“Mahindra Lifespace Developers Limited Q3 FY18 Earnings Conference Call”

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Moderator: Ladies and Gentlemen, good day and welcome to Mahindra Lifespace Developers Limited Q3 FY18 Earnings Conference Call. We have with us today on the call, Ms. Anita Arjundas – Managing Director, Ms. Sangeeta Prasad – Chief Executive Officer, Mr. Jayantt Manmadkar – Chief Financial Officer and Mr. Sumit Kasat – Head (Investor Relations).

As a remainder, 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. In case should you need assistance during the conference call, please signal the operator by pressing "*" then "0" on your touchtone telephone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Anita Arjundas. Thank you and over to you Ma'am.

Anita Arjundas: Welcome to our Q3 FY18 Earnings Call. Just a quick reminder that under the Indian accounting standards that are applicable to the company from April 2016 onwards certain key operating entities like the World City in Chennai, World City in Jaipur. Mahindra Bebanco in Nagpur are no longer consolidated on a line by line basis, but on the basis of the equity method of consolidation. During the quarter, certain significant movements in terms of strategic partnerships that have been formed by the company have taken place. So we had the partnership with IFC that we had announced just before the quarter.

The first investment has happened into the Ahmedabad project that is the "Origins by Mahindra World City" at Ahmedabad. Again, in October we announced our second strategic platform for the affordable housing business with HDFC Capital that will focus on homes in the sub 50 lakh segments, initially in Mumbai and Pune and then looking at newer markets thereon. The platform has a 500 crore commitment on pure equity basis with adequate leverage. It will actually be able to invest significantly more in terms of growing the affording housing business. In order to get that platform started, we actually transfer the Palghar Project from the books of MLDL to the new JV company during the quarter.

Both of these partnerships in my view are key milestones for the growth of the company. One secures the growth capital with a very credible partner for the affordable housing business and the other again a very credible partner for growing the industrial cluster space and making that part of the business self-sufficient in terms of capital needs.

Moving to market performance and our own performance on specific operational highlights:

While the overall demand continued to be sluggish, we definitely have seen some early signs of improvement in Q3 compared to the last four quarters. So there definitely has been some shrugging away of the impact of demonetization, RERA and GST that is slowly taking shape in most markets.

I would say the exception is the market like Mumbai in the high-end segment and NCR again across segments, but otherwise most of the markets seem to be slowly coming back to a certain steady predicable rate of demand. Obviously lower ticket size projects continue to do better than the projects which are greater than 1 crore in most markets except Mumbai where I would take the references greater than 2 crores.

On the approvals fronts, we made steady progress on the approvals and for a Pune project infact we have all of the approvals in place from a launch prospective except the environment clearances without which we cannot get the commencement certificate, without which we cannot do the RERA registration and the environment clearance has been held up because of the shift from the state environment impact authority to the environment sell of the building plan department and again back now to the environment impact authority. So, we have reapplied twice over, and we are looking to get that prioritize so that we can launch the Pune project which is legacy land and therefore will have good margins as a project.

On the P17 Projects in Chennai again, the approvals are on an advance stage and we should see that coming through in the next couple of months. The Bombay projects continue to languish in terms of a way forward on the launch. They do have most of the approvals in place, but without the high court bans being lifted, we are not in a position to launch those projects. Palghar was launched just a week back. So, we launched it on the 23 of January internally. First to the employees of the group with just about a week old in terms of launch effort we will actually be going into the market in the second week of February.

In terms of consolidated results following are the key highlights:

We had a total income for the quarter at 185 crores compared to 228 crores in the same quarter last year and 129 crores in the previous quarter of this year. Consolidated PAT was at 25.9 crores vis-à-vis 35.2 in the previous year and 13.5 in the previous quarter. Sales in the residential business have definitely picked up during the quarter. It has been one of our highest quarter of sales in the last 5 quarters about 156 crores for the quarter. Windchimes Phase-II was launched in the last week of September and so all the sales that you see in Windchimes launch are yearly fructify during the quarter. The project has performed well contributing to 38% of the total sales during the quarter that has also helped APR move up to Rs. 6,138 per square feet.

In terms of the lower ticket size project that we continue to see a healthy mix of sales volume coming from that segment. So, 34% of sales came from the below 50 lakh price point. Finished goods as you are aware has been a strong focus for us in the last year. During that quarter 23% of the total sales value came from finished goods. Most of it is now well stabilized and in control and barring one or two projects where we need sharper and greater focus. I think we are comfortable on the finished goods front. Handovers across projects was at close to 400 units taking the total handovers for the year to about 1274.

