"Mahindra Lifespaces Developers Limited Q2 FY14 Earnings Conference Call"

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MANAGEMENT: **MS. ANITA ARJUNDAS – MANAGING DIRECTOR & CEO**
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Moderator

Ladies and gentlemen, good day and welcome to the Mahindra Lifespace Developers Limited Q2 FY14 Earnings Conference Call. We have with us today from Mahindra Lifespaces Ms. Anita Arjundas – Managing Director and Chief Executive Officer, Mr. Jayantt Manmadkar – CFO and Mr. Siddharth Bafna – General Manager, Strategy & Investor Relations. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an 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 maam.

Anita Arjundas

Thank you and good afternoon everyone. Thank you for being with us today on our Q2 FY14 Earnings Call.

I am pleased to share with you that we have ended the first half of this financial year with a consolidated year-on-year income growth of 44%. On the execution front, we achieved some important milestones during the quarter. There was 100% completion at the Aqualily Villas Phase-B, the project in Mahindra World City Chennai. We also commenced handover of units at Eminente Angelica at Goregaon in Mumbai, four months ahead of schedule.

In addition, four of our projects Antheia Phase I in Pune, Ashvita Phase II in Hyderabad and Bloomdale Phase IB and IC in Nagpur, have achieved revenue recognition during the quarter.

Mahindra World City, Jaipur continues to do well. We added two new clients in the quarter and two of our existing clients signed up for additional land, one each in the DTA and the SEZ in both the cases.

An important development during this quarter was the forging of our joint venture with SCM Real Estate Singapore, which is an investment arm of Standard Chartered Bank. This is for the development of premium residential projects in India with combined investment intent of about Rs. 1000 crores. This relationship will leverage the expertise of both the groups and be an important contributor to our growth in the coming years. The investments pertaining to the first two projects for the alliance which is Bannerghatta in Bangalore and Sector 59 in Gurgaon have been made and the development process for both these projects has been initiated in the form of design development.

I also take the opportunity to share with you that we published our second GRI report this year and have been accorded an A+ rating again by GRI.

I will now request Jayantt to take us through the financial performance for the first half of fiscal 2014 and after that we will take questions.

Jayantt Manmadkar

Thank you very much. Good evening everyone.

At the consolidated level, revenue for H1 FY14 was at Rs 391 crores as compared to Rs 272 crores in the year-ago period. EBITDA for H1 FY14 was at 31% of turnover at a consolidated level compared to 36% in the previous year. The profit after tax (after minority interest) was at 11% compared to 16% in the previous period. And the net debt of the company stands at Rs. 1044 crores.

That's it from me. We are now happy to take questions. Thank you.

Moderator Thank you very much sir. Ladies and gentlemen we will now begin the question and answer session. Our first question is from Anubhav Gupta of May Bank. Please go ahead.

Anubhav Gupta Looking at the Q2 EBITDA margins, why is it so less compared to Q2 of last year and even Q1 of this year? Is it because of the revenue recognition from low profit margin projects or because of price escalations in the raw material cost etc?

Jayantt Manmadkar In the current quarter, projects that are ongoing have contributed to the revenue as well as the profitability of the company These are in Hyderabad as well as Pune as far as MLDL is concerned. The Nagpur project is also contributing along with the two projects in Chennai. Now, if we look at projects that contributed to the topline and the profitability of the company during the corresponding quarter last year, they were primarily based in Mumbai as well as Gurgaon. Therefore, based on the city mix, the profitability of the project also differs and that is the primary reason why we see the EBITDA difference. It is in accordance with the mix of the cities and mix of projects.

Anubhav Gupta Okay, so for the full year we would see the similar range or it could increase given that you would book some revenue from Mumbai or Gurgaon projects?

Anita Arjundas We will not be able to share a guidance. Depending on the mix, within each quarter, the margins will change and as we go forward and see some of our forthcoming projects getting launched, you will again see some changes in the margin mix taking place as new projects in Bombay and Gurgaon start coming on the table.

Anubhav Gupta Also in the last quarter the provisioning for tax was a bit higher. Any particular reason for that?

Jayantt Manmadkar In terms of the tax percentage, the rate of tax on consolidated basis is higher because last year same period, some of the subsidiaries has no tax liability as they were not profitable. So against a 28% consolidated tax rate same period last year, this quarter it is at 34%.

Moderator Our next question is from Yash Ved of India Infoline. Please go ahead.

