself? And how to think about this?

Aravind Subramanian: I don't want to share guidance for short-term attrition.

Anish Jobalia: Second question would be if you look at our sales per square feet, this year, this quarter it is higher, let us take the average of the last 4, around Rs. 7,000.00. So, how would you brake this into gross profit per square feet? Let us say I picked up a square feet, that we realize on every new sales that we book incrementally.

Aravind Subramanian: Vimal do you want to take this?

Vimal Agarwal: At an overall level a couple of points. One is affordable and mid-premium. In both the segments we have seen that the gross margins are not significantly varying. And from that perspective, our target will be to have gross margins upwards of 20%, affordable maybe a bit lower, but that really depends on the geography location and your target segment or the timing of the project launch per se. Directionally that is the number you can keep in mind, which is 20%-22% on gross margins.

Anish Jobalia: And how do you further translate it into let us say after taking off the other expenses, all the common expenses?

Vimal Agarwal: Projects will be in the range of mid-teens for PBT margins and, high teens for the IRR and therefore equity is in the low twenties.

Anish Jobalia: Just one question around the target of 2,500 crores. Even today the sales numbers we show there also we kind of have sharing with our JDA and other partnerships, there are so many partnerships we have right? Going forward incrementally out of the 2,500 crores, whatever we are doing today, let us say 50% of that, would be belonging to us. Let us say when we reach 2,500 do you think that this is like the share of our ownership of the 2,500 crores we keep inching up on your strategy of outright purchase?

Aravind Subramanian: I am only referring to 2,500 of our sales.

Anish Jobalia: Just our sales. But today whatever number you show that is between us and our partners, like 145 crores that you show in this photo, is it just our part of the sales or is it along with the partners?

Vimal Agarwal: The other way to look at it is for several financial point, ultimately you have one top-line and one bottom-line to deliver. If your overall land prices are baked in into your cost of sales, which is in the middle of the P&L, to the extent your bottom line is not getting impacted. It is like saying that my cost line will get muted to some extent, and to that extent top-lines are also getting reduced, and therefore my size of the penal will reduce. The bottom line is what I am ultimately going to deliver, irrespective of whether this is JDA or a full ownership or a green field project.

Anish Jobalia: Just to understand, you are saying that the bottom line that will make would be on 2,500 crores of our sales. I mean, that's what you're saying.

Vimal Agarwal: No I am the bottom line which comes out of 2,500 crores, irrespective of whether it is a JDA or a full ownership model will get delivered.

Moderator: The next question is from the line of Manish Agrawal from JM Financial.

Manish Agrawal: My question is related the land inventory slide. In the last quarterly presentation, we used to give a land inventory of 5.74 million square feet. This time around it has been converted into Acres. Is that potential same or can it go higher? This is NWC Chennai residential zone I am talking about.

Aravind Subramanian: Sumit you want to take this?

Sumit Kasat: Given that we have not yet assessed the entire development building plans and building plans have not been applied to, hence the square foot number has not been mentioned, but broadly it is expected to be 5 million square foot for that 114 acres that you are seeing there. We planned to convert some bit of land into industrial end-use because Mahindra World City as a location, the industrial land has a higher demand. We are not able to service that demand because we don't have land to offer. Part of the land is planned to be converted as industrial end use. We are making some applications there. In the balance land, we do expect about 5 million square foot and above development potential. It will also depend on the development format. For example, if it is a plotted development, obviously you do not use the FSI right? So, formats will decide what is the overall development potential that we will eventually realize.

Manish Agrawal: Any launch timeline?

Sumit Kasat: We are launching one affordable project there, which we have mentioned in our to be launched pipelines MWCC residential, i.e. 4 lakh square foot that is the immediate launch that has been targeted. Beyond that affordable plotted is work in progress. Expecting a launch either towards end of this fiscal or early next fiscal.

Manish Agrawal: Secondly on the Ghodhbunder land what is the total developmental potential and how it is break up into commercial and resi?

Aravind Subramanian: Too early to comment on that. It is still in planning stages and there are multiple options in terms of what is the asset mix that we are in the process of evaluating. We will probably be in a better position to answer that towards Q3 or Q4 this year.

Manish Agrawal: And lastly the NWC outside boundary line is 64 acres. It is planned as land fill. This will be as industrial landfill or outright landfill? And who would be the buyer in case it is outright?

Aravind Subramanian: This would be outright landfill in most cases. These are typically disparate pieces of land, when you do land aggregation you end up with kind of disjointed pieces of land around the main core area that you are trying to aggregate. These are those kinds of parcels, and it is typically local buyers for various kinds of needs. Some people buy it for local housing. Some people buy it for setting up workshops and showrooms. There is retail, there is no one end use that one can think about.

Manish Agrawal: And realizations will be lower than the industry land.

Aravind Subramanian: Yes. There is also no infrastructure we have developed here. These are sold with no linkage to the main World City, and therefore it is an as is where is land sale.