In the World City business, we had Jaipur signing on one customer. Actually, it was an expansion of an existing customers in the social infrastructure space, so the skill development university that signed up 1 year back in Q3 of the previous year took an additional 18 acres for the expansion of the university and in Chennai we had one customer signing up in the DTA for about 4.5 acres. I would now request Mr. Jayantt Manmadkar to take you through the financial performance in greater detail and then we will open up for questions.

Jayantt Manmadkar: EBITDA margin for Q3 FY18 stood at 24% versus 22.3% in Q3 of FY17 and 23.4% in Q2 of FY18. The PAT margin for Q3 FY18 stood at 14% versus 15.4% in Q3 of FY17 and 10.4% in Q2 FY18. EBITDA margin improved primarily due to overall higher throughput, higher revenues from World City as well as projects with higher margin like Antheia, Vivante and also lower fixed overheads in absolute terms. These factors also reflect in PAT margin. I would now like to throw the floor open for questions.

Moderator: Ladies and Gentlemen, we will now begin the question and answer session. The first question is from the line of Prem Khurana from Anand Rathi. Please go ahead.

Prem Khurana: So, first question is with respect to this quarter, we have seen good recovery in terms of the sales that we do on a quarterly basis and specifically I mean the numbers seems to have been largely been driven by our Windchimes in Bengaluru. I mean did we do something different in this quarter for this kind of number or the markets has been kind of taking up gradually enough.

Anita Arjundas: The markets have definitely been picking up, gradually, I would say that is a factor and as you rightly said Windchimes is a significant contributor. In the absence of new launches, and when I say new launches, I mean real new launches in terms of not phases but first time launches. You do need certain kickers coming in terms of boosting the volumes from some form of launch, so I think Windchimes was able to contribute because the Phase-II was launched, the Phase-II was well located as a tower and there was a lot of interest even when we were launching the Phase-I, for people to come in to Phase-II and that traction has helped support the overall numbers. Beside the fact that across projects and across location, the markets have, I would not say significantly improved, but slightly improved.

Bloomdale, again, given the hiatus on construction, given some level of issues that we had on the ground, there was a 2-3 month of no activity and no sales, that has again started picking up now and maybe they are not yet to the double-digit number per month, but at least they are clocking numbers.

Prem Khurana: Any clarity on launches because now given the fact that I mean you would again require to go back to the environment clearance authority for your Kandivali as well as your Saki Naka project so it will take some more time, so any new timelines in mind now by which you would or by when you would be able to offer these projects to markets?

Anita Arjundas: In Saki Naka, the environment clearance is not so much a concern, because we already have environment clearance for that project. The problem there is the high court ban on the dumping ground issue has to be sorted out, because we do have complete approvals for that project and we will be in a position to launch it within 30 days of the ban being lifted.

Prem Khurana: I mean the hearing was scheduled for 13th, right, last time we spoke, and was supposed of take it on 13th of that month.

Anita Arjundas: yes, it got moved again to the 15th of January and then again moved to 23rd of this month i.e. 23rd of January. And as far as Kandivali is concerned, we would be in a similar position as we are in Saki Naka by March which means we will have everything in place to be able to launch in a 30-day period. But until the ban is lifted, we are not in a position to launch.

Prem Khurana: So, the two projects we are struggling due to issues would be Palghar and your Pune project.

Anita Arjundas: Palghar as I said we have already launched. As far as Pune is concerned it is only the environment clearance and now that yesterday MOEF of Maharashtra has issued a clarification, that would be NGT quashing the previous order. The state environment impact assessment authority needs to restart hearing projects up to 1.5 million square feet. So they clarify the confusion over things hanging in limbo and no one is wanting to do anything. Our meetings has been scheduled already and in fact we have gone and met the authorities. They have committed to schedule a meeting on a weekly basis at least for the next one and one and half months so that there can be some catch up.

Prem Khurana: And the two of this will be transferred to the platform, with respect to platform I mean Palghar to affordable housing platform and this Ahmedabad project to the platform with IFC as a partner. These I have been transferred at a premium or these were transferred as a book value because if I were to look at other income in this quarter, it seems to be in a higher side if compared to the number that we used to have.

Anita Arjundas: These have been transferred at a premium. I would say, in Ahmedabad's case, the premium was a small premium which is around the effort you put in to identify the land, put it together and get it to an NA status. So, we had just about made the investment into the land when they came in. There was a premium in terms of effort and there was carrying cost in terms of the gap between when we invested and when they came in. As far as Palghar is concerned, because we had got the project fully approved before HDFC came in, there was a premium in terms of looking at our cash flows on investment made over time and defining a certain return profile for that cash flow, basis which they came in, which is also validated with valuation because it just cannot be an exercise of a defined return on a cash flow basis. Because HDFC is investing, we are also approving as a Board, both of us got valuations done by a third party and based on those valuations, did the transfer, which worked to a certain return on our invested.

