"Mahindra Lifespaces Developers Limited Q3 FY-22 Earnings Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to Mahindra Lifespaces Developers Limited Q3 FY22 Earnings Conference Call. We have with us on the call Mr. Arvind Subramanian – Managing Director and Chief Executive Officer, Mr. Vimal Agarwal – Chief Financial Officer and Mr. Sumit Kasat, Head Investor Relations.

This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions and expectations of the company as in the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Arvind Subramanian, Managing Director and Chief Executive Officer. Thank you and over to you sir.

Arvind Subramanian: Thank you very much and good morning to everyone. Welcome to our Quarter 3 FY2022 earnings call. Firstly, I'd like to thank everyone for taking time to participate in this conference call. As you all know many of our key operating entities in the residential business, like Mahindra Homes, Mahindra Happinest and all the entities in our industrial business, which is Mahindra World City Developers, Mahindra World City Jaipur, Mahindra Industrial Park Private Limited, Mahindra Industrial Park Chennai Limited. All of these are not consolidated on a line-by-line basis.

I wanted to start my opening remarks by drawing out six things I noticed in the recent budget which I think has important bearing for us both as a category as well as us as a company:

- First, the continued commitment and focus on PMAY and affordable housing. I think that is a strong statement of intent, these are multi-year programs and the fact that the government continues to support it aggressively, is a good sign.
- Second, a strong investment focus. I think it is very clear, the theme of this budget was around supply side, focus on manufacturing, focus on infrastructure. Particularly the focus around the manufacturing sector was very notable. The expansion of the PLI schemes, the focus on solar panels, solar module manufacturing, infrastructure status for data centers and these all bode well for our IC & IC business.
- Third, the promise of new legislation on the SEZ which again is something that had been discussed for a few years now and we are hoping that the new legislation creates a liberalized SEZ environment. As you are aware we have a significant presence in the SEZ space, particularly now in Mahindra World City Jaipur and depending on how this legislation shapes up, I think again it would be a big positive for us as a company.
- Fourth, the entire budget was there were repeated references and commitments to sustainability and green, which again I think it's important for the nation, it's important

for the category and certainly it's an area that we would like to think of ourselves as leaders within the real estate peer group. Therefore, again plays to our strength.

- Fifth, there was a lot of talk in different aspects about building transparency with national generic documents as the registration system, the digitization of land titles etc. but also the easing of approvals and single window expedited clearances around the environmental clearances etc.
- The last one I will call out is the focus on infrastructure, particularly roads and highways and that to my mind while it is of course very good for the nation and creates a strong economy. It does have some risks for us from an input cost perspective because as more and more investment happens in roads, cement, steel demand etc. goes up.

So these are six things I would like you to bear in mind as you look at the category as well as the company.

The sector overall has been doing very well. Many analysts, some of you on the call have been writing about the signs that this may be the start of a multi-year bull run for the sector and I do believe that view does merit consideration. The pandemic has had strange impact which is almost counterintuitive when the pandemic started. We wouldn't have thought of it that way but looking back we had seen that paradoxically it is reignited the need for better personal spaces, homes, offices etc. in the home-buyer's mind.

Despite the recent spread, almost viral spread of the Omicron variant, we are seeing a steady improvement in both consumer sentiment as well as business confidence. I think this is backed by the strong vaccination drive and the fact that many states are now starting to gradually open up some of the restrictions that were placed. The historically low interest rates, greater affordability, high savings rates and as I said a resurgent interest in home buying are all good tailwinds for the sector. Price levels are recording a perceptible uptick both on a quarter by quarter but also on a year-on-year basis. I expect this trend to continue in the coming quarters. This is driven by both; demand shrink and also the input cost inflation.

Let me take a cue from two aspects that are highlighted:

The budget the focus on manufacturing and SEZ legislation to actually start my comments about our performance with the IC & IC business rather than the residential business which I traditionally do. The reason I picked the IC & IC business to talk about first is to my mind that has been the standout highlight of the Q3 performance. I have been talking for the last few quarters about the fact that we've seen a good pipeline, a good buildup up of enquiries but we've been struggling with convergence primarily because international travel has been restricted. As some of those restrictions eased in Q3, we have seen a strong conversion and done 51.1 acres of leasing in Jaipur, totaling to about 143 crores. And the good thing about this, two or three positives I would take from this.

You would recall I had set an aspiration that by 2025, we need to be at 500 crores per annum of industrial leasing. So doing 140 crores in a quarter sets us very well on that run rate. The other aspect is this is a long sales cycle business. So, I have confidence that performance will be sustained in the current quarter as well.

The third is again going back to a more general observation, I think the resurgence of manufacturing investment bodes well for the overall economy and for the country. For all the three reasons I'm very heartened by it. So also, a testament to what Rajaram and his team have been able to achieve over the last 6 months. You would recall Rajaram joined us as Chief Business Officer, Industrial earlier this year and his focus along with his team has been to build a discipline in our sales process, so that we have predictable business. This tends to be a very lumpy business but he and his team have been building the foundation to make this into more predictable quarter-on-quarter business in the quarters to come. Kudos to Rajaram and the team.

