

“Mahindra Lifespace Developers Limited Q4 FY18  
Earnings Conference Call”

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**Moderator:** Ladies and Gentlemen, Good Day and Welcome to the Mahindra Lifespace Developers Limited Q4 FY'18 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, Investors 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 '\*' and 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 Lifespaces. Thank you and over to you, Madam.

**Anita Arjundas:** Thank you and Good afternoon everyone. Welcome to our Q4 FY '18 Earnings Call.

As you are aware, the Indian Accounting Standards are applicable to our company from the period commencing from April 1, 2016, therefore certain key operating entities like the World City in Chennai, the World City in Jaipur, Mahindra Homes which is the StanC joint venture, Mahindra Bebanco Developers Limited which is a Nagpur Project and Mahindra Happinest Developers Limited which is the joint venture with HDFC for affordable housing, are no longer consolidated on a line-by-line basis, but on the basis of equity method of consolidation.

During the quarter, the company launched Happinest Palghar, which was its third affordable housing project and its very first under the platform with HDFC Capital. We are happy to share with you that we sold over 389 units in 45 days of launch and at the moment, we stand at over 500 units sold in less than 60 days of launch. Completion during the quarter has been about 0.33 million square feet in the company across projects like Antheia and Happinest Boisar.

In terms of consolidated result, following are the key highlight:

The consolidated total income was Rs. 180.6 crores for the quarter as against Rs. 185.6 crores in the previous quarter and Rs. 342 crores in Q4 FY '17, which included a one-time Rs. 177 crores income coming in from the sale of a property in Nepean Sea Road. The consolidated PAT post-minority interest was at Rs. 47.8 crores for the quarter compared to Rs. 26 crores in the previous quarter and Rs. 17 crores in FY '17 Q4.

The residential business achieved its highest quarterly sales with 650 units being sold during the quarter, that is 0.4 million square feet amounting to Rs. 191 crores of sales. Launch of Happinest Palghar was a significant contributor to these numbers. 56% of volumes sold during the quarter has been below the 50 lakhs price point, but what is good to note is that we have seen an increase in sales also from other price points going right up to Rs. 2 crores. 28% of total sales came in from finished goods and during the year we completed hand over of 1600 units, a little over 300 of which is happening in Q4.

In the World City business, we had six customers signing up – five in Jaipur, four of them new and one existing and one new customer at the World City in Chennai. Across these six customers, we had a total sale of 18 acres for the quarter. We also sold during the quarter, the commercial complex at the World City in Chennai which is Canopy, in line with our approach on focusing on core assets.

Another sale which took place during the quarter in the residential business was the Nashik land, which again been not a focus market for us, we went ahead and disposed that asset.

I would now request Jayant to take you through the 'Financial Performance' for the quarter.

**Jayant Manmadkar:** Thank you, Anita. Good afternoon everyone.

EBITDA margin for Q4 FY '18 stood at 41% versus 9.8% in Q4 of FY '17 and 24% in Q3 of FY '18. The PAT margin for Q4 FY '18 stood at 26.7% versus 5.1% in Q4 of FY '17 versus 14% in Q3 FY '18. EBITDA margin improved significantly due to better operational performance and substantial contribution from associates. These factors have also led to improvement in PAT margin.

With the continuous focused efforts, company has reduced its consolidated cost of debt from over 10% as of March '17 to 9.37% as of March '18.

I would now like to throw the floor open for questions.

**Moderator:** Thank you. Ladies and Gentlemen, we will now begin with the question and answer session. We will take the first question from the line of Adhidev Chattopadhyay from ICICI Securities. Please go ahead.

**Adhidev Chattopadhyay:** I just wanted to clarify Nashik land and this Canopy, what is the sale amount?

**Anita Arjundas:** For Nashik Land the sale value was about Rs. 24 crores and Canopy was Rs. 15 crores.

**Adhidev Chattopadhyay:** Secondly, this new Mumbai Development Plan which has now been approved this week, so what is the visibility now on our launches especially in city of Mumbai?

**Anita Arjundas:** The new DP had no impact in terms of our launches, it would be more relevant to us going forward because all our existing launches that are due to happen do have their IODs in place under the old DP. So therefore, no impact in terms of delays. Positive impact in terms of the dumping ground matter being sorted out in March by the High Court and therefore, we have already initiated revalidation of all the approvals that are required for us to be able to first launch our Kandivali project. As far as the height matter is concerned, we are expecting final approvals in the next month or so with respect to the Andheri Project and so that would follow thereafter in terms of launch.