Yash Ved How is the sector as a whole for Mahindra Lifespace and like going forward over the next two quarters?

Anita Arjundas Have you received the copy of the Q2 results?

Yash Ved Yes.

Anita Arjundas I think you have a sense of the revenue growth which has been achieved during the quarter and as Jayantt mentioned profits have not moved in line with revenues primarily because of city and product mix changes. Execution has gone well during the quarter across projects. We do see some challenges in some markets in terms of rate of sales offtake.

Yash Ved Coming quarter, any new project launches?

Anita Arjundas We might see one launch, which has all of its approvals but we will really decide whether we want to launch it during the quarter-.

Moderator Our next question is from Sandeepan Pal of Motilal Oswal. Please go ahead.

Sandeepan Pal Wanted the breakup first - if I just look at consol minus standalone revenue, around 100 crores you have booked outside your standalone. Now would it be possible to breakup between how much you have actually received by selling DTA & SEZ and how much actually the residential portion.

Anita Arjundas I will give it to Jayantt for the specifics but just to clarify the difference between Consol and Standalone will be embedded in two areas - one is residential subsidiaries and the other is the World Cities. Jayantt will share the breakup between World Cities and Residential.

Jayantt Manmadkar The total operating income at consolidated level is Rs 372 crores, out of which the World Cities contributed about Rs. 80 crores for the period.

Sandeepan Pal At a Standalone level, the other income is pretty high this quarter. So any particular reason for that?

Jayantt Manmadkar This is the quarter in which we get dividends from all the subsidiary companies, that is at a Standalone level but on a consolidated level it is primarily the interest on the mutual fund investment which we see in current investments in the balance sheet and also the interest at whatever you get in the bank fixed deposit.

Sandeepan Pal Coming to the business strategy right now I can see that probably the launch pace and also you are mentioning that there is little bit of challenges in selling the products. On the other hand you are actually right now quite strongly positioned after that SC partnership to acquire new projects, so going forward how much new projects built up or how much more leverage or asset heavy you will like to make your balance sheet because if the monetization pace does not happen in the similar way then our leverage or our ROE may be impacted. So just wanted to get a sense on what are the guidelines you are internally following at the acquisition thing?

Anita Arjundas We have always maintained that we will not look at debt equity ratio greater than one. We will ensure that we stay within the range of 0.8 to 1.0 and so that remains as an internal reference point for the organization. And the second guideline that remains is that we would like to look at a 2-3 years of sales equivalent development area being available with us. We will use these two as reference points and hence the acquisition targets are not cast in stone. We will obviously keep revisiting it on a half yearly basis based on sales performance. So that at all points in time, one, we have enough inventory to meet three years' sales equivalent requirement and two, we are not looking at debt equity ratios that are outside of that guidance range.

Sandeepan Pal At this point is it possible for you to throw some light on the Byculla land?

Anita Arjundas I think what we had indicated earlier was that we are exploring the option of selling the property together alongwith the landowner. We had also informed that there was a mandate issued to an IPC to take the sale process forward. On that front, things have moved well and we hope to see closure in the near future.

Sandeepan Pal And lastly, on the land acquisition bill, we have this North Chennai land, so are you anticipating any challenges going forward on the creeping acquisition? I think we have acquired around 500 acres of in that cast creeping acquisition on making the land contagious at the two aspects probably we are looking for. But with the bill coming in any challenges we may face over there?

Anita Arjundas There are two aspects of the bill – one is that it is still a state subject and Tamil Nadu has its own land acquisition act. So the State of Tamil Nadu will need to modify its own land acquisition act first before it can get into applicability in that state. Second we are doing private procurement and therefore the principles of land acquisition in terms of rate fixation will not apply. However R&R provisions could apply depending on what the State of Tamil Nadu sets as its threshold for R&R.

Moderator Our next question is from Aashiesh Agarwaal of Edelweiss. Please go ahead.

Aashiesh Agarwaal First, if you could give a brief update on the Kandivli, Boisar and Avadi projects.

Anita Arjundas That is a unique combination.

Aashiesh Agarwaal No, I mean it is more that these projects are something that I was looking forward to understand.

Anita Arjundas So let me start from the bottom – For Avadi, we have received environment clearances which is captured in the investor presentation and we have submitted our plans for building plan approvals. We hope to receive them and get into launch. As far as Boisar is concerned, we have just submitted our plans for environment clearances and are in the process of doing the same for the building plan approvals. On Kandivali, we are yet to start any work.

