LODHA

BUILDING A BETTER LIFE

August 2, 2023

BSE Limited
Scrip Code: 543287
Debt Segment – 974163, 974199, 974473, 974511, 974986

National Stock Exchange of India Limited
Trading Symbol: LODHA

Dear Sir,

Sub: Q1FY24 - Earnings Call Transcript

We are enclosing herewith a copy of the transcript of the Company's Q1FY24 earnings conference call held on July 28, 2023. The transcript is also being uploaded on the Company's website i.e. www.lodhagroup.in under the Investors section.

This is for the information of your members and all concerned.

Thanking you,

Yours faithfully,
For Macrotech Developers Limited

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NILESH
RANGNEKAR

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“Macrotech Developers Limited

Q1 FY ’24 Earnings Conference Call”

July 28, 2023

MANAGEMENT: **MR. ABHISHEK LODHA – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – MACROTECH DEVELOPERS LIMITED**
MR. SUSHIL KUMAR MODI – CHIEF FINANCIAL OFFICER – MACROTECH DEVELOPERS LIMITED
MR. PRATEEK BHATTACHARYA – CHIEF EXECUTIVE OFFICER, WESTERN SUBURBS & THANE – MACROTECH DEVELOPERS LIMITED
MR. ANAND KUMAR – HEAD INVESTOR RELATIONS – MACROTECH DEVELOPERS LIMITED

MODERATOR: **MR. BIPLAB DEBBARMA – ANTIQUE STOCK BROKING**

Moderator: Ladies and gentlemen, good day, and welcome to Q1 FY '24 Earnings Conference Call of Macrotech Developers Limited, hosted by Antique Stock Broking. 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Biplab Debbarma from Antique Stock Broking. Thank you, and over to you.

Biplab Debbarma: Thank you, Yashashree. Good afternoon everyone, and welcome to the Q1 FY '24 Earnings Call of Macrotech Developers Limited, hosted by Antique Stock Broking. Today, we have with us the management of the company represented by Mr. Abhishek Lodha, Managing Director and CEO; Mr. Sushil Kumar Modi, CFO; Mr. Prateek Bhattacharya, CEO, Western Suburbs & Thane; and Mr. Anand Kumar, Head IR.

Without further ado, let me hand over the call to Mr. Lodha. Over to you, sir.

Abhishek Lodha: Good afternoon, everyone. Thank you for joining us on this earnings call. I hope all of you are doing well and keeping safe in these heavy rains that we've been having for the last few weeks. To start off, I think it's important to get context of where India stands in terms of its overall visibility on economic growth and job creation, and then speak a little bit more in detail about how the company is taking advantage of the conditions on the ground, which continue to remain strong in terms of demand as well as availability of land for our growth.

L&T, India based largest infrastructure company, recently called for India's decadal moment, highlighting the massive transformational journey of our country. This is well supported by a prudent government policy and a capable central bank, both of which have combined it to shield the country from global volatility. Not for long, have we seen upgrades in India GDP growth rates by global multilateral agencies, and we continue to see strong momentum in economic activity.

India in all probability has seen the peak of interest rates and the Fed might have also seen its largest hike cycle ending yesterday, which further lends stability to monitory policy and may even provide tailwinds to our sector over the next 2 quarters.

Two events, one in progress and one over the next one year, however, warrant attention. As we all know, weather patterns have been erratic and India is no different. Mumbai has seen a fortnight of continuous rains and July recorded an all-time high amount of rainfall. The spatial distribution of rains is poor. And while the government will do everything it can to manage its impact, food prices can certainly disrupt economics of our nation in the short term.

We also have a number of state elections and the all-important central elections over the next 12 months. And both of these events are bound to have massive impact on the economy and the sentiment of the country and the people at large. Notwithstanding these factors, the real estate sector continues to be in strong momentum as demand for high-quality housing continues to remain very strong.

And would like to give credit to all stakeholders of the sector who have transformed India's real estate sector into a big and more importantly, stable drivers of India's economic growth plan. As much as I read and understand about China, the property sector seems to be an Achilles heel for their economy. While in direct contrast, we can hope for the real estate sector to play a big role - probably the biggest sector's role to drive GDP growth in India over the next 10 to 15 years.