Prem Khurana: And both these entities won't get consolidated as per INDAS. So, these would appear as share of profits from associates right and not by consolidation that we use to have for some of these other entities earlier. I mean, just in Jaipur SEZ, we have been able to bring some more DTA when we convert our social area into DTA, but then somehow the traction is still not there. So, what exactly is missing, I mean are these people waiting for this budget to kind of see whether they will get to have something special or something more, to kind of encourage them get or take some space in DTA or rather SEZ. Or is it general, I mean economic activity has been slow which is where I mean you are not able to see the kind of number that we used to see earlier.

Anita Arjundas: Jaipur I would break it up into two parts, different for the DTA and different for the SEZ. Common for both would be the fact that obviously new capacity creation is still slow in the country and while a location like Chennai for example tends to see more of multinational interest and multinational investment. Jaipur still tends to see more of domestic interest when compared to Chennai. As far as capital formation is concerned, I think domestic manufacturing is more pessimistic about putting out fresh investment than say international investment, because I guess the context is different. One is looking to the come to the country for the first time and cater to India whereas the other is looking to capacity expansion. So that would be the difference between say the lead pipeline of Chennai versus Jaipur. Chennai would be 100% multinational, taking time to decide, but there is a pipeline. In Jaipur's case the location being completely acceptable from a multinational interest is still not where Chennai is and so tends to be more the domestic firms.

So, the broader reason therefore is the context of the location and the macroeconomic environment and when you come down to the zone itself, the DTA yearly is in line with what I commented at a macro level. We definitely have a strong pipeline of customers who are waiting irrespective of what happens in the budget, who are waiting for the multi-product SEZ status. So, we at least have four customers who are waiting for the multi-product to be completed so that they can come on board and take land. So, I think that multi-product will help us go further. I think the good news on multi-product is we have completed all the detail inspection of the entire land from a MOC prospective, they had some points that we sorted out. The recommendation report has now moved and should be in MOC for approval in the next couple of weeks.

Prem Khurana: If I look at Jaipur, the total number of customer or operational customers, there is always a gap around 30 odd and it has been there for a while now. So, when do we get these customers come out commissioning or commencing operations in the SEZ. The total number of customers as of now 78 and by the now operational customers are only 48 and the gap has been there I mean it has been there for a while, so it is not there I mean for a quarter or two.

Anita Arjundas: If you look at it, at least another 12 are under construction and if you look at it from that perspective, out of the 30, 12 are under construction and about 8 would be customers who have been added in the last 12 to 15 month period. So, they will be in the planning mode submitting for approvals, so about 20 would be covered. I guess 10 would be who have not defined their plans and not clear when they will start.

Prem Khurana: So earlier when we used to talk about I mean if there is a customer who is not willing to start activity for certain period of time and we have used to kind of take the land back. So, do we have this kind of provisions with most of these customers now or given the fact that the markets are dull that you want to try to take the land back from these, because ultimately if they were to sit down on idle land I mean it doesn't look good for us.

Anita Arjundas: So, the provision is there in the agreement. We reserve the right to do that at any point in time.

Moderator: The next question is from the line of Faizal Hawa from HG Hawa & Company. Please go ahead.

Faizal Hawa: Congratulations on a good set of numbers. One concern on the ongoing regarding our company is the ability to take on a new project as well as to really go with co developers and have a good project pipeline. Ideally you could have like seven to eight projects in each city that we are operating and it would be really good scale to have an advertising as well as a branding budget. So, when do we think that will come forward and what are the kind of efforts that the company management is taking on this. Second question is why is the new area constructed zero in this quarter, one of the slides shows that? Third is as far as the cash flow is concerned, Page 18 of the presentation, you are saying that there is around 1978 of estimated cash flows that should come through. So, what is the internal target that should we get it done in two and half years or shall it take more. Are we taking on any more modern methods like analytics, social medial to really track our buyers which could be really helpful at least in the affordable housing space and are we adopting any new construction methods? Then again Q3 FY18, the sales is almost one of the highest in the last four, five quarter yet the per square feet area sold is less? So, have we got any price rises in this quarter and last question is are we making any operational changes to get our new projects pipeline going and also affordable housing how are we now progressing with the launches.