Turning our attention to the residential business; we had again a very strong quarter, about 250 crores of presales, largely driven by, in fact entirely driven by sustenance sales. That's again being an important focus that Virendra has brought in where we don't want to be only running from launch to launch, of course launches are important and I will cover that in a minute. But it’s important to build capabilities to continue to chug along with sales even in periods when we have fewer launches. So that does wonders for our economics. So, 250 crores is the pre-sales in the quarter. Our nine months sales comes to about 700 crores which is higher than the entire previous year what we achieved in FY21. The major quantity from a value perspective were Luminare in NCR in Gurgaon and Vicino in Mumbai, both projects have done extremely well. Luminare has again been a very heartening story. We've seen over a 20% price appreciation over the past 18 months.

From a volume perspective, Mahindra Happinest at Mahindra World City Chennai was the standout performer, we launched about 348 units in Q2. This was I think in August-September when we had launched it. As we stand today, we sold 97% of that, which again is a great testament to the capabilities because we're now able to demonstrate this project after project which is fantastic.

During the quarter our mid-premium business contributed 72% to our sales value and the affordable business contributed to 28% and the average price realization stood at just under Rs. 7900 per square foot. That's driven largely by the mid-market versus value homes.

Coming to launches:

In the third quarter we launched a new phase at Alcove which is our project in Saki Naka and Mumbai as well as the last block of Happinest Avadi. We've also relaunched with a significant upgrade, our villa project in Alibaug we now call it Mahindra Meridian and the initial response has been very heartening to that product as well.

Looking ahead, just two days back, this weekend launched our second project in Kalyan. This is a land parcel we had acquired in March of 2021. It's been about 10 months that we've taken to get to launch. The first weekend walk-ins have been quite encouraging. Looking ahead we are looking to launch additional phases in Happinest Tathawade in Pune. The last phase of Alcove in Saki Naka as well as Vicino in Andheri East. We are also in advanced stages of RERA registration of the last tower in Luminare which Tower B. Our project in Kanakpura as well as the new land parcel that we acquired in Pune in Pimpri will both be launched likely in the first half of next year. We are also looking the launch of plotted development project in Mahindra World City Chennai where again, we expect approvals and to be able to launch it within the first half of next year. The overall inventory that we expect to launch in the next three quarters which is Q4 of this year in Q1 and Q2 of next financial year will be in the range of about 1700 crores.

Land acquisition is an important area of focus for the management team. This year so far, we have announced two land transactions with a total GDV of 1,300 crores roughly. One in Pimpri as I mentioned and one in Dahisar in Mumbai. Both of these are progressing well from a design development and approvals perspective. We are in advanced stages of negotiations on a few other important land parcels and should be able to make announcements in the next 2 - 3 months on totaling a GDV of about 2,000 crores. That will take us well above the target I'd shared with you of doing 2,000 crores worth of GDV addition every year. I'm very confident we will exceed that. If I look further ahead, our overall pipeline from a business development perspective, land acquisition perspective is almost 8,000 crores worth of GDV and this covers many different deal types. We are now actively pursuing transactions which are outright, outright with approvals, joint developments, society redevelopments as well as distressed assets. If we look at that 8,000 crores pipeline, these are in various stages of negotiation. Even if we hit a 25% to 30% strike rate, we are home and dry for next year’s land acquisition as well. We would like to exceed that but I'd like to give you a confidence that we are in a good space as far as land acquisition is concerned.

Collections and cash; another important aspect of our business. In Q3 we achieved 469 crores of collections which has led to an overall year-to-date collection up to end of Q3 of 844 crores which again is well above what we achieved in the full FY21. We have a very strong cash position and a low leverage on our balance sheet which sets us up well for growth going forward. We completed about 2 lakh square feet during the quarter, primarily in Bloomdale in Nagpur and Happinest Palghar. The overall nine months completions is about 7 lakh square feet. We are expecting a few more important completions in Q4 at Centralis at Palghar, at Bloomdale and at Lakewoods in Chennai.

Overall, we are seeing construction activity picking up pace. The first two quarters were lagging from our desired pace but Q3 we've caught up and Q4 we expect to end the year quite strong. With that let me request Vimal to update you on the financial performance during the quarter.

Vimal Agarwal: Thank you Arvind and good morning, everyone. Moving on to the financial performance for Q3 FY22, as per Ind-AS basis of accounting following are the 4 or 5 key points. The consolidated total income stood at 23.3 crores as against 65.7 crores in Q2 FY22 and as against 70.23 in Q3 FY21. The consolidated EBITDA including other income and share of profit from JVs stood at 21.4 crores as against 27.4 crores in Q2 FY22. This number was a loss of 2.9 crores in Q3 FY21. The consolidated PAT after non-controlling interest stood at 25 crores as against 6.5 crores in Q2 FY22 and as against loss of 11.2 crores in Q3 FY21. Your company has consolidated gross debt of 199 crores while cash in hand and bank balance stood at 156 crores. The debt is 7.2% on consolidated basis while MLDL's standalone debt is at 6.4%.

with this I will request to move to the questions. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. First question is from the line of Adhidev Chattopadhyay from ICICI Securities.