Coming to the company, we have continued to witness very strong momentum in the markets that we operate in. And the fact that one of India's largest real estate companies has returned to Mumbai is a testimony of the strong demand environment that exists in Mumbai, which contributes almost 40% of the total sales in the top 7 Indian cities.

As a company, we continue to remain confident of sustaining 20% growth in our residential segment, which will be driven by the rising contribution of the real estate sector to India GDP. This in turn is driven by the creation of new households capable of home ownership, a function of the young demographics profile and rising income. It is also a new acclaim to our industry to be able to provide quality products without raising prices extraordinarily, which erode affordability to the home buyer.

For us, as a company, there is always a little bit of toggle between growth, i.e., business development and reducing our debt. And it is a function of the enormity of opportunities that we are seeing and capitalizing on without going over the board. Our new project addition is well ahead of our expectations, too, and the pipeline continues to remain very strong. All the same, we will keep our debt under control through the year and stick to our guidance of debt below 0.5x equity and below 1x of operating cash, whichever of the 2 is lower by the end of this fiscal year.

There is also not much we need to read into the fall in reported numbers and revenues and profits as it is completely dependent on the OCs received in this quarter and which is why the change in accounting policy that we are embarking on, which Sushil will get into detail later in the call.

On the residential side, we continue to remain optimistic on the market that we operate in, and the business in Bangalore is also beginning to steadily take shape with a launch expected in the next quarter. This launch has been delayed. We were expecting to have this launch in the current quarter, but be that as it may, we are getting there slowly but surely.

The two large townships that we have in our portfolio are also an area of optimism, driven by improving infrastructure and continued product innovation. And finally, we are also gradually building our annuity portfolio in all three parts, i.e., warehousing and industrial, facilities management and a selective portfolio of offices and retail, in order to ensure that we can have the steady annuity income with high teens ROEs to complement the scale up of our development business.

A word on our move from the project completion basis revenue recognition to percentage completion basis. And while it might create some transition challenges, we will be able to demonstrate a true picture of our performance and P&L like the pro-forma P&L we have been sharing. And in the next couple of years, it should stabilize. Sushil will explain this in detail, and we are happy to share further information with analysts in the days to come to understand how this transition will help provide much stronger clarity and visibility on the underlying business performance.

Speaking a little bit more about the demand conditions on the ground. As we have been stating for some years, we are probably in the third year of a 15-year cycle. Our enablers of demand are measured by customer walk-ins and conversion rates, both of which remain robust. For the quarter, our walk-ins have remained at around 30,000 in spite of the fact that this is a seasonally weak quarter and with very limited new launches. And our conversion ratio continues to remain above 8% in this quarter too.

In terms of pricing, we have seen price growth of about 1% on a YTD basis for the quarter, which is in line with our goal of delivering price growth at about 6% to 7% for the year, which will ensure that we have a situation where pricing growth is below wage growth for the median home buyer, and therefore, affordability keeps getting better. This, of course, is on the back of price growth of about 7% to 8% that we had last year.

Further, on the construction cost side, inflation has continued to moderate. In line with our expectation, commodity costs have continued to trend down overall. And we have now seen that the annualized inflation from March '21 to June '23 has actually gone down to an annualized rate of about 5% or even slightly lower.

In fact, the nature of construction cost inflation in India is one of the key differentiating factors of the Indian housing story versus other economies. More than 1/3 of the construction cost is labor cost, which is not prone to high levels of inflation because of the availability of surplus farm labor and the big difference in wages between at the farm and the construction side.

Additionally, this ample and hard-working labor force is available to the entire supply chain of our companies which supply to our sector. And thus, the only inflation that the construction cost witnesses is of commodity inflation. Given how global economies are shaping up and the excess capacity in the construction sector as well as the focus globally on bringing inflation down, barring any geopolitical issues, we believe that the construction cost inflation will remain quite contained in the quarters to come.

Coming to interest rates. You can clearly see the shift in trajectory. The RBI did not raise policy rates in the previous 2 policy meetings. With inflation now starting to be within the target range of the RBI and other central banks now approaching the end of their rate cycle, it is likely that this pause will remain for an extended period of time, and we can start seeing some reduction in rates in the next 3 to 4 quarters. This pause from the RBI coupled with the intense competition amongst the lenders means that there is ample availability of mortgages as well as these mortgages are available at competitive rates.