Anita Arjundas: That is a lot of questions and I will try to answer all of them and hopefully I will remember most of them. Your first point on land acquisition and launch of new projects, I could not agree with you more. I think it is more important for us to, in our defined focus markets to at least five to seven projects live at any point in time and that is the effort that we have started working on to see how we can get more of a pipeline created. Specific interventions we have first of all enhanced the size of the team that is focused on land acquisition, we have located more resources locally so that they are closer to the ground and we will be able to get a greater pipeline coming through.

We have also reached out to the banks, we have reached to NBFCs, we have reached to private equity. We have advertised for any proposal that could come in the last month, we have done that in Pune, Bangalore to keep the pipeline going. So these are some of the immediate efforts we put in towards seeing that the increase of pipeline and are able to convert more. From the point of view of the approvals and making the approvals happen faster, many of the new deals that we are working on today the approach is if it is an outright deal we are looking at only paying a small part of the consideration upfront putting the responsibility of the approval on the land owner and then paying the balance after approvals.

So that the ability for them to speed up the approval process faster benefits us also and since most of the people we are talking to today are themselves developers and have the experience and the organization to push the approval process that's kind of working out to be a solution which will help us go to the market faster. So, these are the two key interventions - one getting a more of a pipeline, closing deals faster and second, moving some of the approval responsibilities wherever we can to an organization which has greater competency on that front. Your second point on completed construction area being zero. Let me clarify that it is not construction area that is zero but it is area completed zero which is basically as each project completes fully and we are ready to get the occupancy certificate and ready to hand over customers we have shown that area as completed. In this quarter nothing really came up into that mode.

Rs 92 crores was the construction spend during the quarter compared to 57 in the previous quarter and 62 crores in Q1. So, in fact there has been almost 2x increase in construction spends, some of these will start coming up for completion in Q4 and in Q1 of the next year.

As far as cash flows are concerned if you look at the 1978 crores on Slide #18 that you mentioned about, I think we have clearly broken it up into two buckets. One is the ongoing and completed projects which is nearly linked to I would say construction in steady state it is what you are seeing in terms of work going on so it is really the speed of sales. Similarly, the subsequent phases are a function of how much we sell in the previous phase before we start launching the next phase, we have not counted new projects in this. So, there is no market risk or regulator risk in terms of visibility on the pipeline. It clearly is around the velocity of sales. If you look at these numbers in our view you could assume a two to three-year period for these cash flows to come into the organization.

And your next point was on social media and analytics, yes we are active in social media, we do use customers analytics in the digital space to be able to help us market better. There was an observation on technology I think technology in the real estate industry is largely around good quality shuttering formwork and around use of prefabricated factory made componentized building solutions as opposed to doing everything onsite. So all of our projects today use aluminum work for civil construction we moved to to pre-hung doors. We have factory fabricated windows so a lot of the stuff that used to happen on site is today happening under better quality-controlled factory environment and coming and getting fixed on site. Beyond that, you really do not need a further overlay of technology for a traditional 15, 20, 25 storey structure. As you go above 50 floors, then you start needing more superior technology.

On the affordable housing front, we have launched the Palghar project this last week. We have one MoU which is under advanced stages of diligence for another land parcel in the MMR region that is about seven to eight lakh square feet of development potential. This is a model where we pay a small percentage upfront and the land owner takes responsibility for the approvals and gives us the approval within six months and then we pay the balance and we are continuing to look for more land parcels to grow that part of the business.

Faizal Hawa: So that will also be in partnership with HDFC 7 to 8 lakh.

Anita Arjundas: Anything that we do under the affordable housing platform will be with HDFC.

Faizal Hawa: This 15 acres that we have leased out to this social sector project in Jaipur, what will be terms and when will be sales or the lease rental kick in from next quarter?

Anita Arjundas: So the model we work in the World City is in a non-refundable lease premium which is paid upfront, the lease is in the context of Chennai is 99 years. In Jaipur it is residual lease period given the fact that we ourselves have got the land on 99 years from the government. So the customers who is leasing now in Jaipur would be at 92 years in terms of the lease period. So revenue is recognized upfront. Inventory cost are more upfront from the P&L and its accounting straight like a sale.

Faizal Hawa: And afterwards the lease rental will kick in every month.

Anita Arjundas: There is no lease rental. There are only utility charges like operations, maintenance, water etcetera.

Moderator: The next question is from the line of Kunal Lakhan from Axis Capital. Please go ahead.

Kunal Lakhan: Quickly on our origin brands especially in Chennai, what has been our experience so far in terms of the demand pipeline and the traction if you can give some color over there?