Adhidev Chattopadhyay: Arvind as you alluded in your opening remarks on the business development pipeline. Just to clarify, so you think out of the 8,000 crores of pipeline deals maybe around 2,000 crores is something you'll close by March of this year or it may spillover to next year, just wanted some clarity?

Arvind Subramanian: I think we are trying to close it as quickly as possible. I would say 2 to 3 months. I would like to close it before March but we are growing concerns which slips into April. I do believe. I mean look, as long as we get the right deal with in March and April honestly, I'm not too fast. We'll try and close by March itself. Unlike Cinderella's chariot I'm hoping we won't turn into a pumpkin on 31st March.

Adhidev Chattopadhyay: Just considering now obviously wherein Mumbai, Pune have been our focus areas as you have said for acquisition now, considering that now a lot of listed peers, even unlisted guys who are still there, the larger ones. When you think you have lot of competition for the land. People are aggressively chasing lot of land banks. What does this mean for land prices and how are you walking around ensuring that margins are protected in the rising cost environment?

Arvind Subramanian: Yes, that's a great question. Yes. There is certainly a lot more interest and activity and as we all—I'm part of it, all of you are part of it—talk of the bull run in the real estate, more people start getting interested and there is growth that gets created from a land acquisition perspective. We are starting to see more activity from a competitive perspective but that being said I think landowners over the last several years have learned their lessons and do definitely favor the larger, more well-established, corporate developers because they believe there is a greater surety that the transaction will actually be consummated. We have seen over the last year several rebound transactions that have come to us where landowners have signed up with somebody that deal has not been consummated and then they're back in the market 2 years later. I think that lesson is in the minds of landowners. So, they do deal with people like us differently from the others. I'm hoping that will continue to stand us in good stead. The combination of though as you rightly pointed out heightened interest in land and input cost inflation is putting pressure on margins. We are countering that in three or four different ways. One is clearly looking at sharper design, so more efficient plans, trying to get better area efficiencies etc., value engineering. The second is around contracting and procurement. How do we consolidate, how do we group kind of commodities that we buy but also finishing materials we buy across projects so that we get better prices.

The third is value and pricing. As I mentioned there has been a perceptible hardening in pricing across the market but within our portfolio certainly, we have a discipline of taking price up every quarter by at least 1.5% in each project and many projects have done much better than that. They've gone up by about 8% to 10% over the last year. The last one which I think is particularly important for players like us is how do we bring our advantage on cost of debt to that. This is a capital-intensive industry. As Vimal pointed out, our consolidated cost of debt is 7.2%. Most of the peers are at 10%-11% plus. That has got to count for something. As we look at how to leverage that from an economic perspective, I think these four levers are what we are working on.

Adhidev Chattopadhyay: If you just help us understand cumulative nine months of this year, what would be the total input cost inflation and what has been our corresponding price hikes you've taken across projects, some broader sense?

Arvind Subramanian: Generally the input costs would have gone up if I look at it as a percentage of price. The impact on margin would be about 300 basis points. Our average price increase would be well above 5%.

Adhidev Chattopadhyay: So is it any costs would have gone up by 8% and price hikes by 5%, is the correct understanding.?

Arvind Subramanian: I'm saying, so input cost as if I think cost as a percentage of sales value, the impact on margin is about 300 basis points, so 3% of margin impact because of cost inflation. We've countered that by just the single lever of pricing increase which was an average it's been about 5%.

Adhidev Chattopadhyay: There has been no hit on margin on a net basis.

Arvind Subramanian: Yes.

Moderator: Next question is on the line of Parikshit Kandpal from HDFC Securities.

Parikshit Kandpal: My first question just to clarify on that, you said 2,000 crores of GDV before March and after that beyond that another 8,000 crores of potential prospect pipeline which you were in closer by 25%-30% strike rate for the next year, so which should be like well above your 2000 crores target for next year, is it right?

Arvind Subramanian: Yes. Advanced pipeline of 2,000 crores as I said we are trying to close it by March but even if it's spills into April that it's not the end of the world, but we will try and close it by March. The pipeline beyond that the 25% I was saying was more of back working so even at this strike rate this 25% will be in excess. I'm hoping our strike rate will be much higher than that.

Parikshit Kandpal: That's for the next year and maybe this year 2,000 maybe spilling over to April but after that next year another 2,500 crores, (+2,000) crores maybe next year from the pipeline which you have.

Arvind Subramanian: Yes.

Parikshit Kandpal: Second question is on, so we've been looking very strong sustainable sales averaging about 250 crores a quarter with not many launches in play now there is a launch every quarter. If you can highlight this quarter what are the expected launches in terms of GDV value what these launches will be and may be historically, we have done highest about 400 - 407 crores and will this be a quarter where we will cross 500 crores sales?

Arvind Subramanian: Parikshit, as I said this quarter, we've just launched a Mahindra Happinest Kalyan 2 which is our second project in Kalyan which literally this weekend we've launched it. We are expecting to launch the last phase of Alcove, the next phase of Lakewoods in Chennai as well as Luminare Tower B which is the third tower in Luminare. Luminare will be about 400 crores GDV which we will bring to market. Happinest Kalyan 2, the first phase is about 350 crores again. Lakewood's, about 100 crores in Lakewoods, again about 100 crores in Alcove. Those are roughly the numbers that we will bring to market.

