



Mahindra Lifespace Developers Limited
Q2 FY15 Earnings Conference Call

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Moderator

Ladies and Gentlemen, Good Day, and Welcome to the Mahindra Lifespace Developers Limited Q2 FY15 Earnings Conference Call. Joining us on the call today are Ms. Anita Arjundas – Managing Director and Chief Executive Officer, Mr. Jayantt Manmadkar – Chief Financial Officer, Ms. Smeeta Neogi – Vice President, Marketing and Mr. Siddharth Bafna – Senior General Manager, Strategy and Investor Relations. As a reminder all participants' line will be in the listen-only mode. 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, ma'am.

Anita Arjundas

Thank you and good evening everyone and welcome to our second quarter FY15 earnings call.

The consolidated income for the quarter stood at Rs.193 crores with a PAT of Rs.23 crores. Operating income was at Rs.182 crores. In the month of August, we launched our first affordable housing project at Avadi in Chennai. This project saw very good response from the market within the first 40 days of its launch, selling over 100 units to end customers who are largely in the informal sector space and some of them from the formal sector. We continue to believe that this is a large and underserved market with tremendous opportunity to grow once the business model and the ecosystem is stabilized. Post the quarter, in the beginning of this month, we also launched our second "Happinest" project in the Mumbai Metropolitan Region at Boisar. Here, again, we have seen very good response in the first two weeks of launch. In less than two weeks since launch, we have had over 100 units being logged in at Boisar and we are encouraged by the response to both these projects. We will continue to monitor and learn from these pilots before taking this business to scale.

We also launched our first luxury project in Gurgaon on the Golf Course Extension Road – Luminare. This launch also marks the first development under our joint venture with Standard Chartered Bank, the other being the project at Bangalore which should get launched in the last quarter. We saw good response from end users for Luminare and have seen good early bookings from end users. It has just been a week since launch as far as the quarter is concerned, so we will be taking this forward in terms of gaining traction at Luminare. During the quarter, we also launched the second phase of Antheia in Pimpri, Pune.

On the execution front – we had two projects achieving virtual completion, both within Aura, Gurgaon - Phase-2 and Phase-3 of Aura and we will commence handovers as soon as we receive the occupancy certificate.

On the sales front – the quarter saw sales of around 233 units aggregating to a little under Rs.100 crores of sales which was a good growth both in terms of quarter-on-quarter performance and year-on-year performance. The premium residential segment contributed to about 132 units out of this, the balance coming from affordable housing.

In the integrated cities – Jaipur added two new customers during the quarter, one in the DTA and one in the engineering SEZ. Mahindra World City Chennai saw a significant addition in the form of a major multiplex operator who will soon set up its facility within the World City in Chennai.

So that has been an update of the quarter. Our focus in the second half of the year will be around the balance launches. The Alibaug launch is scheduled for later this month. We also have the Andheri and Banerghatta - Bangalore launches that are scheduled for later in the year and these together with an enhancement of sales momentum overall should help us increase traction of performance in the second half of the year.

I will now hand over to Jayantt to take you through the financial performance for the quarter.

Jayantt Manmadkar

Thank you Anita. Good evening everyone. While the consolidated total income for the quarter was down by 7% against corresponding period last year, the PAT was up by 21% over the same period last year driven largely by paying down of debt which resulted in a corresponding reduction in interest cost from Rs.16 crores in Q2 FY14 to Rs.9 crores in the current FY.

With this, I would like to throw the floor open for questions.

Moderator

Thank you, sir. Ladies and Gentlemen, we will now begin with question-and-answer session. We have the first question from the line of Aashiesh Agarwaal from Edelweiss Securities. Please go ahead.

Aashiesh Agarwaal

Couple of questions. First, you have recently announced a new acquisition in Andheri. Could you please throw some light on that?

Anita Arjundas

Well, it is a parcel of land in Andheri in the Saki Naka area which is a joint development, so we have some amount of refundable and non-refundable deposit that has been paid upfront and the balance works on a revenue share principle. The development potential from the project is estimated around 3.3 lakhs sqft. We had mentioned that in the intimation to the stock exchange. It has just been registered yesterday. We will now get it started on the process of appointing architects and commencing development work with respect to the design and the product concept.