**Adhidev Chattopadhyay:** Madam, in an overall context now what is the overall area that we are looking to launch in next financial year and would you like to share some sort of sales guidance or overall sales which the company is targeting?

**Anita Arjundas:** When I say new launches, I am talking about brand-new launches, not launches of phases of existing projects. The brand-new launches the five projects that are scheduled to be launched are around 2 million square feet of development. These we expect to see getting into active mode in the financial year. Guidance – we do not normally share a guidance on sales but yes, these launches are across diverse markets. We would like to see the approach taken for Palghar being followed through in all of those launches. And on the other ongoing projects, we generally have been able to see sustenance sales year-on-year basis of around Rs. 500 crores to Rs. 600 crores, so if you look at last year's performance has been around Rs. 600 crores of sustenance sales.

**Adhidev Chattopadhyay:** Any longer-term target or volumes or anything, which you would like to get to?

**Anita Arjundas:** We really would not be able to get into that.

**Adhidev Chattopadhyay:** Lastly, on the business development side, any progress on anything and do we expect to hear some announcements in the latter half of the year?

**Anita Arjundas:** We have MoUs in place for about 2.7 million square feet of deal. We should be in a position to announce a couple of them in the immediate future and then the balance possibly in the following quarter.

**Moderator:** Thank you. We will take the next question from the line of Himanshu Upadhyaya from DHFL Pramerica Mutual Fund. Please go ahead.

**Himanshu Upadhyaya:** I have one question on the MMR projects, the three – Sakinaka, Andheri, and Kandivali, which are absolutely new projects, what approvals are pending for these three projects and can you throw some light on by when can these projects be launched?

**Anita Arjundas:** As far as Andheri project is concerned, we have all our approvals in place except the additional height confirmation. We do have an IOD and a CC in place there. We have built up to the plinth, but we need the additional height confirmation which we think should go through in the month of May based on what the High Court has determined recently in early April, that is the approval that is pending as far as Andheri II is concerned. In terms of Kandivali, again we do have a base IOD in place, but since it was under the dumping ground matter which is post March '16 in terms of having received its approvals. With the matter now being sorted out in the court, we have initiated the process of getting our waste management NOCs that are new requirements under the High Court resolution, those are under process as we speak and once those are in place, we will be able to revalidate the IOD and move towards the launch. We are targeting a Q1 launch there. As far as Sakinaka is concerned, it had a combination of both issues, the dumping ground and the height matter. So the dumping ground is the same pathway as what I described for Kandivali. As far as

the height there is concerned, we still have the height verification pending to be done by the Airport Authorities which they will now come in and do with the matter being resolved and then we get the NOC for that and we should be able to proceed forward on that.

**Himanshu Upadhyaya:** In Chennai the new projects what we want to do in Mahindra World City 0.9 million and 0.41 million, so these will be single phase launches because Chennai was generally a slow-moving market what we were continuously saying. So are we seeing market improving big time because the new projects what we are seeing is significant, out of 3 million square feet of launches, 1.3 million square feet would be in Chennai? So can you throw some light on how are we looking at that market and are we finding the market being more vibrant right now?

**Anita Arjundas:** I was referring to 2 million square feet of targeted launches. The second plot that you mentioned in Chennai which is P-25 will not be taken up for launch this year. We are focusing on the P-17 launch that is in advanced stages of approval. We are expecting final clearances from a MoEF perspective and then we should be in a position to move forward on launch. We would not take up 0.9 million immediately for launch and in the way we have always approached launches is to take up a subset of the total project, launch it, sell it and start construction, so that we have cash flows running concurrently. So, we should be able to take up about half of it during the year for launch and obviously if the response is good, we should be able to take up more but currently the plan is to be able to take up half during the year. Since you mentioned the other launches, I think the fifth one that I forgot to speak about was the one in Pimpri in Pune, which is the F1 plot and that has received all its approval except MoEF clearances, which are in the last stages of MoEF approvals, that is again something which we should be able to launch in the near future.

**Himanshu Upadhyaya:** This Pune project L'Artista, I think it was having around 18 units to sell, so 8 we have already sold in the market in the last quarter and 10 are remaining. So, are we selling that individual, individual units or earlier we were thinking of lump sum selling the whole building?

**Anita Arjundas:** It is 21 units, out of it 16 units is our share, 5 units was consideration to land owner in the form of units, which we have already handed over to him. Out of 16, we have sold 6 as of the yearend, we have sold 8 as of now and we have another 8 to be sold. We are selling it on an individual-to-individual end-user basis, not as a bulk to a retail investor.