Parikshit Kandpal: So, it's about 750-800 crores, so do we look at crossing 500 crores this quarter in terms of presales?

Arvind Subramanian: Insha Allah.

Parikshit Kandpal: Okay. So, earlier in your opening commentary you did mention about a bullish upcycle which is there. We likely believe that will be there for another 3 years, so just wanted to pick your brains on how are you positioning this cycle to the group M&M and do you think that anything to come through on the M&M family brand over the next 12 months? Have you already come to that, a part of that while we 8,000 crores of prospect pipeline?

Arvind Subramanian: So, I mean no further update from what I've given you in the last couple of quarters. We are in constant dialogue, as and when that opens up, we will certainly be in the running. Whatever is done will be done on arm's length, related party compliant kind of methodology, so at this stage that's all that I can share in terms of our market.

Parikshit Kandpal: On the industrial business, we did touch upon that international travel and in terms of vaccinations, so if you can delve on how the industrial prospect pipeline looking at, do you think that the momentum which we have seen in third quarter we can continue or it was just more of a pent-up demand which we have seen coming up in big numbers or if you can mention, on prospect pipeline and then like a standard slightly target you are looking at prospect business in the next year.

Arvind Subramanian: So, I mentioned in my opening comments, it's not a one-off. We are seeing continuing strength in that business. This quarter also looks good, that's a long sale cycle business. Often what you sign up as MoUs in one quarter gets translated into lease deals in the next quarter. We already are sitting on MoUs which give us confidence that this quarter will also be strong. I don't want to share a number but you'll be happy with the numbers is all I'll say.

Parikshit Kandpal: Lastly on the Mahindra Ghodbunder launch if you can touch upon what's the progress there and what are the timelines now, you are looking to launch the first phase of this project, is it like FY23 or FY24, some sense on in terms of preparedness, both on the design and approval phase and likely go to market and launch?

Arvind Subramanian: Thanks for raising that, Parikshit. We have had very good progress on the Thane land, approvals are progressing well. We are we are targeting to do a first phase launch end of next financial year or first quarter of the following year. So Q4 of FY23 or Q1 of FY24.

Moderator: Next question is from the line of Jainam Shah from Equirus Securities.

Jainam Shah: My first question is related to the land costs. So, in presentation we are showing that some 2,600 crores of cashflow is expected from all the projects pipeline from the residential business. How much land costs to yet to be paid including FSI cost and all of the related costs as on date, like a new land purchases and old payment if pending, so in number what is the land cost to be paid yet?

Vimal Agarwal: That's not a significant number. Having said that I'm referring to the core land cost. What happens is so far as FSI, TDR or incremental part is concerned that gets spend as and when you are constructing and as and when you're launching the phases. But majority of the land cost is paid for. Maybe we are short by about 40 crores or so in all these numbers, so far as land is concerned.

Jainam Shah: The calculation of 2,600 crores that cashflow is showing for the residential business, does it just MLDL's share in all the JVs or it is in total that we are expecting during the JV partner share?

Vimal Agarwal: This includes the JV partner share in the top lane as well as in the cost and therefore in the net number as well.

Jainam Shah: And this that TDR and FSI cost, is it part of construction cost or is it over and above that and is it also include admin and employee cost or it is just pure-pure construction cost?

Vimal Agarwal: You are right.

Sumit Kasat: It is at a gross margin Jainam. So, all the TDR costs, land related payments and all the COCs and approvals and all is part of construction cost. What it does not include is the below the gross margin line item which will be the sales and marketing cost and admin costs and all.

Jainam Shah: The launch pipeline of 5.92 million square feet including all the current phases, so how we're targeting this launch pipeline to be launched like within next 3 to 4 years or any guidance? You've given like 4Q and 1H there will be around 1,700 crores of launch. How this launch pipeline will be entirely consumed in next 2 to 3 years?

Arvind Subramanian: I think all of this should certainly be brought to market in the next 2 to 3 years. There isn't a thing that our business model and our approach to the residential business is to kind of monetize land as quickly as possible. We don't buy land to hold it. It's only a question of absorption in the market which will help us open subsequent phases and existing projects.

Jainam Shah: May I know the million square feet in launched in the recent project of Kalyan, like it is overall project is 1.1 million square feet but I guess some phases has been launched. What has been launched and how much is still pending?

Sumit Kasat: What we have launched is, the overall project has about 1,500 odd units, of which we have opened up 900 units which is RERA registered. So, on the area basis, of 1.2 million square feet 0.7 million square feet approximately is opened up as Phase-1. And basis the response of Phase-1, Phase-2 will be opened up maybe in next fiscal.

Jainam Shah: Just a last question, if we see the completion during this nine months, so it has been in lower side and the completion that you're talking about in the next quarter, so is it safe to assume that it will be crossing over the total nine months in million square feet or in overall value terms like many RERA bids are coming in this particular quarter?

Sumit Kasat: During Q4 we're expecting completions in the phases of Bloomdale, Centralis (few phases), Lakewoods couple of towers and Roots is also in touch-and-go situation. I think we are talking about multiple completions and Palghar, of course. In Palghar 1, balance completions are expected in Q4. We are probably talking about more than half a million square feet of completions across all these projects during Q4.