Aashiesh Agarwaal

And the share could be about 70:30, would that be a fair number to look at?

Anita Arjundas

We will share that at the appropriate time Aashiesh. Right now we have just done the registration; we do need to get the confirmation from the land owner before we can put out numbers on percentage sharing.

Aashiesh Agarwaal

Sure. The next question is again a smaller one. At Avadi you have sold about 100 units. Given it is a mass market product, do you think that this is a little slower than what you had anticipated or is this largely in line with your sales strategy?

- Anita Arjundas** In our estimation, we factored in broadly a run rate of about 100 units a month. If you look at Boisar, I think in less than two weeks from launch, it has crossed 100 units. As far as Avadi is concerned, it is a 45 day period which has seen about 100 units. Out of this 15 days was the point in time in Tamil Nadu where people don't buy homes, what is considered the inauspicious period. But yes, compared to Mumbai, obviously Chennai is a little slower in terms of velocity and I think it is largely built around the fact that we have not entertained any investors. These are people from that segment only. So it does take a bit of time for people to put even the initial 10% - 20% that needs to be put together to come in and buy the house.
- Aashiesh Agarwaal** Got it. And with respect to the World Cities, of course we see that you have done some bookings in terms of new clients brought onboard but how do you see the enquiries or on the ground activity as far as new investments are concerned post the new government, I mean are you seeing something really happening on the ground or is it just...?
- Anita Arjundas** I think it is too early to comment in terms of visible traction on the ground. As far as the World Cities are concerned, we have seen the same kind, nature, number of customers who were coming in earlier and looking at land parcels, the same numbers as six months ago, no significant upward movement. And as far as residential is concerned, it has improved I think month-on-month itself in terms of the number of units being sold. But again not to a point of traction that you can turn around and say is based on complete redefinition of the economy or the market. Ground signals are still, I would say, muted.
- Aashiesh Agarwaal** Sure. Finally the one on your ROCE, overall returns still are a little suppressed. You sold off the Byculla parcel that is the key value unlocking strategy. Could you also throw some light if there are some additional levers that you may be considering that could free up or are there some more such avenues that could be exploited because we see that there are couple of transactions which do not seem to be moving in the last couple of years like the Orbit one. Nothing has happened over there.
- Anita Arjundas** Yes, I think avenues will always be there, one should constantly keep looking at the land bank and the investments and see what is relevant at a particular point in time and revisit whether it makes sense or it doesn't make sense. So that is a continuous exercise. It is also a question of what, when and what timing. So it would be very-very premature to make any comment Aashiesh, there is nothing that we today have which is out there saying this is a target for the next six months.
- Aashiesh Agarwaal** Okay. So it will be opportunistic as it happens?
- Anita Arjundas** Yes. I mean if we look at it then it would be if something very strong comes up as the compelling reason, but otherwise I would say the focus right now for the next six months is to get all the launches going and to get sales traction up. Execution continues to remain a focus and we will keep at it.

