"Mahindra Lifespace Developers Limited Q1 FY19 Earnings Conference Call"

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MANAGEMENT OF MAHINDRA LIFESPACE DEVELOPERS LIMITED:
MS. ANITA ARJUNDAS – MANAGING DIRECTOR
MS. SANGEETA PRASAD – CHIEF EXECUTIVE OFFICER
MR. JAYANTT MANMADKAR – CHIEF FINANCIAL OFFICER
MR. SUMIT KASAT – HEAD (INVESTOR RELATIONS)

Moderator: Good morning ladies and gentlemen, welcome to the Mahindra Lifespace Developers Limited Q1 FY19 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 Relation).

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 Ms. Anita Arjundas – Managing Director, Mahindra Lifespace Developers Limited. Thank you and over to you, Madam.

Anita Arjundas: Thank you, good morning everyone and welcome to our Q1 FY19 earnings call. As you know, Indian Accounting Standards are applicable to the company for the period commencing from April 1st, 2016. Hence, certain key operating entities like Mahindra World City Developers Limited, Mahindra World City Jaipur Limited, Mahindra Homes Private Limited, Mahindra Bebanco Developers Limited and Mahindra Happinest Developers Limited are no longer consolidated on line by line basis, but based on the equity method of consolidation. Another important standard related development during the quarter has been the adoption of the new standards, IndAS 115, effective 1st April, 2018. Jayantt will cover this in greater detail but it essentially means that we have now moved to revenue recognition on the basis of contract completion methodology as opposed to the percentage of completion method. It also means that Q1 FY19 figures are not directly comparable with previous reporting periods.

I will now move on to a brief highlight on the operational performance. In the residential business in terms of launches, we launched a new project 'Roots' at Kandivali (East), Mumbai having a saleable area of 0.14 million square feet and comprising 126 units. The project was launched in the last week of June 2018 and has received a good response with over a third of the units sold to date. The sales are not reported in the Q1 FY19 performance as the entire booking amounts were collected during the period post Q1 that is during July 2018. In addition to the launch of Roots, we launched subsequent spaces at Antheia, Avadi and Palghar I with a total saleable area of 0.44 million square feet during the quarter.

Further one of our subsidiary companies Mahindra Integrated Township Limited, which does the residential developments in the World City Chennai, received all approvals in the quarter for the launch of its next project and post RERA registration, has launched 'Lakewoods' with a saleable area of 0.9 million square feet and 747 units. Currently, the first phase of the project comprising about 250 units and 2.7 lakh square feet has been launched with product in the price range of 40 to 50 lakhs.

In terms of land acquisition, we acquired a new land parcel on the Kalyan-Bhiwandi road having a development potential of 0.83 million square feet for the Happinest product. This transaction was concluded in early July and we have since then submitted our plans to the landowner for initiating approval, the same being the landowner's responsibility as a part of the transaction.

In Pune, we are awaiting final compliance from the landowner on one last CP and we hope to conclude this transaction during the quarter. The design development process for this land parcel has already been initiated. This Pune land parcel is about 7 lakh square feet of saleable area. In addition, we had spoken about another MoU in Bangalore, which is again close to 7 lakh square feet, that is in its due diligence stage still and based on completion of due diligence, we look forward to closing it in the coming months.

We have during the quarter resolved an ongoing dispute with B.E. Billimoria by way of an out-of-court settlement, wherein we acquired 30% of the stake of BEBL in Mahindra Bebanco Developers Limited. With the acquisition of this stake, MBDL is now a wholly-owned subsidiary of the company. The account of Q1 has not been consolidated on a line by line basis, since the company became a subsidiary in the month of June, but from Q2 onwards, we will be following a line by line consolidation for MBDL also.