Anita Arjundas: So, we have initiated marketing in Japan. We have also initiated soft marketing in India through the trade agencies and the industry bodies. There has been a decent pipeline in terms of people who come in and taken a look at the site. We have at least had about 10 to 15 prospects who visited in the last couple of months that we have initiated the process of marketing but nothing which is at a closure mode yet.

Kunal Lakhan: But can we expect some closures happening in Q4 or Q1 going head.

Anita Arjundas: Yes, that would be the endeavor. We would like to get our anchor customer on board in the next three to six months.

Kunal Lakhan: And what kind of these rentals we are looking at or what kind of realization we are looking at here?

Anita Arjundas: In the non-Chennai project?

Kunal Lakhan: Yes.

Anita Arjundas: In terms of price to customers, it would typically be around anywhere between 2.5 crores to 3 crores.

Kunal Lakhan:' So pretty much similar to what the Chennai MWC was?

Anita Arjundas: Chennai MWC normally does not do below 3 so it between 3 crores and 3.5 crores depending on whether you are bringing in a developer or you are bringing in an end customer, if you are bringing in a developer for a build-to-suit solution may be it is closer to 3, but if you are bringing in end customers, it could go higher, but in non-Chennai to start with I think we should be able to close at a sub-3 number.

Kunal Lakhan: And coming to Ahmedabad when can we expect a launch here?

Anita Arjundas: Ahmedabad we are in the middle of both the environment approvals and the planning approvals. As far as the environment approvals are concerned, we have completed the process of being heard by the authority with respect to the terms of reference that they issue to us. We are waiting for the approval to be issued. Layout plans are still at an early stage, so I would say it will take us the next three months or so to get all the approvals in place.

Kunal Lakhan: So, my second question was on the HDFC platform. Going by our experience with the Boisar project especially in the Happinest segment, what are the initiatives that we are taking to ensure that the margins here remain healthy or more so in line with our non-affordable projects so if you can highlights some initiatives that you have done or taking.

Anita Arjundas: You cannot expect both of them to be at similar margin profile. I think the inherent nature of affordable housing is that your margins will be lower which is why it is important to be able to create a business of scale for it to be meaningful. Otherwise if you are doing just one, two, three projects and operating at lower margins, it does not make sense and you might as well focus your energy on three projects in the mid and premium segment. The endeavor here is there is an opportunity to create a business of scale, conscious about the fact that the margin profile will be lower, but the opportunity is to have more volumes coming through it. Second, I think the government having brought in the 80-IB benefits which currently are operational for projects approved to March'19 extendable over that 5-year period of completion, we do think in the budget that may renew that further given the thrust on affordable housing. So, you look at it from a post-tax basis they is almost an equalization in terms of margin profiles or a marginal difference because you are actually getting the MAT credit so there is a difference of about 14% at taxation level and if you actually have profits in that entity then you could use the MAT credit to come down to a much lower effective tax rate.

Kunal Lakhan: But my question was more on non-tax part of it understand the tax benefits would get them at the same level of margins I mean I was talking in terms of more in terms of EBITDA margin like us how do we ensure that the EBITDA margin that we can expect here would be better than say what we have seen in the Boisar projects?

Anita Arjundas: I think what we have seen in these projects is EBITDA margin in the range of about 15%. Honestly, I do not see that being significantly higher when you come closer to town which is what we are looking at for some of our other projects. So for example, the land parcel that I was talking about earlier which is an advanced stages of diligence is say closer than the Boisars and the Palghars of the world in terms of locations. So those would not be Rs. 3,000/sft projects they would be say Rs. 4,500/sft projects, Rs. 4,000 projects/sft going up to Rs. 5000/sft projects, but limited to 500, 400, 600 square feet in size. The ability to improve margins will be higher in that segment. So, I think when we look at projects we are in diligence of, we are clearly seeing the margin profile to be +20% as opposed to say 15% to 17% range that you see in the Rs. 3,000/sft projects because when you come closer to down you are going to pay more, but the biggest difference is around construction cost. In affordable housing if we are able to achieve Rs. 1500 on a 3,000 price, on a 5000 product you are not going to go up to significantly higher you at best may have another Rs. 500 kicking in terms of construction cost. You move from 1500 to 2000, you pay more for the land, yes, but the overall economics then is +20% as opposed to say 15% to 17% in these kinds of locations. And I think over a period of time what we will have is the mix. So you will some Rs. 3,000 products, some 4,000 products and some Rs. 5,000 products and between all of them, we should be able to get the business to be at a 20% margin profile.