Coming to some of the operational highlights of the quarter. We achieved our best ever quarterly presales in Q1 of about INR3,353 crores, which is 17% year-on-year growth. Within this, our core residential business, i.e., excluding the sale of land to third parties grew at a much stronger pace of almost 30%. What is happening is that we have been able to achieve this growth while there were no significant launches at any new locations in this quarter. With launches planned at multiple new locations, including in Bangalore, which I mentioned earlier, we are fairly confident about achieving the sales guidance that we have given at the start of the fiscal.

Our presales are coming from 30 operating projects showcasing the granular and diversified nature of our presales. Typically, each project is providing about INR100 crores of presales every quarter. And this kind of diversification, we believe, is unique in Indian real estate and gives a lot more resilience to our sales and business.

The embedded EBITDA margin for the quarter stands at about 30% of our presales. This level of embedded EBITDA margin was achieved with nearly 35% of the presales being contributed by the various JDA projects. Over the longer horizon, as we benefit from price increases, we should continue to deliver 30% EBITDA margin for the current fiscal, and we then expect EBITDA margins will start rising from fiscal '26 onwards. Of course, this optimized mix of JDAs which we are now approaching our target goal of 40% of that is coming from the JDAs and 60% from own land means that our ROEs are on an upward trajectory, and we expect to be approaching our goal of 20% ROE by the end of the current fiscal or in the next year.

On the basis of the embedded EBITDA of 30% for the presales of Q1 FY '24, our PAT for the quarter should be well over INR580 crores, implying a PAT margin of approximately 17% for the sales done in this quarter. We remain confident of delivering the presales guidance of INR14,500 crores with an embedded EBITDA of about INR4,300 crores and a pro forma PAT of about INR2,600 crores. This, we believe, is a true reflection of our business and its profitability. And as I mentioned earlier, puts us on track to achieving an ROE of close to 20%.

Our collections for the quarter were at about INR2,400 crores, which should be seen in the context of the fact that our collections usually lag our presales on a cyclical basis by 3 to 4 quarters, and we expect collections to grow in the coming few months. And therefore, with a more moderate level of quarterly business development additions, we expect meaningful reduction in debt in the second half of the year and bringing our debt levels to the guidance that we have specified, once again we think 0.5x of debt or 1x of operating cash flow, whichever is lower.

In terms of business development, we added 5 new projects of approximately 7 million square feet with a GDV of INR12,000 crores across various micro markets. These include projects in the Western Suburbs of Mumbai as well as our new micro market of Alibaug as well as in Bangalore. Being able to enter a super prime location of Alibaug means that we now have a large presence in what is the equivalent of the Hamptons for Mumbai. This market is not only attractive and has great desirability, but also is starved of any Tier 1 supply. And we believe we'll, over time, become not only a second home destination but also a first home destination because of its improving connectivity as well as its very, very prestigious connotation.

We have also informed that Lodha has been declared as the winning bidder for the marquee beach facing land parcel situated at Juhu, in Western Suburbs which is owned by V Hotels Limited. We intend to do a very marquee residential development at this location once the scheme is approved by the concerned authorities. This will be, again, the planting of the Lodha flag in the important Juhu micro market and become another landmark development for the brand.

As noted earlier, we remain confident, given the strong start, of exceeding the business development guidance that we've given for the year. Our net debt increased by about INR190 crores to INR7,264 crores, primarily on account of the front-loaded business development investment. This marginal increase is on a significantly enlarged base of sales and business development. And as mentioned earlier, we remain on track to achieve our guidance.

We are also pleased to note the continuing improvement in our balance sheet has led to further credit rating updates by ICRA to A+ positive and India ratings to A+ stable. Our average cost of funds has declined in spite of the increasing interest rate environment and is down by about 15 basis points in this quarter to about 9.65% now.

On the ESG front, it is heartening to note that Lodha's efforts on sustainability are being increasingly recognized by various global benchmarks after receiving exceptional scores from S&P Global, GRESB and Morningstar Sustainalytics during previous quarters, Lodha has now been included in the FTSE4Good Index series in the latest review in June 2023. .

We have recently published our second integrated report. And some of the recent achievements and highlights of the report includes 90% renewable energy share in construction activity and standing assets. We are on track to advance our net zero emission goal on Scope 1 and Scope 2 from 2027 to the end of 2024.