- Aashiesh Agarwal** Just one final question. On the sales front, some of your peers from the corporate backed real estate developers, if I may say so, have lot of clientele coming in from overseas. Do you see such kind of a pattern on your side also or do you find your mix is largely domestic driven?
- Anita Arjundas** Typically, we had about 15% to 20% of sales coming from overseas but that's been driven by more direct sales on our part in the international market. We will definitely in the second half be focusing on actually adding significantly in terms of channel partners in the key markets like the GCC, UK, US so that we can actually get a greater share coming in from the overseas markets.
- Moderator** Thank you. Our next question is from the line of Anubhav Gupta from May Bank. Please go ahead.
- Anubhav Gupta** In quarter two, you did presales of around Rs.93 crores, out of that how much would be from affordable housing and how much from mid to premium?
- Anita Arjundas** The affordable housing was about 101 units and contributed to about Rs.16 crores.
- Anubhav Gupta** So balance Rs.77 crores was from mid to premium.
- Anita Arjundas** Yes, that's right.
- Anubhav Gupta** And which geography across the country contributed most to this Rs.77 crores?
- Anita Arjundas** Maharashtra would be one definite large contributor that is both Nagpur and Pune. Hyderabad has done well during the quarter. These would be in order, I would say Pune followed by Nagpur followed by Hyderabad.
- Anubhav Gupta** Okay. So is Hyderabad showing good signs of recovery after the political turmoil got over?
- Anita Arjundas** I think people are coming back to look at projects, closures are definitely improving in terms of speed of closure but still not fully there in terms of velocity.
- Anubhav Gupta** Okay. And for the second half which markets do you think will be more important for you to achieve the desired sales figures?
- Anita Arjundas** As far as sales is concerned in the second half, Pune will continue to be important. NCR will become an important market. We have the launch of the new project at Golf Course Extension Road, so that becomes a critical contributor to sales numbers, not necessarily to any revenue during this year but these would be important. We would also have Andheri becoming an important player in the last quarter. There is also the Alibaug project that would get launched at the end of this month to early next month.
- Anubhav Gupta** Right. Andheri one is the same one which you acquired rights to yesterday?

- Anita Arjundas** No, Andheri one is the one we picked up in March 13.
- Anubhav Gupta** Yes, okay. So you said NCR will be the important market for you, but what we hear or what we see there, the market is not doing very well so I mean...
- Anita Arjundas** The market is slow and I think NCR will be important from the order book point of view, not from revenues for this year. But if you look at the product there and the location, the product has been very well received. People who have come in and booked are largely end users who intend retaining the unit and we have seen very good early numbers coming in that one week since we launched. So we are quite positive that we should be able to get good traction going there. Obviously not some very large numbers because it is a four to five crores product but good numbers coming in from end users.
- Anubhav Gupta** Okay. And from the execution point of view, what will be the key projects which will get you revenue on the books in FY15?
- Anita Arjundas** So there would be the affordable housing which would get into revenue recognition during FY15, there would be the early phases of Nagpur which would get into completion. There would be the new phase that we have launched in Pune in Antheia which should hopefully achieve revenue recognition by the end of the year. These would be the important contributors. There are a couple of phases in Chennai in Iris Court and in Aqualily which are scheduled for completion in the second half of the year.
- Anubhav Gupta** Okay. And the construction work on these projects is as per the expectation?
- Anita Arjundas** Yes, construction on all of these projects is going as per schedule.
- Anubhav Gupta** Right, okay. And did you hear anything from the government authorities on the 42 acres of land parcel in South Chennai, for the industrial parks?
- Anita Arjundas** Well, not exactly a point in time when we are going to hear from the government there. We are waiting for things to settle down in Tamil Nadu before we can get any movement there.
- Anubhav Gupta** Okay. So out of the total revenue of Rs.1.8 billion how much was from the industrial park sale?
- Anita Arjundas** Operating income 85% from residential and 15% from the World Cities.
- Anubhav Gupta** Right. And what is the net debt after repayment of loans from the proceeds of Byculla land parcel?
- Anita Arjundas** Standalone or consolidated?
- Anubhav Gupta** Consolidated.