Kunal Lakhan: All right that is helpful. My last question is on more on the longer-term basis looking at the size and the scale, the presales that we have been clocking for the past two years do not do justice to what we can achieve, how do we or what is our the long-term strategy in terms of scaling up this, as I understand the affordable housing piece will bring in volumes that is one aspect of it, but more so on the other side of the business how can we scale up on that side?

Anita Arjundas: So I think a lot of it is around getting land parcels. We very clearly want to be doing at least five to seven projects of around 5 million square feet in our focus markets. So we are looking at Pune, Bangalore, Mumbai. In each of these cities, at any point in time, we should be running around 5 million square feet at least for it to be a scale of significance and then if you get down to markets like Hyderabad and NCR, should have the ability to run at least 3 million there. So that is the quantitative breakup of our long-term aspiration in terms of the number of deals we need to do which is why as I mentioned earlier we have beefed up that whole organization, we have increased the outreach. We are also putting greater responsibility on land owners in terms of approvals, so that not only we can be close more but also we can go to market faster. And I would say the next 12 to 18 months therefore would be very critical for us in terms of ensuring that we can clock in at least a good 10 to 12 deals over that period so that we create the pipeline for growth.

Kunal Lakhan: And these deals that you will be looking at would be again based on some platform basis or they be done on a standalone basis?

Anita Arjundas: As far as affordable is concerned, it would be through platform. As far as the regular residential piece is concerned, we do have some balance deployment under the StanC platform. We also have a second platform committed in terms of terms agreed between us and another partner which we have not gone to market with because we have not put a deal into it. So those options are there to us and between those two options, we can get access to about 1,000 crores. In addition, there is a strong focus on getting at least half of the deal pipeline if not more under the joint development structure. JDs which have low investment, we will do directly under MLDL.

The kind of conversations we are having, for example, are for project which are a million square feet, 7,00,000 square feet, 8,00,000 square feet with an upfront investment being in the range of 10 to 40 crores and then a revenue share to the land owner. So those kinds of JDs which I will say a smaller ticket investment we would do directly as JDs under MLDL. If we are looking at specific deals on an outright basis or JDs which have larger outgoes which typically you see in Mumbai because often FSI needs to be loaded. The kind of deals coming to the market are base FSI consumed, fungible and other FSI has to be loaded - so people are really looking at almost 150 crores, 200 crores, under JDs as upfront and then the area share. So those kinds of deals will go under the platforms whereas the lower investment JDs would be direct.

Moderator: The next question is from the line of Himanshu Upadhyay from DHFL Pramerica Mutual Fund. Please go ahead.

Himanshu Upadhayay: My first question is with RERA coming in and having that 70% money to be in Escrow account and GST being put on incomplete projects, how has our thought process changed on sales strategy and especially in terms of new projects where we are going to launch? So, has there any change in thought process on sales being there or how are you seeing that the new rules, can you just elaborate?

Anita Arjundas: From an analysis of our own projects I think what we have seen is that when you are focused on execution, which is running concurrently with sales, you are not in a position where as Jayantt calls it, stuck in a situation of being in a cash trap. There is no cash trap of any significant figures if you are running the sales and construction process seamlessly and parallelly together. So, we have analyzed all our projects under that 70% rule and we found that except for some five or six crores across all projects, in the balance, there is no cash locked there which is not accessible to us.

Therefore, it just goes back to if you go with an execution mindset and are focused on running both engines well and running both engines parallelly, you are not going to fall under a situation where your cash is locked in and you are not able to put it to use. Maybe, easy fungibility of money across projects would be slightly limited but we have not seen any cash strapped of any significance based on at least the last 4 months that we have reviewed all our projects.

Himanshu Upadhayay: The impact of GST on the new project launches meets and how is customer mindset behaving right now?

Anita Arjundas: Two aspects – one I think, in the costlier projects - in projects which are at the upper end of the segment - a clear preference for finished goods, they want more certainty of no execution delays. Second, obviously a 12% impact is big so people are preferring finished goods in the luxury segments, in the super premium segments. In the other segments I think it is more of recalibration of expectation and understanding that there is a 12% impact my old impact was about 5.5% with the input tax credit that we have been passing on to our customers and the net impact is about 4% and people have settled down to that.

Himanshu Upadhayay: So, in the Bombay market we are around 2 or 3 crores value of a project which we are doing what would be the mindset there? When you stated do you take them as a luxury project or a normal so there the customer is not ready?

Anita Arjundas: No, under 2 crore I would not treat it as a luxury project in Bombay. I think anything under 5 crores in Bombay is not luxury. So, I mean in Bangalore at Rs. 8,000 you could do a super-premium project whereas in Bombay that would have to be Rs. 20,000 at least.