Moderator: Next question is from the line of Punit from HSBC.

Punit: My first question is on your industrial clusters. Can you give more color on what kind of enquiries are you seeing there, are they more from multi-nationals, domestic and what is the run rate of enquiry versus the pre-COVID levels?

Arvind Subramanian: It's actually a good mix of both multinational and domestic clients. As we had discussed the strong focus around promoting manufacturing investment in the country through other PLI schemes or other state level schemes is bearing fruit. Particularly in Jaipur we've had a good mix Scandinavian client, Indian clients, largely so far heavily skewed towards the domestic tariff area. The SEZ there has been one or two sign-ups but that has been a smaller part of the volume.

Punit: The run rate is significantly better than pre-COVID now?

Arvind Subramanian: Oh yes. I mean so the last quarter Q3 was higher than the entire previous year and year before that as well. So, I think and as I said Q4 is going to be strong as well. So, we are certainly seeing a bounce back in manufacturing investment. There was a period of about 4-5 years when as a country we were not attracting enough manufacturing investment. We are seeing that story turn around quite dramatically.

Punit: Secondly on the residential demand. Can you give some color on what is the quality of this demand? Is it more end-user based or are we seeing investors coming back in the market?

Arvind Subramanian: I think for many years now at least 2-3 years, we are seeing a more end-user-based demand now. End-users, one has to qualify the term here, it is for self-use. Sometimes it is also for something that they buy to gift it to children etc. So, it's not always self-occupied but the earlier behavior of buying just to flip property as soon as it's ready and that has gone away almost completely from the market. I don't see that kind of demand in the market.

Punit: And in terms of price increases do you see room to this further price increase?

Arvind Subramanian: As I said our discipline and our business model is very clear that we will have a steady price increase quarter-on-quarter. This is not just important for our economics; it is also important from a consumer signaling perspective because otherwise why would as we just discussed if it's an end-user; why would he buy during a construction cycle? If the price is not going to go up successively until possession. He might as well wait till possession to buy it therefore our pricing strategy is very clear. We will price in at an attractive level at launch. We will steadily take price up so that by the time you reach OC there is a very perceptible price increase, so customers who have bought with us in under construction, at launch-in etc. and sustenance do feel that they have actually done a good thing by buying with us early.

Punit: What kind of price increase do you plan for launch to OCC?

Arvind Subramanian: Our thumb rule as I said is 1.5% per quarter. We try and do more than that but the default is 1.5% and there has to be a strong reason to be below that in any project.

Punit: Basically, by the end of the project completion if nothing more at least +20% price increase for that definitely have happened?

Arvind Subramanian: Yes, that is the intention.

Moderator: Our next question is from the line of Prakash Kapadia from Anived Portfolio Managers.

Prakash Kapadia: I just had one question. Bombay and Pune seems to be our focus area on residential. So, have we identified some newer micro-markets where we were not there or is this cluster approach enough for us to grow in the near term in Bombay and Pune?

Arvind Subramanian: Prakash, within Bombay and Pune we have identified certain priority micro-market that we want to double down on. Some of that is kind of self-selection because of the segments that we want to work in. As we have talked about in the past, we want to be bringing products between about 30 lakhs to 3 crores, 2.5-3 crores. That's selects market particularly in Mumbai where the price distribution is quite linear from South to North. In Mumbai we are looking at markets in the Western Suburbs like Kandivali, Borivali, Dahisar, Andheri East etc. On the central side it would be Chembur, Mulund, Thane and in Navi Mumbai certainly Vashi, Sanpada, Nerul. These are all important markets for us. In Pune it is a bit more geographically distributed. We like Pimpri where we have done three or four very successful projects. We are looking at Mahalunge, we are looking Mundhwa, we are looking Hinjewadi. These are the key markets which we have.

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

Prem Khurana: If you could share your thoughts on the supply side and not from the company perspective but more from industry perspective because I think there was a media article yesterday where in it seemed that BMC has approved more than 2,500 or 2,400 odd projects with 15 crores square feet kind of additional built-up area and what we have been seen in the past is essentially some of these real estate cycles tend to go bad because, not because the demand goes down substantially but because of the oversupply situation wherein they deal with some pricing pressure and people start cutting prices. Would you believe that entire 15 crores square feet to hit the market and there could be any issue with the pricing action going forward or do you think large part of this whole would not come to the market only and this is only approvals and some of these deals won't be able to kind of hit the market?

Arvind Subramanian: Prem, your voice is little bit muffled. You are asking about?

Prem Khurana: I was asking we generally tend to focus more on the demand side of the business, right? But when I look at supply, I mean supply again is an integral part of the real estate valuation real estate cycle that we can do have, right. There was a media article yesterday where in it seemed as if BMC last year seem to have approved 2,400 odd projects with 15 crores square feet of additional buildup area. Assuming this entire thing will hit the market, I mean could there be a situation, we would get to have the repeat of the last cycle where in over-supply came to the real estate cycle and not any significant slowdown in the demand?