Aashiesh Agarwaal And if you could just take us through briefly the SCM partnership that you have announced earlier as to how would it exactly work, I mean what kind of profit sharing or revenue sharing had been envisaged?

Anita Arjundas I will just be able to share some broad brushstroke frameworks Aashiesh which is basically that it is a 50-50 joint venture. It is a pure equity structure joint venture so there is equal risk and equal reward and plus MLDL is the development manager for the project and therefore it gets a development management fee for the services that it renders.

Aashiesh Agarwaal What kind of development management fee may we expect?

Anita Arjundas We will not be able to put a number out.

Aashiesh Agarwaal Sure. Second is on just taking up on the earlier question, what is the number of PAP that we are expecting in the Chennai II that we may have to rehabilitate? Obviously you did mention that the exact R&R provision would depend on what the TN government comes out with but what is the estimate of the number of PAP that may be involved?

Anita Arjundas We do not have an estimate, Aashiesh.

Aashiesh Agarwaal Okay. And finally if you could just briefly comment on how the land markets are at this point of time? Whether you are seeing attractive deals coming in or not

Anita Arjundas There are quite a few deals coming on the table in terms of people looking to either monetize their assets or not able to manage projects and therefore looking at exits. But I would not say valuations are necessarily moving southwards. While things still remain high in terms of land owner expectations on what they would like to exit at, there is a lot coming on the table in terms of options. Valuations still remain.

Aashiesh Agarwaal And what do you think and actually because I mean when we look at what is happening around, you obviously see enough reports of stress and that of course volumes are also not really moving. So would we be expecting some softness to come in over here, how do you see this panning out?

Anita Arjundas In terms of land, yes, I think we have seen one or two distressed situations in the industry in terms of payments, and I think there might be a few more. So if that trend continues and sales remain soft, valuations on land should start coming down.

Moderator Our next question is from Mahesh Bendre of Quantum Securities. Please go ahead.

Mahesh Bendre During the Quarter, Board has decided to raise Rs 400 crores from the secondary market. Could you highlight what will be the prime objective of this fund raising?

Anita Arjundas So it's an enabling resolution, to be able to raise up to Rs 400 crores of funds and as per the resolution it is to meet growth requirements to be able to retire debt, to look at working capital needs or other needs that the company might require these funds for. So as and when we decide to do it, it would broadly fall into the buckets of growth needs and addressing debt.

Mahesh Bendre We have seen there is this major slowdown in real estate all over India, how this has influenced companies like us in terms of the projects which are currently under execution and is there any change in the projects that we plan to launch because of this slowdown?

Anita Arjundas Let me take your second question first – we do not plan to defer any of our launch plans on current prevailing situations. As and when we get approvals for each of the projects that are under design development, we will go ahead and launch as per plan. Second, I think the response to sales in different projects has been different. So if you look at a market like Pune, we just launched the 2nd Phase of Antheia in this quarter, that is the second tranche of Phase-1 in this quarter and the response has been good. We have seen some good traction in terms of sales numbers. Bangalore as a market, from an industry perspective, has done very well. We are currently not present in that city as yet. Some of the other markets like NCR, Nagpur and Hyderabad have definitely seen some slowing down in terms of offtake so it has been a mixed bag for us. Some markets have done well, some have seen definite slow down. And I think the effort really is to focus on a lot of corporate marketing efforts, international channel activation, and use of other mechanisms to encourage sales to happen. On the execution front, there have been no significant issues. During the quarter, most projects have continued to build traction on their percentage completion of work and lastly from the industry perspective, again, I think we will see more attractive lands coming at better valuations over a period of time over the next three to six months.

Mahesh Bendre If the current situation remains for the next 6 to 9 months, do you think our pricing will be under pressure?

Anita Arjundas Not really, I do not think so. If you look at inventory that has been launched, we have sold about 70% of that inventory. We have 30% inventory with us. Customers who have signed up on various projects remain with us and so cash flows, as execution continues will keep coming in. I also think our projects are reasonably priced in each of the marketsSo I really do not see any specific discounting efforts happening. You might have tactical decisions taken at a project level as you launch each phase but no real significant price reductions.

Moderator Our next question is from Viral Shah of Angel Broking. Please go ahead.

Viral Shah Just a couple of questions from my side. One is whenever you look at the subsidiary level, there is a loss during the quarter. Any specific reason for it?