- Jayant Manmadkar** The consolidated net debt is close to Rs.1,050 crores .
- Moderator** Thank you. We have the next question from the line of Ritwik Seth from Span Capital. Please go ahead.
- Ritwik Seth** My question is regarding slide number six. We have around 22 to 23 million square feet in the pipeline from ongoing, forthcoming and from the land bank and we have sold around 2 to 3 million square feet of the ongoing projects, so my question is regarding what timeframe should we consider over the next five years or what horizon should we see that all the 22 million square feet will be sold out?
- Anita Arjundas** I think let's focus on the ongoing and the forthcoming which is the 5.66 and the 5.16 and as you said out of the 5.66 we have sold about 55%. We have the balance to sell plus the forthcoming projects. I would not get into an overall timeframe but I think typically what you should look at is depending on the size of the project, the cycle ranges from anywhere between three to five years. Smaller projects would be three years; larger projects would be five years.
- Ritwik Seth** Okay. So we can sell off all the projects in the next five years then?
- Anita Arjundas** Yes, that should be a fair estimate.
- Ritwik Seth** Fair estimate, okay. And typically we have maintained margins of around 10% to 12% on PAT level. So can we expect that kind of run rate to go up?
- Anita Arjundas** Well, over a period of time margins should improve. In the trend line of the company, there has been a movement from say 18% to 20% kind of margin profile to 12% to 13% margin profile that we have right now in the last one and a half years. This has been driven by some level of interest cost because we did buy land but this is also driven by product mix. Product mix contribution will start changing in the next two years. We will see the NCR project contributing to the revenues, you will see the Bombay project contributing to revenues. So all of that will mean some level of improvement in terms of gross margins
- Ritwik Seth** Right. And just moving on to the affordable housing segment, we have launched two projects now, so what kind of margin profile are we looking at and what is the selling price in Boisar and Avadi?
- Anita Arjundas** The selling price in Avadi, all told, all inclusive, is a little under Rs.3000. It is Rs.2900 odd; and Boisar is around a similar number. This is not the base price, this is all told. It would be just about sub Rs.3000 in terms of pricing.
- Ritwik Seth** Right. And what kind of margins are we looking at?
- Anita Arjundas** We would like to achieve a steady state in the business of about 20%.

- Ritwik Seth** That is on the PAT level or that will be at the operating level?
- Anita Arjundas** That would be at the operating level.
- Ritwik Seth** Operating level, okay. And just one final question on the markets in NCR. What kind of momentum or what kind of traction are we seeing in NCR?
- Anita Arjundas** Overall market is still slow, it obviously still has not picked up, as there is a fair amount of stock across ticket sizes. If you look at the Golf Course Extension Road in particular, there haven't been any launches in the last three years. In fact I think ours was the first project that got launched in that area in the last few months. There are potentially one or two other projects that could get launched in that area. So that specific location itself doesn't have too much of stock. But it is a product, it is a market which is in the upper end, it is the luxury segment. So most projects there range between upwards of Rs.3.5 crores going upto Rs.10 crores or Rs.12 crores. So it will take some time for that particular location to pick up in terms of large scale absorption. But as I mentioned in the beginning of the call, we have seen very good response to the product, to what we have to offer there because the product does have very unique benefits in the luxury category and we have seen very good interest from end users who already have taken up bookings there.
- Moderator** Thank you. The next question is from the line of Sandipan Pal of Motilal Oswal Securities. Please go ahead.
- Sandipan Pal** I see your Nagpur portfolio has not done any incremental presales during the quarter, is there any reason?
- Anita Arjundas** There are incremental sales in the quarter. It has been pretty much similar in terms of number of units, Q1 was 26 units and Q2 has been about 30 units.
- Sandipan Pal** I am talking about all the projects in Nagpur ma'am.
- Anita Arjundas** Nagpur we have only one project.
- Sandipan Pal** Bloomdale only, but 2A, 2B, 2C, all the phases I mean to say.
- Anita Arjundas** Yes, to add all the phases Q2 was at 30 units as against Q1 of 26 units.
- Sandipan Pal** But it was relatively slower, right?
- Anita Arjundas** No, I think Nagpur has been at a steady rate of about 10 units a month consistently, right through the last six months and even before that in Q4. Has it gone higher than that? No, but 10 units a month has been what the location has been clocking.