Himanshu Upadhayay: So, I am trying to understand how the customer is thinking so in the Bombay market where we will be launching more projects in that segment of Rs. (+/-)2 crore type of based on the sizes.

Anita Arjundas: Under Rs. 2 crores to Rs. 2.5 crore I do not see an issue because again it is a kind of customer coming in to buy that product their concern on finished goods versus construction WIP would be execution credibility which I do not think they see a risk from our perspective. They have seen a track record of delivery so there is no concern for Mahindra from that point of view. And second, really at that price point, many of them are loan customers they want to be able to run the loan over a period of time have started kicking in those 3 years before they get delivery, get time to pay over that period of time some time they keep generating bonuses, they generate cash flows, they are able to pay out a little bit. So, they do want that financial flexibility as opposed to going in and cutting one cheque even if it is through a loan at the end of the project whereas the more expensive products people definitely are seeing the arbitrage of finished goods versus construction WIP as important in market like Bombay and NCR. Bombay for us is more anecdotal because we do not have anything under sales at the moment. Vivante is fully sold out. So, it is really only what we launch in future.

Himanshu Upadhayay: My second question was in the four main markets of Bombay, NCR, Bangalore, and Pune where we want to focus also where we have presence for very long period of time how is the market evolving post the new rules and what is our strategy to gain market shares in these four markets? We have stated in one of the things, but I think we have been seeing our launches have been lower for a pretty long period of time means far, few and in between launches are there, but this thing we have been discussing for I think for more than two years I have been tracking this company, but still we have not seeing the speed of execution and launches having happened. So, can you throw some light, this problem has been known to us for a very long period of time why and how are we comfortable that now we will be able to increase the speed of launches and more launches will be there in these four markets and also your strategy in these four markets and how is the market evolving in these four markets?

Anita Arjundas: I guess I covered a lot of this in detail in the earlier questions in terms of the approach land acquisition. So, I am not going to repeat that, but just to summarize it is about a larger team, a greater focus on faster turnaround, responsibility and approvals of the land owner are key and a greater outreach in terms of some of the newer channels of lead pipeline that would summarize the approach and I think that would summarize the approach for each of these markets. I had also stated earlier that we would like to see at least five to seven projects about 5 million square feet running on each of these projects. The endeavor will be to get to that state in the next year.

Important to note that yes, I think in the last couple of years we have not added anything and that obviously is a concern because we need to ramp that up. I would just like to point out that it is not that we did not have commercial closures, but we definitely had at least three or four

MoUs that were closed falling away during the legal and technical due diligence stage. I think the learning for us has been that you just need a much larger pipeline because you will have more and more deals falling away on one or the other criteria. I guess the last time around when we put out 12 land parcels over 18 months we must have had only one or two falling away, but in the recent past we have almost had 5 or 6 falling away on due-diligence. So, it is important to be able to have a greater pipeline commercially closed. So that even if a few do not go through we still have others converted.

Himanshu Upadhayay: One question I had in terms of feet on street for both new land acquisitions and new how much would have we increased our size of team? Let us say we had an x number of teams present in these four markets which was scouting for deals working on getting those closed and all that.

Anita Arjundas: What we have done in the last six months we have doubled the team in terms of what we had and where we are today that whole team is doubled either in terms of people already on board or people who have been selected and in the process of joining us, but there is a clear doubling in terms of the land acquisition team that has taken place.

Himanshu Upadhayay: One more question we keep on reading on newspapers that the default rates in low ticket housing or let say below 10 lakhs, higher than 10 lakhs to 25 lakhs, lower than 10 lakhs behind 25 lakhs to 50 lakhs would have far lower NPA, how does it affect means in those low-ticket housing does it really have any impact on us because the defaults are much higher in that category than let say above 50 lakhs to 75 lakhs?

Anita Arjundas: So, we do not have experience on that I know I have seen the numbers that you are talking about which have come from the banking industry. Yearly our interaction with the customer in affordable housing is over a period of two years on the time the customers comes on the board till the time he handover the house and we received 100% of the money and there is exit. Is the cancellation rate higher than in the mid and premium segment, yes often because they got into specific financial issues and are not able to manage the financing so I would say we if you had a cancellation rate of say 5% to o6% in the premium segment in affordable it would be about 8% to 12% that is terms of the customer acquisition stage and a customer falling away during the sales cycle. Thereafter, we are not impacted we have collected all our monies and the unit is handed over to the customers the banks have a charge of the unit and in our experience at least till now from whatever we have handed over since we are still are on those sites, we have not come across a single instance where the bankers had to step in because the customer has defaulted.