Anita Arjundas You are talking about the consolidated level?

Viral Shah No, I am talking about when you subtract consolidated minus standalone that will be the revenue or profit for subsidiary, right. So there is a loss during the quarter, so wanted to know any specific reason for it?

Jayantt Manmadkar See what happens is that at consolidated level, the intra-company profit gets nullified through contra. It gets cancelled and therefore if we do the subtraction of the consolidated profit minus standalone profit, that effect does not come into picture. Secondly, most of the subsidiaries are either profitable or breakeven for the period, so no loss.

Viral Shah And secondly could you throw some light, we were talking about I remember your last conference call we were waiting for some land parcel, some 8 of them, for which MoU was signed and 5 out of the 3 had been finalized. Any update on that?

Anita Arjundas As far as those 8 MoUs are concerned, 4 MoUs have been converted into conveyances in our favor. We have dropped 2 because we were not happy with the quality of title of those lands and we continue to pursue two in the sense the MoUs are signed but we are awaiting for certain conditions to be satisfied by the land owners before they can be conveyed to us.

Moderator Our next question is from Prem Khurana of B&K Securities. Please go ahead.

Prem Khurana My first question is with respect to the MoUs, so would this be taken along with SCM or would we be taking these on our own?

Anita Arjundas Out of the two that were dropped, one was intended to be part of the SCM partnership and out of the two that are active, one is intended to be part of the SCM partnership.

Prem Khurana Okay. And with this we have exhausted all the money that we were supposed to bring it in this JV or we would have more scope to do some more deals under this JV?

Anita Arjundas Since we have dropped one, there may be scope for more.

Prem Khurana And as far as execution is concerned you were facing some issues with Aura II and Aura III. Actually I have not received the presentation, I am not sure how the things have been there in this quarter. So would really be obliged if you could throw some light on that.

Anita Arjundas No, the construction is under progress in both 2 and 3, so there is no contractor issue on the ground as far as Aura II or III is concerned.

Prem Khurana Okay. And on this SCM, apart from cash what do they bring in, would they be participating in decision making in terms of design or the type that you would intend to do on these land parcels or they are pure financial partners and would not have any say in terms of the design or for that matter tie that you would want to do on these land parcels?

Anita Arjundas It is a 50-50 joint venture, so I think in the true spirit of an equal partnership we will both be involved in all decision making.

Prem Khurana But do they have expertise they recently entered in the space so given the fact that they are very much new to the sector, so would they be able to participate in a meaningful manner?

Anita Arjundas They do have a team on the ground which is several years of real estate experience, which is the team that is actively involved in decision making. Obviously given the fact that we have significant number of years in the business and do come with 20 years of experience there would be due weightage given to that also in all decisions, but the spirit is that we take a call together and move ahead.

Moderator Our next question is from Samar Sarda of Kotak Securities. Please go ahead.

Samar Sarda I have two questions. First with regards to the Bangalore and the Gurgaon project like the first quarter we had 100% stake and now that we have a 50% joint venture. Just to understand the deal with SCM briefly we also have some cash out component here or the money has to be put in into the project and how have the investments happened in these first two projects.

Anita Arjundas All of the investments have happened in the SPV. The SPV was held by us 100% before StanC came in and now the SPV is owned 50% by us and 50% by them, so they have brought in their share of 50% of the consideration that was to be paid to the land owners plus their share of initial pre-operative expenses that we will need to get these projects up and running.

Samar Sarda There is no cash out component in both these projects?

Anita Arjundas No.

Samar Sarda And out of this Rs 1000 crores, how much might be invested in both these projects?

Anita Arjundas We would not share numbers, they are specific to each investment but I think we have mentioned in public domain that at this point in time we have invested close to 50% of the original investment intent.

Samar Sarda Okay, so that was one. Two, from the operational cash flow perspective like we have seen a good amount of acquisitions in the past also and sales have been cyclical. With regards to the overall consolidated basis by when do you think we will start making operating cash on the companies?

Anita Arjundas I think if you look at total cash collected, it has been fairly robust across all subsidiaries. Specifically in terms of operating cash flow numbers, I shall ask Jayantt to come back to you on your mail id.

Samar Sarda Yes, not a problem.

Moderator Our next question is from Deepak Purswani of ICICI Direct. Please go ahead.

Deepak Purswani Could you please provide us data in terms of how much has been the area sold in the Mahindra World City subsidiaries in this quarter in Jaipur and Chennai?