- Sandipan Pal** Okay. And ma'am can I get Aura-I and Aura-II's final numbers. It is missing in the slide because these have been completed but if you can give me the final sales value and the revenue contribution on a cumulative basis?
- Anita Arjundas** Can we give you that offline Sandipan? Jayant can arrange for that to be mailed to you if you can drop a mail.
- Sandipan Pal** Sure.
- Moderator** Thank you. We have the next question from the line of Prem Khurana from Batliwala and Karani Securities. Please go ahead.
- Prem Khurana** Ma'am, would you have any comments to offer on North Chennai project? You were planning to have some 600-odd acres of contiguous area to launch this project but if you could just share some thoughts if we managed to acquire that much or is it still sometime away?
- Anita Arjundas** I think we mentioned in the last call that we would be breaking the project into two phases and Phase-1 would comprise about a little under 300 acres. We have all that is required for that phase. We are at fairly advanced stage of documentation with our partners for the project and we should be able to come back with more news on that project in the near future.
- Prem Khurana** Sure. Phase-1 would start with development only or marketing would also commence along with development itself?
- Anita Arjundas** It would commence at the same time but only post approval. So right now we are at a stage where we started doing the master plan for Phase-1. And once the master plan is completed we will start the whole process of approval.
- Prem Khurana** You were also planning to convert part of our SEZ area in Jaipur into DTA, so any progress there?
- Anita Arjundas** That is still WIP with the government.
- Prem Khurana** Any updates on residential side of the business in Jaipur?
- Anita Arjundas** No, not yet. We have started working on demand estimation, looking at what would be the drivers, and what should we create at the location. So that's work which is ongoing, post that we will appoint a master planner for the whole non-processing area, the township part of it.
- Prem Khurana** But the idea remains to act as a master developer or you would want to give it out to someone else to develop or do it in-house only?
- Anita Arjundas** It would be a combination. Based on the final master plan we would do parts of it ourselves, parts of it we would give to others.

Prem Khurana And just one on Bloomdale – you gave out the number of units that you have sold during the quarter but would it be possible for you to share value bookings because I think there is some kind of a typo in your presentation, the numbers are somewhat similar to the numbers that were there in 1Q in terms of sale value cumulative. There is increase in our percentage sold units but then the sale value number is the same as your 1Q numbers.

Anita Arjundas Yes, but in the presentation it is normally based on...

Prem Khurana Yes, these are the cumulative numbers but there is no movement in cumulative numbers. If we have sold some 30 odd units there should have been some movement in our numbers for Nagpur project.

Anita Arjundas If you can drop us a specific mail we will give you the clarification.

(Revised presentation has been uploaded on the company website)

Prem Khurana Sure ma'am. Also if you could explain on the margin improvement in this quarter, there has been significant improvement in margin. If I would exclude last quarter, we were doing around 13%-14% kind of margins, this quarter it is around 26%. So do you have any asset sale during the quarter or is it purely on account of change in revenue mix or change in project mix?

Jayant Manmadkar Prem, primarily it is to do with the product mix because of Aura completion. There is revenue coming in with completion. Other reason what we see is the interest cost which is lower in this quarter, so these are primarily two reasons on the margin.

Prem Khurana Sure. And sir the security deposit are refundable or non-refundable because we were supposed to pay for the Saki Naka land, you have already made the payment or is it yet to be paid?

Anita Arjundas No, it has been paid in the month of October. So it won't be part of September numbers but has been paid when we did the registration.

Moderator Thank you. The next question is from the line of Deepak Purswani from ICICI Direct. Please go ahead.

Deepak Purswani Ma'am just wanted to get some sense on affordable housing, how would be our execution cycle?

Anita Arjundas In terms of cycle time?

Deepak Purswani Yes.

Anita Arjundas It would be 18 months.

Deepak Purswani Okay. Because in this quarter only in Chennai segment we have completed 33% of the project.