Arvind Subramanian: No, I think that's a great point. I think there are several things happening in the industry. One there is a very clear formalization of the sector particularly in the residential real estate market where customers are preferring to buy with particularly for new launches and under construction with credible developers who have a track record of delivery, who have not kind of walked away from projects if they are facing financial distress etc. I think that has become a very marked trend in the under construction for pre-delivery sales. Post-delivery of course there is a bit more confidence with the customers have as long as the product is trending and it's good and its quality is okay then they are willing to take the risk with local developers. So, yes there's been lots of approvals given. Many of these actually get built and launched and delivered, remains a question that we will have to watch. As I commented in response to one of the early questions which was on land acquisition. Unfortunately, our market, our category is very sentiment driven. When there is an upswing, everybody wants to enter, when there is a down cycle everybody wants to stay away and because now there is a belief that real estate is on an upswing; you do have the fringe developers who were sitting by the side lines wanting to throw their hat into the ring and develop. Some of them might succeed, some of them might fail, and very early to say but the market has learnt its lesson over the last cycle of ups and downs. I expect those lessons will be remembered.

Prem Khurana: In our notes to accounts we seem to be planning amalgamate some of these subsidiaries, MITL, MRDL with MWCDL. Any change in thought process for MITL because I thought it's largely meant for social infra which is where I mean you get that entities separate because you want to distinguish between IC & IC and residential or social infra which is why the land was transferred to MITL. Why are we planning to merge it back with MWCDL? MRDL is not a problem because they have hardly anything left. MITL specially if you could clarify please?

Vimal Agarwal: Prem you are absolutely right. When we had called out these entities about 10-12 years back there was a SEZ related requirements of, for example having a co-developer or you need a separate entity in case we are bringing in an investor or creating a platform. Subsequent to that there are developments happened where the guidelines have changed and today when we file for this merger, we believe that there is opportunity to optimize on cash upstreaming, tax optimization and leveraging or extracting value once we merge it and based on these considerations we have gone ahead and done the filing. The thought process continues to remain whatever is the residential area will be developed as residential; whatever is commercial will be leveraged as commercial area.. We believe that it will lead to a higher value creation once the merger comes through over the next 6 to 8 months.

Prem Khurana: But if we were to do that, it won’t come as a part of, you won't be able to consolidate on a line-by-line basis, right? I mean because MWCDL, you are not allowed to consolidate because you don't have the full management control there. Although we own 89%?

Vimal Agarwal: You are right. The choice was between top line and the bottom line. We have selected bottom line.

Prem Khurana: And just one bookkeeping Vimal. I think our net debt consolidate that you report. I understand it doesn't reflect the true picture but seems to have gone up by some Rs. 20-30 crores odd during the quarter. In this quarter, I think we received almost around Rs. 50-55 crores odd from Luminare entity and there was a buyback. Why would this eventually net debt would go up and if he could manage to have Rs. 50-60 crores come to us from Luminare and we have done good in terms of cash flows even otherwise. Was there any land payment during the quarter which would explain this slight rise in our net debt number?

Vimal Agarwal: Look at it from two perspectives. One is that look at a little longer time horizon, starting 1st April to 31st December, you will see that all entities put together, there's a debt reduction, that's coming on the back of huge operational cashflow which is coming. The operational cash flow positive for nine-months is upwards of 500 crores actually. A part of that has been paid back to the stakeholders and the shareholders and part of that has been paid back as debt. On 3-months basis, you will never be able to make out as to how the numbers are moving positive or negative because there are inter-company loans and stuff like that which moves. Having said that obviously one is building up cash in anticipation of adding GDV in the next few months as Arvind mentioned in his opening remarks. That continues to be a key priority for us.

Moderator: The next question is from Shreyans from Equirus Securities.

Shreyans: My question pertains to the questions that were asked by the earlier participants. If I just do a rough math in terms of the cash flows which we are expecting, so out of these 2,600 crores odd, if I remove the admin cost and share of JV, I am coming at a number of say roughly around 2,200 to 2,100 crores odd. If I discount it at the current rate, it's coming at around 1,600 crores odd, is my understanding, right?

Sumit Kasat: Yes Shreyans, I think overall admin cost over next 3 years should be about 400-500 crores and share of JDs should be around 250 crores in that number. If you subtract that and then taxations, I think is different ball game altogether because we have accumulated losses and all, we will have to see how that really pans out. We are not expecting too much of tax outflow. I think net number what you are suggesting 1,500 crores seems to be on a conservative side but right.

Shreyans: What would be the price hike assumption which we have taken for coming to this number?

Sumit Kasat: Nil. What Arvind mentioned on regular price increase is something that will definitely improve the overall top line. The estimated sales value should increase. Even the construction cost is also something that we have estimated as on today. So, we will have to really see how that equation plays out but we expect to do better.

Shreyans: My second question pertains to the IC & IC business. Here again. in terms of the cash flows or the numbers which we are expecting, it suggests the ballpark that we are expecting roughly around 8% to 10% increase in terms of realization to around 30 million on an average whereas if you see our nine-months performance, it's more or less with that 25-27 million number. Is it fair or probably is it, do we think that we can redo that number?

Vimal Agarwal: There are a couple of points here. You are directing to the blended numbers, right?