In terms of operational performance in the residential business, the company achieved sales of 0.29 million square feet with over 350 units sold, worth about 145 crores and its price realized for the quarter was around 4900, which was reflected by the higher contribution from the affordable segment at 22% of total mix and sales from units outside the Mumbai region, that is Pune, Chennai, Bangalore and Hyderabad. Lower ticket size products of up to 50 lakh continue to do well with 44% of our sales volume coming from this category. The vigor on minimizing finished goods inventory continued during Q1 and helped us clock 32% of total sales value during the quarter from finished goods. We completed 0.25 million square feet of saleable area during the quarter in Antheia and Bloomdale and 364 units were handed over during the quarter.

In the Integrated Cities and Industrial Clusters business, we received the approvals for amalgamation of various sector specific SEZs in Mahindra World City Jaipur into a single Multi-product SEZ, which was inaugurated in June in the presence of the Minister of Industries, Government of Rajasthan and the Chief Secretary. We believe this will help us in attracting industries from various sectors to Mahindra World City Jaipur and thereby help us in faster leasing and development of the project. Post the notification, we have already signed up two new customers in the Multi-product SEZ amounting to 13.5 acres, both of which were concluded in Q1, one being Sigma Electric and the other Aro Granite. As far as the relation with IFC Corp, you will recall that we had announced a framework agreement between IFC and Mahindra Lifespaces last year. As a part of this partnership, we received funding for the Origins at Ahmedabad last year itself. During this quarter, we completed definitive documentation for the investment in Mahindra World City Jaipur and since then in early July, we have received Rs. 195 crores towards IFC's contribution, for 50% beneficial interest in 500 acres of undivided industrial area, comprising 250 acres each in the SEZ and DTA of Mahindra World City Jaipur.

Going to the other developments, we repaid the last tranche of our NCDs in April, 2018 and hence the standalone net debt to equity ratio is at 0.04 with cost of debt reduced to 8.15% as of June, 2018.

I will now hand it over to Jayantt to take you through the 'Financial Performance' for the quarter.

Jayantt Manmadkar: Thank you Anita. Good morning everyone.

Pursuant to the new accounting standard IndAS 115, which is effective from 1st April, 2018, the company has started recognizing its revenue on a completed contract method, as it is called under IndAS as 'at a point in time', versus 'percentage-of-completion method' followed earlier under the ICAI guidance note.

The financials of Q1 FY19, therefore are not directly comparable with the previous year. Also, during the quarter as the company has opted for modified retrospective method under clause C3B of IndAS 115, it has done a transitional adjustment of Rs. 135.34 crores (net of deferred tax) to the opening retained earnings of the consolidated financials.

- The consolidated total income was at Rs. 175.8 crores for the quarter as against Rs. 148.7 crores in Q1 FY18 and Rs. 180.6 crores in Q4 FY18.
- The consolidated PAT, post minority interest, stood at Rs. 26.7 crores for the quarter as against Rs. 13.8 crores in Q1 FY18 and Rs. 47.8 crores in Q4 FY18.
- The PAT margin stood at 15.2% for the quarter as against 9.3% in Q1 FY18 and 26.4% in Q4 FY18.
- EBITDA margin stood at 24.4% for the quarter as against 20.3% in Q1 FY18 and 41.5% in Q4 FY18.

I would now like to invite questions from participants.

Moderator: Thank you. Ladies and gentleman, we will now begin the question and answer session. The first question is from the line of Adhidev Chattopadhyay from ICICI Securities. Please go ahead.

Adhidev Chattopadhyay: Just an update on the Roots project launch - How has been the response and what is the outlook for the other upcoming launches in Mumbai and other parts of India over the next couple of quarters?

Sangeeta Prasad: Roots have seen a very good response. We have already booked 1/3rd of the sales units and we are seeing good hot-leads. So good launch, good response and obviously good performance is what is expected out of Roots. As we mentioned, the Chennai project also has seen early and good response. It has just been launched internally in the middle of July amongst the Mahindra World City on other contiguous locations. So, that's a next one which has the sales value of around Rs. 370 crores. The other projects, two in Mumbai and one in Pune, are expected to be launched during the remaining part of the year. We are very confident of these five products giving us value as we go along and we go into, work done and recognition.