Himanshu Upadhayay: And one more question in the Pune market what is the future now means it is I think more than one and half years it is being completed now and what quantum of money would be stuck? Any just thoughts on that project now?

Anita Arjundas: We have started selling and I think in this month we had already had about four sales in Lartista we expect to see another for sales in the next couple of months so that would be 50% of the units sold. The effort is to complete the sales either by the end of this year or latest by Q1.

Moderator: The next question is from the line of Vaibhav Shah from ICICI Direct. Please go ahead.

Vaibhav Shah: Ma'am just wanted to check it out could you please throw some light on the affordable housing in terms of the aspiration? What would be the target we would be looking out in terms of the like we have mentioned about the area wise kind of scale we would be having 5 million square feet to 7 million square feet in each of the area in Pune, Bangalore, Mumbai on the affordable housing category could you please throw some aspirational level and how we would be looking out to achieve this over the next two, three years or five years kind of thing.

Anita Arjundas: So, if you look at the investment commitment of the platform between HDFC and us we are looking at 500 crore commitments over the next three years that translates into anywhere between 5 million to 10 million square feet of development potential that we can acquire depending on whether we do it in the 3,000 segment the 4,000 segments or the 5,000 segments. So, it is all Rs. 5,000 segments then it would be about 5 million square feet if it is all Rs. 3,000 it would be about 10 million square feet and therefore I would say looking at kind of a midpoint view about 7 to 8 million square feet of acquisition that we are targeting over the next two to three years through the money that the platform has committed for affordable housing.

Vaibhav Shah: Ma'am would that be in a particular Mumbai and Pune geography because of the platform or would we be extending beyond these geographies?

Anita Arjundas: The platform is not geographically limited. Its initial priority are Mumbai and Pune and since we see this as a scale business we prefer to get scale in one market before we open up another market. Mumbai has enough potential as also Pune. So, I would say between Mumbai and Pune we should be in a position to at least look at 4 million square feet before we say let us open up another market. And next set of markets that have been defined as potential markets are Bangalore followed by Haryana.

Vaibhav Shah: Also, could you please Ma'am throw some light on the project pipeline in terms of the addition of the new project? We were pursuing some deals and what is I mean if you could throw some light on that?

Anita Arjundas: So currently we have one MoU which is live in Bangalore which is under final stages of diligence in terms of CP is being met by the land owner. There is basically a small legal issue that he has to sort out once that is done we would get that land parcel in. There is a second MoU which is there in Pune where we have completed the legal due diligence and legal satisfactory. On the technical side they need to get a zoning demarcation completed which is more a matter of when rather than if and so once that is completed that land parcel should come in. So, these are the two live MoUs which are at an advance stage of diligence in the mid and premium segment. In affordable housing we have one in MMR which is currently under technical due diligence completed and satisfied. Title due diligence there are one or two issues that the land owner needs to sort out and then that land parcel can come into our books. In my view these three deals should rectify basis the CP is being is met by the land owners in Q1 and then we have another three which are commercially agreed, but yet to be MoUed. One in Hyderabad and two in Bangalore.

Vaibhav Shah: Ma'am in terms of the developable area these three put together would be how much size?

Anita Arjundas: All of them about 7 to 8 lakh each and all of them are around that Rs. 5,000 to Rs. 6,000 price point locations.

Moderator: We take the next question from the line of V. P. Rajesh from Banyan Capital Advisors. Please go ahead.

V. P. Rajesh: Thanks for the opportunity just wanted to understand on the residential side what is the finished good inventory we are sitting on meaning the units that are not sold as yet, but they are completely finished, and we are just waiting to sell them.

Anita Arjundas: So, if you have a copy of the investor presentation Slide #17 gives the details it is about 160 units in total.

V. P. Rajesh: What is the rupee value in terms of book value or in terms of market value of those 160 units?

Anita Arjundas: Roughly about Rs. 140 crores.

Moderator: Ladies and Gentlemen as there are no further questions from the participant, I now hand the conference over to Ms. Anita Arjundas for closing comments. Thank you and over to you Ma'am.

Anita Arjundas: I think in the interest of time since we have had a fair amount of questions right through the whole call, I will be very brief. We will obviously focus on some of the concerns that many of you have raised in terms of where is the deal pipeline and where is the visibility on launches. I think that is one of the single large focus for the organization. We hope to be able to show you outcomes rather than approaches in the next few quarter. Thank you.

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

(This document has been edited for readability purposes)

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