**Himanshu Upadhyaya:** Madam, can you throw some light on new project additions? And one more thing, we keep on hearing from lot of market participants that a lot of people are coming for JDs and JVs landowners or erstwhile builders. So what is the sense you are getting in and we wanted to grow the business, so how are you looking at the market and where are we right now in terms of new project acquisitions?

**Anita Arjundas:** As I have mentioned to the earlier participant, we have MoUs for about 2.75 million square feet which are currently under various stages of diligence out of which three are very advanced. We are looking to close at least two of them this quarter and the balance in the next quarter. If you look at these five itself about three of them are from landowners who were earlier into development

themselves and are looking at opportunities by which they can partner with corporate developers and not necessarily take up development themselves. So the structure there also is where we do pay part consideration upfront and the balance upon receipt of approval and they are taking responsibility for the approval, so that we can get the approvals there faster. So therefore to answer your larger question, yes, we definitely are seeing more and more developers of small and mid-sized category who are looking to either monetize their lands or get into partnerships with reputed organizations to be able to get faster cash flows coming in for them also and we definitely will actively pursue this route as a way to add to our inventory and growth.

**Himanshu Upadhyaya:** On the affordable housing, the HDFC platform what is the progress on new launches or addition we have on that side? The Palghar is already there, but any other project additions on that side?

**Anita Arjundas:** As you rightly mentioned, Palghar was the first project that the platform has invested in together. We have transferred the land from MLDL to the platform that has since been launched. We now look at getting our next project going, so out of the five MoUs that I mentioned to you, we do have one which is for affordable housing that is about 0.85 million square feet, which is in the public notice stage, so final stages of diligence, we should be in a position to execute that in the month of May.

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

**Kunal Lakhan:** On asset monetization front, have we given some thought in terms of monetizing our other commercial assets which we are holding like let us say Evolve or Mahindra Towers in Delhi?

**Anita Arjundas:** Not at the moment. I think Mahindra Towers at Delhi, we have a stable customer. We do get in good rentals. It is a profitable commercial project for us and we will continue to hold this currently in our books. Evolve, we will look at the opportunities that come our way as we go along but at the moment there is about 400,000 square feet of stabilized rental assets which continuous to accrue annuity income to the World City of Jaipur.

**Kunal Lakhan:** Secondly, just wanted to understand on the Palghar side, how is our pricing strategy here going to be going ahead. We have sold decent amount of inventory this quarter, how are we going to do in price rise and how do we hedge ourselves against any cost inflation over the next three years that will take to deliver the project?

**Anita Arjundas:** First of all, I think we have looked at affordable housing as an offering; we clearly look at how we can sell maximum at a fixed price rather than looking at price escalation being a hedge because at a certain point in time when you cross the threshold of affordability and sales slows down. Your incremental cost on sales and marketing is too high when you have residual inventory left, so the focus definitely is on maximum sales at a fixed price right up front. There will be some increases, yes, but I would not look at that from an inflation billing perspective. There was a query around the Palghar launch, I did speak about the fact that the focus is on getting as much volumes as possible in at a fixed price, so that you are not dealing with affordability creep over a period of

time and increase in sales and marketing costs, so the launch has been in line with that strategy. Therefore, the question around how do we ensure costs are within the budgeted numbers, we do have today price discovery on cost for most of the cost structures, so the civil contractor is already been tendered. The electrical contract, plumbing contract have all been closed. The entire GST drawing for the project are in place, therefore, we really do not expect any surprises around cost and will be able to meet the budgeted profitability for the project in line with the approach we have taken for price and cost.

**Kunal Lakhan:** Secondly, have we earmarked any other land besides the Nashik land that we sold this quarter that could come up for sale in the coming quarters?

**Anita Arjundas:** Not at the moment.

**Kunal Lakhan:** Lastly, one question for Jayantt, if you look at last two quarters, our cost of debt has been increasing marginally though, so how should we look at this number now going ahead, like has the cost of borrowing bottomed out and going forward it should just keep inching up?

**Jayant Manmadkar:** Cost of borrowing if you see for last quarter, it is actually purely in line with hardening of the base rate itself, because most of our borrowing has been from the banks and to an extent whatever is there as we know from NCD and these rates are floating rates and it is in line with that. However, on April 4<sup>th</sup>, we already repaid the NCD of 200 crores, which was the last tranche of our 500 crore NCD, which was at 10.75%, so obviously next quarter we will see that reflected much better than the current quarter.