We are committed to achieving carbon neutrality in Scope 3 by 2050 with a short-term target of achieving at least 50% reduction by 2030. We have, in this context, submitted the science based targets for verification to SBTI. We secured green certification for almost 20 million square feet in fiscal '23. And in terms of our social focus, our goal of building a stronger nation is being serviced well through the launch of the Lodha Genius Program in partnership with Ashoka University and our Lodha Unnati program for empowering women continues to gather momentum.

In conclusion, let me reiterate our view that sustained job creation on the back of rising economic progress of the country will create more than 100 million homeownership capable households over the next 10 years, whereas supply is expected to be less than 10 million houses. This indeed can be India's decade and housing will play a pivotal role in India's transition to a mid-income country. We remain excited about the future opportunities and we remain committed to capitalizing on these opportunities in a disciplined manner. We are thankful to the investor community who has started recognizing the merits of Macrotech as a company, which is providing stable, consistent and predictable growth in a sector which is a necessity.

And with this, we believe that the company is well poised to continue to deliver on our guidance and commitments and create value for all concerned.

I will pause now and invite the CEO of our Western suburbs & Thane Markets, Prateek Bhattacharya, to share his perspective on those micro markets. Over to you, Prateek.

Prateek Bhattacharya: Thank you. Good afternoon, everyone. The Western Suburbs of Mumbai are well known for their lifestyle attractiveness and the presence of bustling hubs of business. For instance, media and entertainment, we know it has the base for Bollywood. Finance, we know about the Bandra Kurla Complex, that houses India's largest stock exchange by market cap, now NSE, as well as Diamond Bourse. It's also a very big hub for aviation. It houses the city's airport and a lot of MRO industries. It's also a place which has a lot of IT, ITES and many other forms of businesses.

So in general, it's quite a bustling and cosmopolitan part of the city. And from a residential real estate perspective, it actually hosts all segments of consumers. Western Suburbs, the primary market size is estimated to be between INR25,000 crores to INR30,000 crores annually, and it offers a full spectrum of possibilities. So it houses everything from sea touching villas and super luxury condos in places like Bandra and Juhu, to mass housing projects in Mira Road and everything in between.

Talking about our growth, our market share in Western suburbs, it has grown from being less than 1% 3 years ago to about 5% to 6% now. And we maintain our long-term goal to keep growing it towards our natural market share of around 20%. If we look at Western Suburbs a little bit more deeply, there are 10-plus distinct micro market clusters within it. And we are pursuing kind of a supermarket strategy so that we can have a presence in most of these and in a way that we have array of noncompeting projects in every 2 to 4 kilometers radius.

Given our goals, our business development process is quite active. You just heard about it from our Managing Director just a little bit earlier. And in addition to 1 new launch that is planned in the upcoming festive season, we have a very active pipeline of projects that we are evaluating in all the micro market clusters within Western Suburbs. And we are planning the business development in a way that every project that we bring on board, it allows us to do an annualized presales run rate of approximately INR500 crores, this is at the current prevailing price levels.

Now from an execution standpoint, what we are doing is we are deploying into Western Suburbs, the full toolkit of our experience from Thane, that's another market that I oversee where we have built and consistently maintained a very high value share despite a high competitive intensity at least for the last two decades now.

So in Thane, we have delivered 3 world-class townships. And our Kolshet Road project is a very good example of how we created a thriving community of nearly 10,000 families in less than a decade. It's a place where residents stay in all kinds of segments of homes that span luxury to mass housing. They enjoy a vibrant high street retail, and they can walk to work in an office district with both large format and small size offices.

Talking about the organization structure, we have a completely decentralized organization for Western Suburbs & Thane. And between these, we have about 1,000-plus associates who are working in various areas like sales, design, construction and property management.

So let me stop here and hand it over.

Sushil Modi: Thanks Prateek for giving this phenomenal clarity around the potential that lies ahead of all of us when it comes to the micro market of Thane & Western Suburbs. I mean the phenomenal market and potentially a lot many more goals and milestones to achieve for all of us.

Coming to just giving some bit of clarity around how potentially you should be seeing our revenue going forward, considering the fact that we are going to have a revenue recognition happening in tandem, both under the POCM, which is a percentage of completion method, as well as the PCM, that is the project completion method. So the way it will work, and obviously, this has gone through the various accounting literatures and a whole a lot of deliberation with auditors and their confirmation is that whatever contracts that we entered from 1st of April this year onwards, those are the contracts which will qualify for all of our projects to be revenue be recognized or would be recognized under the POCM method.