Adhidev Chattopadhyay: If you could just touch upon this IndAS now, how has it impacted us vs the older POCM where you have to reach the 25% threshold, does that now hold true under the new thing or it's all under completed contract method now?

Jayantt Manmadkar: This IndAS 115, applicable from 1st April 2018, has been implemented in the first quarter of this year, has a change in the way the revenue is recognized. Earlier, it was based on the Institute of Chartered Accountant of India's guidance note, which had certain thresholds for revenue recognition which one was to follow and it was mandatory for all the companies who were developers. Therefore, when we shift from the ICAI guidance note to IndAS 115, those thresholds do not apply. In fact, the Institute has withdrawn the guidance note at the beginning of July. So all the threshold's which were applicable at 25% of sale by area to 10% collection, all those are not applicable now.

Anita Arjundas: It is just the 25% becomes a thing of the past, now we have to complete the project, get our OC and call for demand from customers, that's when the revenue starts getting recognized.

Jayantt Manmadkar: And other fundamental change is that the model now changes for revenue recognition from earlier which was based on transfer of risk and reward to the customer; now it shifts to transfer of control of property to the customer. So it is now very much handover based than the risk and reward based - that is another change.

Adhidev Chattopadhyay: Just to understand correctly now whatever up to March 18 you would have completed on the projects, you would have done some adjustment in the net worth and from this year onwards it is based on the project completion, that is the correct way of interpreting it?

Jayantt Manmadkar: Correct. So, any project which is ongoing but which is not completed as of 31st of March 2018 i.e. which has not obtained the OC, all those customer contracts, whatever is the revenue recognized based on that up to 31st of March, that gets actually adjusted. The profit which is recognized till March 31st, 2018 gets reversed as part of IndAS initial adjustments to the opening reserves as on 1st of April, 2018. So that's the adjustment which I had explained. On a consolidated basis that is about Rs. 135.34 crores. And now as those projects will get completed in the current year any quarter, in that quarter the full project revenue will be booked as a revenue for the company.

Adhidev Chattopadhyay: And just the last follow up on this, so does it vary from state to state like projects in Mumbai, in Karnataka and else, would they follow any different clauses or it is all the similar accounting which is being adopted means does the state RERA have any impact?

Anita Arjundas: The accounting standards are consistent. However, each company yearly needs to look at whether it's contract with the customer. That is why, it is the requirement of having been a completed contract or not with respect to cancellation clauses. And different states have different views on the cancellation clause in RERA, so there maybe some companies which have a view that they have cancellation clauses which do not treat it as a contract that can be terminated and therefore, could proceed with POCM. But, we are pan India when we look at our contracts across the country and also in the spirit of what IndAS is looking at. As everybody is following IFRS, we have opted to move for a complete contract method.

Moderator: The next question is from the line of Prem Khurana from Anand Rathi. Please go ahead.

Prem Khurana: My first question was with respect to the pipeline we have in terms of MoU, so I mean you already spoke about Pune as well as Bangalore. Do we have any other MoUs beyond these two?

Sangeeta Prasad: The two MoUs we spoke about are still alive and kicking and we are in the final due diligence. You will be happy to know we have one more coming up soon in this week and there are 2-3 advanced stages of negotiations which should culminate hopefully into something fruitful in form of MoU. But these are still negotiation stage.

Prem Khurana: Given the fact that we don't have firm pipeline as such in place, so how do we intend to kind of meet our guidance in terms of, I mean, we have always been identifying that we intent to launch one project every quarter, for this year we already have. So we have Saki Naka, we have Phase-II Andheri, we have Pune as well, and Chennai as well, so we would be able to more than deliver this year and early part of next year as well. But in second half of next year, it looks little weak and given the fact that if we somehow failed to convert these into firm by then and as you know generally in India it takes us sometime to get the approvals in place, which essentially means even if you have to close your transaction by this year and it will take you some time which essentially means most of these would hit your market by FY21 only. So, which essentially means that FY 20 could be somewhat weak in terms of new launches. Yes, and given the fact that we would have inventory, so we would be able to deliver numbers in terms of bookings. But then from launch perspective seems there is still no great visibility as such.