Shreyans: Right.

Vimal Agarwal: Now, the sheer fact that it's blended it will mean that your number may move because of the mix impact. The overall portfolio which we are holding actually moves anywhere between 1 crore to about 4 crores an acre and to that extent if the mix is different than the realization will be different. Apart from it we are usually experiencing price escalations and better price realization on the IC side of business.

Shreyans: Any updates on the SEZ contingent liability which we have?

Vimal Agarwal: You are referring to Jaipur?

Shreyans: Sorry?

Sumit Kasat: Which entity you are referring to Shreyans?

Shreyans: For the IC & IC business? In that IC & IC business we have a contingent liability I guess, if I am not mistaken in the Chennai?

Vimal Agarwal: Absolutely no change in the status on the contingent liabilities of Chennai.

Shreyans: Post this budget announcement for the SEZ benefits; will things change for this contingent liability or it will be status-quo?

Arvind Subramanian: No, the two are not connected.

Moderator: Next question is from Manish Agrawal from JM Financial.

Manish Agrawal: My question pertaining to the industrial business. Firstly, we have seen substantial traction in Jaipur DTA specially. So, any sense on going forward how will the SEZ area pan out in terms of leasing traction?

Arvind Subramanian: Look I think SEZ because of the sunset on the SEZ clauses and the fact that SEZ units so far don't have the flexibility to serve domestic markets, SEZs in general have seen lower demand and with the proposed changes in the legislation and the early signals we are getting is, one of the key changes is going to be allowing SEZ units to serve domestic market. I think that will be a game changer for the SEZ because then actually SEZ becomes more attractive than DTA, because it gives you the benefits of an export-oriented unit plus using the same facility for a domestic market. It creates manufacturing efficiencies and optionality to serve both markets. That's something that we are eagerly anticipating. Now depending on the timing of when that legislation is introduced and approved, I believe that could be a significant upside in Jaipur.

Manish Agrawal: Till then the DTA business is likely to grow?

Arvind Subramanian: Yes, we are seeing stronger demand in DTA.

Manish Agrawal: Secondly Chennai saw a cancellation of around 3 acres. So, anything to read to it, what type of customer versus any further cancellation expected anywhere?

Arvind Subramanian: No this was a one-off. That particular customer was in financial distress and had to cancel the deal. If you look at the last several quarters, it’s very rare that this happens.

Manish Agrawal: Lastly, Ahmedabad are you able to finalize the anchor tenant or what sort of demand are you seeing right now?

Arvind Subramanian: Not yet again active discussions under way but we still don't have wet ink on paper. So, continuing to work towards that.

Moderator: Next question is from Pritesh Sheth from Motilal Oswal.

Pritesh Sheth: Two questions on your 8,000 GDV pipeline that you indicated. Firstly, how is the mix across Mumbai-Pune and across the project that you are targeting in terms of outright land acquisition JV-JDAs. Where it is more inclined towards?

Arvind Subramanian: I would say about 50% of that is outright between either, clean out right where we do the approvals or outright where the land owner does the approvals and then we buy it. Some combination of that would be 50% of the pipeline. About 25% is society redevelopment which is becoming a very active and very attractive particularly in the city of Mumbai and Navi Mumbai and the rest would be a combination of JDA and distressed.

Pritesh Sheth: Mumbai-Pune equally poised or is it still heavy in Mumbai?

Arvind Subramanian: I would say currently about 60-40 just because in Mumbai the values tend to be higher. The prices are higher etc. Not from an acre-age perspective but certainly from a GDV perspective is 60% Mumbai - 40% Pune

Pritesh Sheth: How much would we spending on acquiring this 8,000 crores pipeline over the next 2-3 years? What's the estimation from the mix that you have right now looking at?

Arvind Subramanian: Firstly, it's highly unlikely we will acquire 8,000 crores. As I said that's the pipeline, there will be a certain strike rate on that. I hope for a good strike rate so that we can pick and choose the ones that we really want to pursue. But thumb rule, I would say blending across Mumbai and Pune is about between 15% and 20% of top line is the cost of land.

Pritesh Sheth: Are you seeing any increase in terms of your land prices or JV partners asking for a higher share, anything of that? Because now if you see from the organized space perspective as well; most of the developers are looking at strong business development over the next 3-4 years. Looking at the competition and looking at the choices they have, are you seeing any increase in terms of price or share for the partners?

Arvind Subramanian: As I have mentioned earlier there is certainly hardening of prices and stronger negotiations happening from the landowner's perspective. A year back or 1.5 years back there was more desperation on the part of landowners. Today, they are holding out for that expected price even willing to wait till they get the price that they expect. So, to that extent yes there has been some hardening in price on the land side. But look, one should see this in perspective, if land cost is between 15% and 20% of the top line, even if land costs hardened, it will harden by another 10% let’s say, that's about 1.5% to 2% of margin impact and one should be able to cover that in between price and cost efficiencies, once if we were to cover that. So, yes, it is happening but I am not unduly worried about it is the summary message I wanted to give you.

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

V. P. Rajesh: Most of my questions have been answered except this one. If you can comment about your distribution network because I know last year you were quite focused on building that up and if you can talk about how it has shaped up and what are the benefits that we are starting to see from that?