All the contracts that was entered up till 31st March will continue to be following the old method of revenue recognition, which is PCM, the project completion method. Needless to say, all of these becomes then pro rata basis the area. So that in that sense, that brings the simplicity to the whole of the dynamics that the area pro rata is what decides the revenue recognition and thereby the corresponding back-to-back cost attached to it.

So I think broadly, the whole crux is that this is how potentially the whole dilemma that was there for all of us in terms of understanding the company's performance, while the underlying operating performance was being as you know, this year, potentially as the guided number itself speaks INR14,500-odd crores. And our last year's audited financial performance was showing the revenue recognition more in a handle of somewhere below INR10,000 crores.

So this is where this dilemma that everybody was facing and so is our Board was also continuously facing this dilemma that your financial performance doesn't depict the operational performance and which is where the necessity to visit, revisit and kind of drill down, think through with various stalwart and come to a conclusion.

So we hope with this equation, as the projects that were there up till March '23 gets consummated, which obviously, as you know, typical gestation period for the projects is anywhere between 3 to 4 years. So as they all get completed, potentially by FY '26, where we would start seeing kind of entirety of our revenue coming under the POCM method.

But till then, we will be living with both the method of revenue recognition. What it will do thereby is that the gap between our operating performance in terms of the presales versus the revenue that is getting recognized or was getting recognized will continue to now get to see narrowing characteristic quarter after quarter and potentially year after year. And come FY '26, we feel reasonably confident that as the old projects will get completed, so that means we would be broadly start tracking our operating performance in terms of our financial performance too.

So that is it from my side. I think perhaps we'll be more than happy to take as many questions or as any clarification that you would need to understand potentially how some of these will work, not that it has any rocket science, but nonetheless, if any questions, feel free. We will be able to give you enough clarity and sense, be it on this call or maybe separately, we can discuss along with my IR colleagues, Anand and Chintan and give you the clarity.

So with that, perhaps we can get into the Q&A, and we'd be pleased to answer all of your queries that potentially you would have to understand the company and the business far better. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. We have a first question from the line of Kunal Tayal from Bank of America.

Kunal Tayal: Sushil, I'll pose my first question on the accounting a bit. So as you transition over to this new one, has it required any changes to either your collection philosophy or contracting or any other kind of structuring in either the sales agreement or any other parts of the business?

Sushil Modi: No, from a hardcore substance standpoint, business remain as is. No difference. Obviously, perhaps Kunal may not be worthwhile to get into the technicalities of it. But just understanding from a business standpoint, be it cash flow, be it sales, be it construction, everything remains as it is.

Kunal Tayal: Got that. Abhishek, on pricing. I appreciate the philosophy of keeping it below the wage levels. Just wondering if as India sooner than later gets into a rate cut cycle, would the philosophy then be updated to look at the wage increase as well as the reduction in ownership costs from a reducing rate cycle as well? Or you want to focus squarely on the wage growth part of it?

Abhishek Lodha: That's an important and pertinent point that you bring in. We believe that the rate cycles tend to be, I would say, (a) unpredictable, and (b) there is a cyclicality to them. Whereas home price growth, it function best for the market when they are going in a uniform direction of moving up ideally at a gradual pace. If one starts baking in the interest rate cycles into the equation, then I think the level of cyclicality in pricing to be higher. And therefore, while we will examine this further, our general view is to stick to the wage linkage rather than have too much linkage to the interest rate dynamic.

Moderator: We have a next question from the line of Pritesh Sheth from Motilal Oswal.

Pritesh Sheth: Firstly is on your market-wise sales that you disclosed. So if I see your existing markets, South Central Mumbai, Thane, Eastern Extended Suburbs has remained at a similar range since quite some time, maybe last 4, 5 quarters. And so has been the industry trend as well in terms of the absorption of unit that is there, right, while your large part of growth has come from the newer markets and you are doing exceedingly well on that.

When should we start seeing growth in existing markets or industry in general, what would be the trigger point since now the interest rate has also picked out, what should be the trigger point that you think that will lead to growth for the industry that you have been talking about? Yes, that's my first question.