Sangeeta Prasad: So Prem, first of all thank you for having a common aspiration like we have, which is - having a launch per quarter, is what we would like to do definitively as we go along in conducting business and you're also right that it takes time to get a land and then get it launched. So, 2-3 key initiatives in our MoU for Pune for instance, as we see clarity, we are parallelly working on getting the architect on board, getting the design finalized, so that our kick-off time for new product gets collapsed into a shorter period. So that is in form of getting our MoUs to fruition, the other is also looking at the pipeline, we have strengthened our BD Team and we are also on the verge of taking some senior people in the team so that the team gets strengthened and we can hasten our MoU and our land deals which we have been changed for a while. So those are the two key initiatives which is shortening our MPD time and also getting pipeline and getting conversion faster as we move along.

Anita Arjundas: Just to add there that as far as the Pune is concerned and the Kalyan land is concerned, we have assigned responsibility for approvals to the landowner with a significant back ending our consideration to the point in time when they get the approvals. For example, on the Kalyan land, the day we did the transaction, we have already submitted plans for approvals. So the idea is to cut cycle times as Sangeeta said through the MPD process and to also backend consideration and give approval responsibility to the landowner so that the approval process can also be speeded up.

Prem Khurana: Just to understand on this, do we have any number in place as to suggest what's been our success ratio with these MoUs. I mean let's say if you were to 10, how many do we get to close?

Anita Arjundas: We have had two very distinct success ratios, so I don't know; averages don't work in life.

Prem Khurana: Basically, I want to understand if I were to launch one project per quarter which essentially would need you how many MoUs under works at any given point in time so that if I were to work with the same success ratio at least these many MoUs you need to have at any point of time so as to be able to meet your guidance or so as to be able to deliver in terms of one project per quarter.

Anita Arjundas: We had a 90% success ratio at one point in time and we have had a 10% success ratio at another point in time.

Prem Khurana: On this IFC transaction that we have done, when you say 500 acres odd of area, this is gross or this is sellable or leasable?

Anita Arjundas: Gross.

Prem Khurana: So essentially, when I look at the transaction value, it is at a discount of what we have been selling at, right? So, it works out to be almost around Rs. 11 million odd an acre, right?

Anita Arjundas: No. It would be higher than that.

Prem Khurana: Basically, the number that you have given is around 500 acres odd, so which works out to be almost 350 in terms of sellable area, 50% would be for IFC and they have paid you Rs. 200 crores for these 175 acres of area, right? Is this how the math would work?

Anita Arjundas: Ultimately, we have to sell these to end users, where we have to develop it and sell, so this land is raw land, therefore the development cost is also borne 50% by the accounting of the joint enterprises.

Prem Khurana: One last on SEZ, so there is a sunset clause which should kick in by March'20 and we still have a significant amount of inventory which is available with us in Jaipur SEZ, so what will happen to inventory which will be available with us after 31st March 2020.

Sangeeta Prasad: First of all, the trigger of the Multi-product SEZ will increase the potential. As you know, we got the notification in the last quarter and we kick started with two sales also. One is that you have increased the pipeline potential of customers in Multi-product SEZ vis-à-vis the sector specific SEZ, so we see quick traction. What is happening is that many customers who were waiting for this Multi-product SEZ, are coming ahead from expansion point of view because like the sunset clause, many people want to jump onto the bandwagon of the sunset clause and come and start construction and operation, so that they can avail of the benefits, that's one. Second, what we offer in Mahindra World City, Jaipur is not just the sunset clause but the whole ecosystem. What we have seen is that people are already there, you can see in our last year's performance also, expansion has been one of the key routes. So, people want to be in the same place to avail of the shared resources and the shared capabilities. Third, nothing to do with the sunset clause, I think you are aware there is an SEZ committee also formed at the Ministry of Commerce level. They are looking at how that can be rejuvenated and bring-in continued sustainable performance of SEZs.