**Kunal Lakhan:** One last question, how was the accounting treatment for the Nashik land and the sale of the commercial complex?

**Jayant Manmadkar:** Nashik land sale is purely an operational income because it is always part of our inventory, while the sale of commercial complex in World City Chennai has been sale of fixed assets, therefore, that forms part of the other income.

**Moderator:** Thank you. We will take the next question from the line of Faisal Zuber Hawa from Hawa Investments. Please go ahead.

**Faisal Zuber Hawa:** About this new project mining, you just said that around 27.5 million square feet MoUs have been signed, so how soon you feel that this could reflect in our revenues that is one and have we had much progress in talking to developers who are in other cities, who are also now struggling for funds or permission and stuff and the Mahindra brand could really rescue them and are we looking at certain model like Piramal Realty has done wherein they have not only arranged finance for this developers, but they have also arranged finance for the final home buyer and they have also put their own name onto the anvil, so in that respect, company like Piramal will be almost reaching 1000 crores turnover by the next FY, which is almost what we have done over so many years, so are we looking at that kind of model because of the HDFC tie up, even with our relations with

Kotak Bank, I mean something like this could be fired up. Second is, do we look at other competitors like Lodha or even Oberoi Realty who have really grown very substantially over the years and which could serve as model to us? Third is, I had the good fortune of visiting World City Jaipur in the month of March and to say the least I thought it was a wonderful development, fully sustainable and really adding value to industry to society, the only grouse I felt is that a bit slow in getting out revenue and they did tell me that they are going to have a perfect plan in place for the residential development, which will lead to substantial increase in their sales to, so is that plan now in place and who are the consultants appointed and what is the potential revenue in terms of square feet that we see there and also if there is some kind of ballpark figure as to what the per square feet realization could be. Third question is about affordable housing, apart from Palghar and in Bombay, do we feel that any other city carries a lot of potential for affordable housing and are we doing any kind of liaison with Government and others to wire up financing for our final buyers, and last question is about the Ahmedabad project, is there any progress on that, have we started the plotting and the permission, and which FY do you feel that there will be revenue from this project?

**Anita Arjundas:**

Thank you, that is a lot of question. First of all, thank you for your feedback on World City Jaipur is always gratifying when we have our investors and partners going across to take a look at the projects and sharing your feedback. Maybe, what we will do is I will request Sangeeta to walk you through your question around Jaipur, Jaipur residential, Ahmedabad, and also the future focus around stressed assets possibility and then we will just quickly cover up on the 2.7 million maybe that I will just quickly address, it is not 27 million, it is 2.7 million we have tied up in terms of current MoU and obviously there is scope for us to do much more.

**Sangeeta Prasad:**

As Anita said, I reiterate, Welcome to Mahindra World City, Jaipur, and good you found that place good and enriching. So as far as the World City, one good news is that we should be getting ready with our multiproduct SEZ zone and we will have a broad spectrum that will help us to further accelerate our sales in the industrial zone, so that is about and the detail also we are getting leads, so that is about the industrial. As far as the residential and social, I totally resonate your sentiments about that being a real good potential for us to showcase ourselves in the fully integrated city, so the master plan for that is on. You are aware that we have already without launching the project got a large customer in form of an educational institution, India's first skill university already in place, so the vibes and the interests are positive. What we are looking at is of course the residential market as well as the social infra, so combination will, our approach towards that part of the land-use will be both for residential and social. As is want of all Mahindra Lifespaces residential projects, we shall be positioning our project in the zone in such a way that customers do find that as a place where, if they are fully saturated in the downtown of Jaipur, they find this as the next best place that is how this whole offering is being positioned, so we are hopeful that, if not soon but sometime later in the financial year we should be coming out with more news for all of you of how we are looking at this project. As far as Ahmedabad goes, advanced stages of getting approvals from various entities water, power, layout etc., we should be launching the project later in this financial year, so that is about the Ahmedabad project. Good vibe, good interest, the people



have seen our Mahindra World City developments and are confident that this will be a good place to invest in.

Distressed asset, totally agree with you Faisal, that is a very great opportunity, so what we have done is we have put a couple of resources in place who are focusing primarily on the distressed assets which are available in the market. We are at this point mapping what are the kind of projects available, how does it go in sync with our positioning, our approach towards the market, and let us believe that things should work out and we will have more if not 27.5, we should be more than 2.7 million which is already in MoU somewhat this route.