Moderator: The next question is from the line of Nikunj Bahety from Quest Investment Advisors.

Nikunj Baheti: My first question is with regard to the Origins, Pune. How much land needs to be aggregated for that, and are there any risks of delay with respect to the timeline of the launch which is into this? Which might because of the aggregation of land that can come up.

Aravind Subramanian: The Pune project is going to be in Origins format. Our Origins formats are typically in the range of 400 to 600 acres. That is what we are aggregating there. There is still some part of that for a continuity and for master planning that still needs to be acquired, which is what we have disclosed. Around 70%-75% of the land is already acquired, about 25% still needs to be acquired.

Nikunj Baheti: My follow-up is on that 25% of the land, these may be acquired or can there be risk of delay on that?

Aravind Subramanian: There already have been delays, right? And land aggregation is never a predictable linear process. There are several interdependencies, etc., I think we have crossed the hump on that. We expect that over the next three, four quarters, the key parts of that land, as well as the access to their land will all be sorted out. We are on track for what we had said.

Nikunj Baheti: My second question on the IC & IC trend is that you mentioned that other than Origins, Pune, you are not looking to add any further land into the IC & IC segment. We had this MOU signed with the Gujarat Government for the Dholera project. Could you throw some light over there and is there any timeline within which that MOU has to be completed?

Aravind Subramanian: We will not be proceeding with anything beyond the four existing parks and Origins in Pune. These are the only 5 locations for the next several years that we will be focusing on.

Nikunj Baheti: Moving on to the B2C segment which we have. If I look at the presentation and get the data, so affordable housing from the new projects from the new land we have acquired, is roughly 53% and mid-premium can be 46%-47%. Going forward what would be our strategy for the new land which we acquired with respect to the mix of affordable and mid-premium, and how are the realizations likely to change after that?

Aravind Subramanian: We don't approach the residential business with a presupposition or a certain quota thing, I want so much from it premium, I want so much for affordable. That is an outcome of the particular land location and understanding of the market. We have, for example in certain markets, which could traditionally be seen as mid-premium markets. We are planning affordable products because we feel there is a gap in that segment, and vice versa as well. So, it is led with what is the land opportunity and what is the right product, it is not led with saying I want to build a certain amount of affordable and a certain amount of mid-premium.

Nikunj Baheti: Lastly a question on the expected quantum of outflows which are likely to happen because of this every year land acquisition. What will be the quantum and how was this likely to be funded with respect to the debt and equity ratio that we are looking at, is there any stringent net debt equity target over there??

Aravind Subramanian: Let me put the numbers very simply to you. We want to do 2,000 crores of sales potential in terms of land acquisitions. Land is roughly 20%-25% of top-line. Land outlay in that will be about 400-500 crores per annum. 400-500 crores does not get all paid upfront. Most of our land transactions are with staggered payments where most of the payment happens closer to approvals and to launch, even in the outright case. And some proportion of that will be joint ventures in various forms, which don't require that kind of upfront capital outlay. So, net-net I think with about 400-500 crores of land outlay year-on-year for the next few years, we will be well on course to get to the targets we have outlined. That can comfortably be funded by internal accruals and a little bit debt. We don't want to go overboard on debt. I think getting to even a 0.4-0.5 of debt equity is more than enough for us to fund that kind of ambition. Now having got there we will of course want to raise the bar. It is not for all the time that we will want to be at 2,000 crores or 2,500 crores of sales. We will systematically keep raising the bar in terms of our growth expectations. By then we will also have an even stronger reserve base, etc., I don't expect us to be a very highly leveraged Company. We will be quite prudent on debt, but we won't be zero debt either. We will be smart about taking debt where it makes sense.

Nikunj Baheti: So, there is no specific debt equity ratio for the sources of funds which you are looking at right if I read into it.

Aravind Subramanian: I would be comfortable with a 0.4-0.5 debt-equity ratio, I think that we have enough ability to service that kind of a debt equity ratio, above that I would be very cautious.

Moderator: We will take that as the last question. I would now like to hand the conference back to Mr. Aravind Subramanian for closing comments.

Aravind Subramanian: Thank you everyone who participated on the call and for your questions. Just to sum up it has been a good, steady quarter, neither extremely good nor extremely bad. Given the circumstances of the second wave and the lockdown I am very happy with how the quarter has played out. The confidence in the coming quarters and years is, remained very strongly. If anything the conviction has only grown deeper in both the residential business, as well as the industrial business. We expect to rev up the growth engine considerably in the quarters and years to come. I was asked and I answered the bonus announcement is a signal and kind of a statement of confidence that we are making to the investors in the market saying, we do expect good times ahead. With that thank you all and stay safe.

Moderator: Thank you very much. On behalf of Mahindra Lifespace Developers that concludes this conference. Thank you for joining us ladies and gentlemen, you may now disconnect your lines.