Prem Khurana: In Jaipur, with this litigation of around Rs. 301 crore odd, the demand that JDA has kind of raised. Any update there or is there status quo on the same?

Anita Arjundas: It is status quo Prem, on the same. We have made our facts and figures representation within a few weeks of the demand being raised and note that nothing really to report back in terms of any movement.

Prem Khurana: In the Roots, you said you've only sold one-third units available with you. 1/3rd of 120 odd? How many of these would have been sold to employees and do we offer any discount to our employees?

Anita Arjundas: We do offer discounts to employees. The number sold to employees would have been very marginal, not too many. Most of it is just end users from around that area.

Moderator: The next question is from the line of Adhidev Chattopadhyay from ICICI Securities.

Adhidev Chattopadhyay: What is the strategy on the debt, on standalone level we are almost nil in terms of debt so with our BD plans and for that SEZ the sunset clause is also coming so on an aggregate basis do you expect the overall debt to again taper down over the next couple of years?

Anita Arjundas: If you look at aggregate, yes standalone, you are right it's down to 0.04% because we have repaid the NCD and there hasn't been any debt taken for land acquisition as yet. On an overall basis all entity, if we had to look at old style consolidation it would be 0.6 in terms of debt-equity ratio. I think we have generally had a view that a debt equity of 0.6 to 0.8 is something that we are comfortable going up to, if it is required for the growth of the business.

Adhidev Chattopadhyay: But with that Jaipur and SEZ business, if we hope to see increased traction in those businesses and I am guessing the debt in those entities should taper down quite a lot in the next couple of years?

Anita Arjundas: Yes, you are right; there should not be requirements out there in terms of any funding needs, so it really would be only residential business that is acquiring land which could either be through commencement in platforms or…..

Adhidev Chattopadhyay: No, just the total debt I think on a net worth basis, what is the aggregate debt and what is our share in the debt? Is there any overall number?

Anita Arjundas: 1300 crores is the outside debt.

Adhidev Chattopadhyay: There is no proportionate share for M-Life adjusted in this across the SPVs?

Jayantt Manmadkar: The IndAS consolidated MLDL debt will be about 260-270 crores because under IndAS we do not consolidate, as you know World Cities and other residential entities so if you want to look at IndAS consolidation it will be 260-270 in MLDL and overall all third-party debt across the entities will be about 1260 crores.

Moderator: As there are no further questions from the participants I now had the conference over to Ms. Sangeeta Prasad for her closing comments.

Sangeeta Prasad: Good morning friends. As you can see, we have started off the year with two redeeming launches and the last year's launch of the Happinest Palghar has been sustaining good performance and we would be launching projects as we go along the year as far as residential goes. The disproportionate efforts are going on in land acquisition to convert the MoUs into land deals so that we get them ready for subsequent financial years for launch. That's as far as the residential business goes.

With the IndAS 115 coming in, what we see is that continued and strengthened focus on operational metrics like sales, collections and work done, become the cornerstone of our business as we go forward. The industrial part of the business, as you know with the launch of Origins brand, we are very keen and we are looking forward to having an Origins, Chennai our first anchor customer. As far as Origins, Ahmadabad goes, we are looking at getting all the approvals hopefully within this quarter so that we can get that also going within this financial year.

In the Mahindra World City, Chennai getting the industrial land inventory leased out in the financial year. In Jaipur as you know with the fillip of the multiproduct in the SEZ and sustained traction in the DTA that's the focus. So, sales, sales, sales is the focus as far as the industrial business goes and a very-very important event in form of getting our residential and social area in Mahindra World City, Jaipur ready for launch so that we have a larger footprint in Mahindra World City, Jaipur apart from our industrial footprint. So good time I suppose for us.

We will have to as we have always done; differentiate ourselves in the market place. The belief is that end users prefer us so that is what the business is becoming now; genuine responsible business practices will keep us redeemed and differentiated in the market. Look forward to all you support and good wishes.

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

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