- Anita Arjundas** 33% includes land. So it has also been good. Its been 45 days since we have launched, if you see, we have about five blocks in that 1st Phase and all of them are at the 1st floor slab. We have finished foundations, we have finished stilt and we are on first floor plans of the five blocks.
- Deepak Purswani** Okay. And also ma'am could you please share your thought on the Jaipur residential component?
- Anita Arjundas** At this stage we are focusing on demand estimation, on what can we have as part of the mix that would work to develop the destination and make it attractive. So that study is going on, post that we will appoint a master planner. We will work on the Jaipur residential township master plan and only then take it up for launch.
- Deepak Purswani** Okay. Would it be fair to assume that it is still one year away from here?
- Anita Arjundas** Yes.
- Moderator** Thank you. We have the next question from the line of Rajesh Gannamani from Fidelity Investments. Please go ahead.
- Rajesh Gannamani** My question is specific to the notes to accounts where you mentioned Rs.100 crores advances, so what exactly is that?
- Anita Arjundas** So there is a property in Napean Sea Road where we have entered into an agreement to sell and the property is to be conveyed to us. The land owner is completing certain CPs for the conveyance to be completed. We are waiting that to be done before the conveyance can happen.
- Rajesh Gannamani** Sure. That does not mean you would require any provisioning for that, right?
- Anita Arjundas** No, no plans for provisioning.
- Rajesh Gannamani** Okay. And then there is one more line where we actually had a provision write-back, did that help the margins this quarter?
- Jayant Manmadkar** No, that was in the previous quarter.
- Rajesh Gannamani** Okay, I am sorry. Then on operations specifically I had two question, one on the NCR market. What we hear from the market is that the sales traction has really been bad, what is the differentiated offering that we are doing in the Golf Course Road that is helping our project actually see the sales momentum?
- Anita Arjundas** As I mentioned one, there has not been a launch on that particular corridor on Golf Course Extension Road for a while. There aren't any new projects, most of the projects are either completed projects, secondary sales, or you have projects which are fairly advanced in terms of

stages of construction. So that has been one factor, the other has been the product itself. It is a product which has features that have not been part of the offering in that market so you have private elevator lobbies to each unit, you have complete 360 degree wrap around balcony, every unit is a corner unit, product has been well-appreciated by the customers and we think both these factors have helped us achieve a very good response from end users.

- Rajesh Gannamani** What is the pricing in that market?
- Anita Arjundas** We have launched at about Rs.11600 odd in terms of the base price and then there are the PLCs and car parking and infrastructure charges, etc.
- Rajesh Gannamani** Sure. The next one is on the Hyderabad project. Did we see any price appreciation in that project?
- Anita Arjundas** In terms of specifically last quarter or over a period of time?
- Rajesh Gannamani** Over a six month period.
- Anita Arjundas** Over a six month period we have seen improvement of about 3% on existing prices and we should be seeing some more improvements on price because we will be launching the last tower around Diwali.
- Rajesh Gannamani** Sure. And if I may ask the pricing in that market?
- Anita Arjundas** It is currently at Rs.4200 base.
- Moderator** Thank you. We have the next question from the line of Ashish Jalan from Reliance Mutual Fund. Please go ahead.
- Ashish Jalan** Ma'am, on the two World City projects, I wanted to know how much would be the rental income that is accruing every month or a monthly run rate of the rental income?
- Anita Arjundas** Can you drop us a mail on that and we will respond to you.
- Ashish Jalan** Okay, sure. So we say that these project have been leased, 563 acres has been leased, it means that the agreement for lease has been signed so cash flow would not start immediately or?
- Anita Arjundas** No, entire cash flows come in. The way we work on these World Cities is they are typically 99 year leases and therefore the customer pays a non-refundable lease premium upfront for the 99 years which is treated as income in the books 100% at the point of time of sale and cost of goods is expensed out corresponding to that at the point of time of sale.
- Moderator** Thank you. As there are no further questions from the participants, I now hand the floor back to Ms. Anita Arjundas for closing comments. Thank you and over to you ma'am.

Anita Arjundas

Thank you. The focus for the second half of the year as I mentioned in the beginning of the call will be to complete the launches scheduled for the year which is the Alibaug project, the Andheri project and the Bannerghatta Project in Bangalore. We would like to see some strong movement on the NH5 project in Chennai in terms of master planning and in terms of moving forward on the relationship with our partner. On an overall basis there would be a strong focus on increasing outreach in terms of various alternate channels for sale now that we have a larger bouquet of products available both in terms of price points and in terms of market, and we should be able to harness the sales potential there -these would be key focus areas. Execution continues to remain a thrust area. There are several projects scheduled in the second half to either achieve revenue recognition or achieve completion and efforts will be on to ensure we deliver on that. That is pretty much the focus for the second half of the year for the company. Thank you.

Moderator

Thank you. Ladies and Gentlemen, on behalf of Mahindra Life Space Developers Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

(This document has been edited for readability purposes)