Abhishek Lodha: So if I understand the question correctly, you're probably asking us to break down how we look at our sales growth mix. We look at our sales growth mix in 3 parts. We look at price growth coming in at 6% to 7%. We look at volume growth in existing projects contributing about 3% to 4%. And then we look at new projects, whether these new projects could be in any market, it could be completely new market or it could be new projects in an existing market, but it's a new project, contributing about 10%.

So overall you can compare that to a supermarket business where you have this existing store sales of about 10%, like I said, 6% to 7% price, 3% to 4% volume and new store openings are contributing an additional 10%. So that's how we look at our 20% growth.

In terms of there being any trigger points per say about when existing markets start contributing to sales, we believe that there has been good growth in all our markets, and if I think just if I take our Extended Eastern Suburbs market, we've grown from INR19 billion to INR23 billion last year and first quarter did about INR6 billion, which again puts us on trajectory given that both Q1 and Q2 tend to be weaker parts of the year. We are quite confident about delivering upwards of INR25 billion in Extended Eastern Suburbs in this fiscal.

So we don't really see that the growth is only coming from new projects or new locations, but it is coming from a mix of price growth and modest volume growth at existing projects as well as contributions from new locations.

Pritesh Sheth: Got it. So as and when new projects come up in the existing markets, we will see further growth in that markets as well.

Abhishek Lodha: Yes. Yes.

Pritesh Sheth: Okay. Got it. And second question on the land investments that we had in this quarter, around INR800 crores. If you can tell how much of that was for the projects that you have signed this quarter? And how much of that was for projects which we had earlier. I just wanted to understand what's the quantum of investment that was needed for this INR12,000 crores of acquisition this quarter?

Abhishek Lodha: So in terms of that investment, generally, we've done a deep reconciliation, and we are finding that the level of investment in our JDAs is running at about 5% of the GDV, which is at the lower end of the range that we've spoken about earlier of the investment levels being between 5% to 10% of the GDV. This quarter's spend includes about just under INR700 crores of spend on new projects. Some of those include part of this INR12,000 crores, but there are also projects where particularly, we have made investment in terms of future projects where the signing process is still being completed and that's not included in our INR12,000 crores.

So to your question, I think if you would look at that 5% to 10% range that we guide as a total peak investment on joint development projects that would be the right number to look at. And in terms of this quarter's mix, just under INR700 crores has gone to new projects, which is the INR12,000 crores that we mentioned, but also investment in some projects, which would be announced in the upcoming quarters, including the V Hotels investment.

Pritesh Sheth: Sure. That's very helpful. And none of the projects that we acquired this quarter was outright land, right? I mean, Alibaug, INR10,000 crores is all JDA, that I understand, but the rest of the

2, probably Bangalore also I assume it will be JDA, but Western Suburbs is outright or has been a JDA?

Abhishek Lodha: This quarter's acquisitions have largely been JDAs. And I think we continue to remain focused on growing significantly through the JDA model. There will be outright investments from time to time, but largely focused on JDAs.

Pritesh Sheth: Sure. Got it. And just one last, if I may, on Alibaug, big project, INR10,000 crores revenue potential, 6 million square feet salable potential. What are our plans? And what is the monetization time line that we are targeting for that, considering it's a large project.

Abhishek Lodha: So I would like to correct that it's multiple projects. It's a large land parcel comprising of multiple projects. We will be developing the project for various different segments with different product mix in that location. And therefore, we will be having different multiple projects in that large land parcel, which we've been able to acquire, which is an irreplaceable land parcel in our view given the land scarcity in that location.

We expect to launch that as we typically do for any new project in about 3 to 4 quarters from its acquisition. So we probably look at launch sometime in early to mid of the next fiscal. As I mentioned, we are looking at targeting both the second home and the first home market and then things which are ancillary to that which would come with some amount of retail and so on.

So we expect this to be a long-term contributor of sales to the business and provide, I would say, critical addition in terms of a new market and also gives us more entry into the second home market, which other than Lodha Belmondo, we don't have exposure to right now. And allows us to have access to an audience, which is keen to get high-quality product, which is currently missing from a graded brand in that location.

Moderator: We'll take our next question from the line of Mohit Agrawal from IIFL.

Mohit Agrawal: My first question is on the Bangalore market. So you've been now there for a few quarters. If you could share your experience, how is it different from the Mumbai market, especially on business development, considering you are in a ramp-up phase. And if there are any challenges that you're facing in terms of execution or business development?