Anita Arjundas Chennai has had no sales during the quarter. Jaipur has had four transactions during the quarter. One in Evolve, which is the IT Park and the other three in the DTA and SEZ, totally 10 acres approximately.

Deepak Purswani And in terms of other income in this quarter, as Jayantt sir mentioned about the dividend has been there from the subsidiaries, so could you please quantify the amount, how much was the dividend in this quarter?

Anita Arjundas Can we mail that across to you?

Deepak Purswani And thirdly, with regards to results press release there has been some auditor due attention to the 71 crore advances given to a project where the commencement of construction has been delayed on account of dispute between the land owner and company, which is referred to arbitrage. This is pertaining to which project and can you please throw some light on this matter?

Anita Arjundas This is not a new matter of emphasis, it has been there for a while. It basically refers to the Byculla property.

Deepak Purswani How has been the progress on the Kanjurmarg property?

Anita Arjundas On Kanjurmarg, we still do not have any resolution with the society there and it is status quo at the moment.

Moderator Our next question is from Puneet Gulati of HSBC. Please go ahead.

Puneet Gulati Just wanted some more clarification on the SCM deal, how would you decide which project goes under the SCM umbrella and which one you do on your own?

Anita Arjundas At the moment, it is four projects pre-identified and mentioned in the joint venture documentation. These were deals that we already had on the table in terms of MoUs with the land owners. StanC also evaluated all of them and agree to be part of the four. As I mentioned two out of those four have fructified, third is still under active follow-up and the fourth has been dropped.

Puneet Gulati What about the new projects? How would you decide what actually goes through their eyes as well?

Anita Arjundas There is no obligation from our part to take each and every deal to StanC. So I think it is a question of where we believe that we would require participation in terms of a financial partner. It obviously make sense for us to look at a partner who is already there with us and be focused on building a relationship rather than drive multiple relationships. But there is no restriction or obligation.

Puneet Gulati In your mind is there a minimum threshold capital commitment that a project should require for you to take it further?

Anita Arjundas I think any transaction which is say upwards of between Rs 150 to 200 crores, it would make sense to co-share with a financial partner.

Moderator Our next question is a follow-up from Aashiesh Agarwaal of Edelweiss. Please go ahead.

Aashiesh Agarwaal This question is again in perspective for the SCM deal that we have. I am trying to understand the rational for us to get into this transaction because the way I see it is it is an equal JV with some development management fee that comes to MLDL. So the idea is we will be taking on a much larger project for a slightly larger share in profit. So would it not have been better to take on smaller projects and turn them around quicker rather than taking a larger project and not really materially benefit from that?

Anita Arjundas I think there are two aspects to it. One, I do not know about larger because if you look at the Bangalore, Bannerghatta one for example, it is about 0.6 million sq. ft. which in my mind is not larger. It definitely is optimal size because when you have too many small ones you are putting in equal amount of effort and energy in terms of turning around something in three years and the second is how much are you willing to invest yourself in every project, in every land parcel. The third as far as risk and reward goes, yes, it is largely equal but there is some level of promote that is available to us.

Aashiesh Agarwaal So this promote would be on a revenue basis, percentage of revenue or would you think that it is going to be some percentage of profit?

Anita Arjundas Difficult to give more than this.

Aashiesh Agarwaal No, I am not asking for a number, just more of conceptually because if it is a percentage of revenue then the risk-reward perception obviously is different as compared to if it was on a percentage of profit.

Anita Arjundas It would be a percentage of profit.

Moderator: Thank you. As there are no further questions from the participants, I would now like to hand the floor back to Ms. Anita Arjundas for closing comments.

Anita Arjundas

As I mentioned earlier, things have definitely been tougher in the marketplace in terms of sales. We have seen an impact on some projects. Some other projects have done well. We will continue efforts towards ensuring that we can drive sales performance in all of our existing projects. We are working on all of the new products, all of the forthcoming projects that are under design development to get them to launch at the earliest and we will continue to keep the focus on execution, to be able to ensure that cash flows keep coming in and we are able to see good traction on all the projects in terms of completion. That is from the residential perspective. And from the World City's side Jaipur has seen interest around its domestic tariff area and even some revival, though early days, on some of the SEZ customers. So we will continue to reach out to customers both for domestic and the special economic zone and push occupancy levels in Mahindra World City upwards. So that would really be the focus of the team in the next six months. Thank you.

Moderator

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