Arvind Subramanian: The clear visible benefit is the strong sustenance rhythm we have been able to build doing roughly 250 crores in the quarter which is about 80-85 crores a month purely on sustenance sales with no new launches is testament for the strength of the distribution channels that we have built. In Mumbai we now cover I think we have something like +3,000 active channel partners on our network. We have also built a lot of strength around our pre-sales and digital capabilities as well as corporate and loyalty. These are the three main sources of leads and walk-ins that we have so all three are firing quite well and moving in the right direction. In markets like Pune as well, our launch in Tathawade last year, in February last year was a large part of the success was attributable to the strength of the distribution. We had over a 1,000 channel partners working on that project and that's what helped us sell about 80% of the inventory at launch. Even in a market which is less distribution heavy like Chennai, Mahindra Happinest in Mahindra World City Chennai which we launched in August; we had almost 60% of sales being done by channel partners which in a Chennai market is unheard of. That tends to be a market where it's about a 30%-40% share of distribution and the rest is direct. This has been as you rightly pointed out an area that we have systematically built depth. We continue to engage with our channel partners. We have developed a channel partner app to keep them engaged. As we put more products into the kitty for them, we will become even more relevant to them. That's the reason for our geographical focus in Mumbai and Pune. One of the strong reasons is so that we have more relevance and more salience with our business partners which is our channel partners.

V. P. Rajesh: Just a quick follow-on on that. Are you seeing a skew towards digital platforms like the 99acres or Housing.com? Are they becoming more important to our business or and it is more non-impact real estate agents?

Arvind Subramanian: So digital in general is extremely important. Even our channel partners are now sourcing leads primarily through digital outreach. The large channel partners all have sophisticated search and other capabilities to generate digital leads. Our direct contributions from platforms like 99acres, MagicBricks, Housing etc. is not much because they tend to focus not on developer sales but on direct sales of their own secondary market transactions etc. So, we don't have a significant dependence on those portals.

Moderator: We will be taking our last question that is from the line of Parikshit Kandpal from HDFC Securities.

Parikshit Kandpal: My question was on the preparedness and readiness for the Dahisar launch? What kind of time line you are looking at?

Arvind Subramanian: Probably Q3 or Q4 of next financial year. We are very advanced on design and so we expect Q3 or Q4 next year or two.

Parikshit Kandpal: Just last thing on the redevelopment. How does the process of DD work in a redevelopment? Do you enter into MoU first and then you wait for clearing of the societies and then you announce it? So how different is that CD process followed in redevelopment versus traditional buying of the land or partnering with a landowner for an existing land?

Arvind Subramanian: Yes so, the redevelopment projects, society redevelopment are much longer lead time than the traditional land purchase. But in a city like Mumbai in particular, the two sources of land going forward are going to be one society which are wanting to redevelop and to industrial land which is getting converted for residential. So, these are important focuses and that's why we are building our capability around society redevelopment. The process tends to be look, very often the society will appoint a BMC who will run a tendering kind of process. They will shortlist a developer. At that stage, the developer needs to present a proposal to them. You end up negotiating on how much additional area you will give to the current inhabitants. What is the phasing, when will they be displaced, what is the rental that you will provide to them in that time period? It's a complex set of negotiations with multiple members of the society. It's not just negotiating with a managing committee etc. It eventually gets presented at a special general meeting, when they approve it then your agreement gets registered. It's multi-step at least 9-to-12-month process before you can get to something which is definitive which we can announce.

We prefer not announcing things which are just at a term sheet or MoU level. We want something definitive before we announce it.

Parikshit Kandpal: And lastly what will be the redevelopment MoU you are doing right now? What have you been involved with, negotiating all, any discussions with the tenants and all? And may be nine-months timeline of getting announced?

Arvind Subramanian: Your question was what is the redevelopment value?

Parikshit Kandpal: What is total MoU we have entered into with the society for redevelopment which may get fructified and get announced over the next nine-months as of now?

Arvind Subramanian: Look as I said to answering an earlier question, out of the 8,000 crores that I indicated our pipeline about 25% is between society redevelopment. You can look at kind of roughly 2,000.

Parikshit Kandpal: That's MoU you have already signed with these societies?

Arvind Subramanian: Those are advanced discussions. They are not necessarily MoUs we have signed yet.

Parikshit Kandpal: Is there any number of MoUs which whereby you have signed and are on lease?

Arvind Subramanian: Difficult to share that at this stage.

Moderator: Thank you. Ladies and gentlemen that would be our last question for today. I now hand the conference over Mr. Arvind Subramanian for closing comments. Thank you and over to you sir.

Arvind Subramanian: Thank you everyone again for joining the call. I think just to summarize, we are seeing strong tailwinds in the sector and both the segments that we are exposed to which is residential, housing and the value segment and the mid-market segment but also the industrial parks business are seeing strengthening of demand from a structural perspective. I do expect the next few quarters to continue to be strong. The focus of the management team is to build capabilities and strength steadily so that quarter-on-quarter we can start, we can keep showing strength and improvement. I would request you to indulge us with your patience. You will see visible results but stay with us because I think we kick on a good trajectory. Thank you again.

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