Abhishek Lodha: As we've stated and articulated in the past, whenever we enter a new city, we spend the first few years being in what we call pilot phase. During this period, our focus is building up organization capability and delivering projects, which we believe is the best way of spending and creating our brand.

So in Bangalore, this is exactly where we are. We are in pilot phase. We acquired our first project last year, which we'll be launching in the upcoming quarter. We've just acquired our second project, which we also expect to launch in the current fiscal. We expect in this pilot phase, which will last till the middle of the decade, i.e., up to FY '25, '26 that we will focus only on a handful of projects. So it's not that we are going to go into Bangalore and suddenly make a huge investment or try to do 10 projects, there's going to be a handful of projects, 3 to 5 projects, focus on delivery and only then the ramp-up once we've delivered our first project.

In terms of our experience on the ground so far in Bangalore, we have been positively surprised on the pricing growth that we are seeing over the last 12 months and which would help us get profitability, which is higher than our initial expectations. We've also, as we had expected, are learning the curve when it comes to the ground realities of operating there, looking at the construction ecosystem, understanding the approval process. That has been all things which have been along expected lines, taking the time that they deserve to be taking.

We have been able to build a strong team, attract talent from a number of the good companies operating in the Bangalore market. And I think that's been a good upside to us that we have now started getting access to a well-trained talent pool in Bangalore, which will, in our opinion, give us good sustainability of the business in the years to come.

Mohit Agrawal: Okay. Understood. My second question is for Sushil. On the POCM revenue recognition. When does the revenue recognition start? So does it start immediately as the construction commences or the project is launched? Or will you wait for 25% kind of a threshold which was there earlier as per the CA Institute guidance?

Sushil Modi: You're right. So obviously, it doesn't start right away. It will have a few thresholds, not just construction, but there will be a few thresholds that will be met, which includes an agreement need to be in place. The collections that have started. Some bit of a construction threshold has been met. So it will be a combination of few. And once that is being satisfied, that is where it will kick in. And which is why, perhaps, as you would see, while we have taken it for all the contracts starting 1st April, but it has not contributed anything significantly in this quarter. It will only perhaps start showing the results starting from the second quarter.

Mohit Agrawal: Okay. And just to understand this better, is there a number? And will that include the land cost as well? Or this is purely like a percentage of the construction's cost spend?

Sushil Modi: No, the threshold that will be there, the gatekeeper equation that will play for a project or for a sale to qualify will be a construction cost oriented. And obviously, as I said, the other parameters, including collections and all.

Mohit Agrawal: Okay. Understood. Those are my questions.

Moderator: We have a next question from the line of Abhinav Sinha from Jefferies. We've lost his connection. I'll move on to the next question from the line of Puneet from HSBC.

Puneet: Can you talk about how different would your profitability from a city like Bangalore, versus what you do in Mumbai?

Sushil Modi: We expect both in Bangalore as well as in Pune for our margins to be about 200 basis points lower compared to like-to-like segments in Mumbai. Mumbai profitability on a PBT basis is likely to be about 200 basis points higher than Bangalore or Pune.

Puneet: So if we assume 30% for Mumbai, then 28%, if that's the only gap you see despite differences.

Sushil Modi: I was expecting more on a PAT basis, but yes, you can approximate it at the similar level for EBITDA also.

Puneet: Okay. So despite different realizations, not much of a difference in some sense.

Sushil Modi: No, I don't think there is. I think it's important to understand our mix in Mumbai. Our average sales price in Mumbai is about INR10,500 square feet on saleable and approximately INR16,000 on carpet area. So it's not that we are having realizations, which are dramatically higher in Mumbai. We have a wide presence in Mumbai. We sell homes, which are selling at INR6,000 a square feet on saleable.

Of course, we have homes selling at much higher prices, too. But we are a company which has had good exposure in operating in the mid-income segment. And therefore, I think the ability to operate profitability in Bangalore or Pune is very different for us because we know how to operate at these price points, both from a consumer perspective as well as from a construction and land cost perspective.

Puneet: Understood. This is very useful. And secondly, can you also talk a bit about getting back into annuity business versus development business because, again, those 2 businesses have different return expectations. As a developer, how do you marry into a development business as well as focusing on pure so-called low-margin annuity business?