**Faisal Zuber Hawa:** Have we got the permission that we were to get for the multiproduct SEZ that is one, and what is the number of square feet that we could have potentially as a development for residential, I know that the plan is not made and you cannot really give any kind of figures, but I just need a figure in terms of a range and also what is the per square feet realization that we could get?

**Sangeeta Prasad:** Multiproduct SEZ notification is already received, so we shall be announcing that soon and launch that part of the project. As far as the residential master plan goes, we are just now in the close of the master plan, it will be premature on my part to give you some square feet. As you are aware, the social and residential overall layout is around (+400) acres and it will have of which 48 acres is already leased out to an educational institution, that should give you and we will have social and residential and major part of that layout will have residential.

**Faisal Zuber Hawa:** Around 350 will be residential, out of that you may have spaces for open gardens and stuff like that?

**Sangeeta Prasad:** You see garden in any layout like this if you have 450 acres, two third, one third is how you have saleable versus non-saleable, so you are 350 desire is first of all scuttled out because out of 450, two third is 300 and of which already 50 has been leased out, sold out to educational institution, so I do not want to get into further mathematics, but the 350 is not happening.

**Faisal Zuber Hawa:** Anita Madam, if you could just address the strategy as opposed to Piramal Realty or Lodha which speed is much better, and the value creation is also big in there company?

**Anita Arjundas:** I think Faisal we have discussed this, and the focus is really on getting more pipeline on the table. We have our first 2.7 million that we are working on to get to closure in the next few months. As we speak, we are definitely pursuing new pipeline. We have bid for new land parcels in MMR. We also are in the process of negotiation for new land parcels in Bangalore and Pune. As each of these fructify, we will be able to add more to the portfolio. We are cognizant of the fact that we need to grow at a much faster pace than we have in the last few years. We also understand that this is an opportunity for us given the fact that in a post-RERA environment, in a post-GST environment, the stakes definitely are stacked in favor of developers who focused on execution, who focused on the customer and who carry a great deal of trust as a brand, we would not want to lose that opportunity.

- Faisal Zuber Hawa:** This 2.75 million square feet can come into revenue by '19-20 probably?
- Anita Arjundas:** Yes, that would be right.
- Moderator:** Thank you. We will take the next question from the line of Deepan Kapadia from KDK Capital. Please go ahead.
- Deepan Kapadia:** Madam, in the last con call, you were talking about developing 7 million square feet across five to seven years in different cities, can I have something on how are we thinking on those plans and total development area right now under with us?
- Anita Arjundas:** I think we spoke about this with reference to the earlier participant also, I do not recall a specific reference to a number, but the idea is to grow significantly in terms of the deals that we add to our kitty. We have multiple projects getting over. We have five launches scheduled in the next few months. We have 2.7 million square feet of MoUs that we need to convert into conveyances in our favor and in the launches in the market plus we look forward to adding more. If you look at what is scheduled to be launched that is about 2 million, if you look at what is in the shape of MoUs that is another 2.7 million. At this point in time, we have visibility on 4.7 million.
- Deepan Kapadia:** Largely, the view is still in place that we are looking at 7 million, am I right in my assumption?
- Anita Arjundas:** I do not know where that number came from, let us just look at it as I mentioned earlier we definitely would like to see much greater sales and growth than we have had over the last several years, so whether that is 7, whether that is 10, whether that is somewhere in between or less than that, let us just start getting the first 2 million launched and the 2.7 million fructify it into future pipeline of the near future and then we will keep updating you as we go along.
- Moderator:** Thank you. As there are no further questions, I now hand the conference over to the management for their closing comments.
- Anita Arjundas:** Thank you and as rightly mentioned by many of you, the focus for us also in the next couple of quarters will be to get the 2 million square feet launched and get the 2.7 million MoUs converted while simultaneously building a new deal pipeline beyond this 4.7 million. We also look at the fact that in the World City besides the residual inventory less in Chennai and the opportunity in Jaipur being now opened with the multiproduct SEZ for us to do more, we have Ahmedabad and the North Chennai which will go into the pipeline and the endeavor will be between the four locations to increase the sales throughput from the World Cities as this also significantly contributes to the bottom line of the company, so yearly the focus is on the residential business creating the supply pipeline for the sales team both in terms of launches and new land parcels and in the World City pushing the traction of current sales to higher number. Thank you.
- Moderator:** Thank you. Ladies and Gentlemen, on behalf of Mahindra Lifespace Developers Limited, that concludes today's conference. Thank you for joining us and you may now disconnect your lines.

(This document has been edited for readability purposes)

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