Abhishek Lodha: I think it's a great question. I think the objective that we have is to have growing, but decently high ROE annuity income stream. And we are targeting on a blended basis, a mid- to high-teens ROE level on our investments on the annuity business, which is not far from the 20% that we are overall seeking for the business. So we are quite mindful of the fact that while we build an annuity portfolio, it should not be ROE dilutive.

We are using 3 different strategies, which help us achieve this objective. One is our facilities management business, which is in an adjunct to our development business, being very low capex, the ROE levels in this business are quite high, margins are at about 10%. The second strategy we've taken is in the warehousing and industrial business, what we call digital infrastructure where we have a 1/3 equity stake as an LP in the platform, but we are also managing the platform and therefore, earning fee income from our operating platform.

At the asset level, we make ROEs, which are in the sort of mid-teens. But we are able to add about 200 to 300 basis points to that ROE on account of the fee income that we make from the platform, and therefore, we get to kind of somewhere in the higher teens on that.

Lastly, on the office and retail, we are very, very selective here. We will typically build and lease these assets and then sell them because we believe at that point in time, the ROEs move to a trajectory, which are not commensurate with our overall goals on ROE. However, there are select locations where the price growth or rental growth is expected to be much higher than what the market is underwriting currently either on account of the quality of the product or the location being very difficult to bring new supply into.

And those are the only assets that on the office or retail side that we intend to retain. We expect to have net income of about INR500 crores from our annuity portfolio by fiscal '26 and grow that to about INR1,500 crores by fiscal '31. But in doing so, ensuring that we maintain mid-teen ROEs on the annuity part of our investments.

Puneet: So would the understanding is right when you said lease and sell versus own it. You might actually own those locations which are weakly priced now, but you expect pricing appreciation, but you might be selling the marquee assets, which are already fairly priced. Is that how one should rethink?

Abhishek Lodha: I would put it in a slightly different way. We would sell an asset when we believe that the pricing growth ahead is reflected in the exit values which are available today. So we are not driven to hold on to any asset forever on the office and retail side. Let me put it that way. We are happy to hold it for a longer period of time, which could be, as we mentioned, potentially locations which are rerating but it could also be a highly rated location where the rental resets in the subsequent cycle are likely to be much higher than what the market typically underwrite. Typically, these assets are underwritten on a 4% to 5% price growth. But if we expect higher price growth than that on the rental side, we might hold on to even a marquee asset for some time.

Puneet: Understood. This is very, very clear. Lastly, if I may, what is the specific change in the contract that you have done that has allowed you to move from PCM to POCM method?

Abhishek Lodha: See two things have to be. I'll just add in and then Sushil will, of course, add to that. I think 2 things have to be taken into account. One, the empirical evidence suggests that once the agreement is entered into, there is almost no cancellation after that. And I think that is itself the core of the shift in the methodology. In addition to that, we have made some specific changes allowing the enforcement of specific performance on these agreements, which allows us to transition as per the Ind AS guidance, and this change has been made in the last quarter only, but Sushil will further add to that.

Sushil Modi: So I think broadly, Abhishek, you covered some of the important parameters. Nonetheless, there are a few more that has happened. But the crux perhaps lies around the enforceability and which is what Abhishek covered. So yes, a number of changes, but some of the important ones, in any case, Abhishek highlighted.

Puneet: But there was still something which couldn't let you change your earlier PCM into POCM, right? And if it is something specific which has been added now.

Sushil Modi: Yes. If the contract is status quo, then obviously, we could not have. So the contract that has already been entered I know. Obviously, we perhaps would have the possibility if we can get those contracts amended, which is another thing and then maybe we can look at it or even think over it. But as this situation, the whole contract, yes, we could not have.

Moderator: We have our next question from the line of Abhinav Sinha from Jefferies.

Abhinav Sinha: Sushil sir, just following up. So in Bangalore, will we follow POCM or is that under a separate radar and can't be done?

Sushil Modi: No, no, no. In Bangalore too, we will be following the same POCM.

Abhinav Sinha: Okay. So technically, this can be done across India, right?

Sushil Modi: We hope so because by now the kind of Phd perhaps we have achieved analyzing, reading a lot many literatures, consulting, discussing with lot many stalwarts, be it in the field of accounting, be it in the field of legal fraternity. So we think primarily yes, perhaps what you said is right.

Abhinav Sinha: And Abhishek, a couple of questions for you. One, on the Centaur acquisition. What are the next steps we should watch out for here? And does the substantial sort of outflow which happens here is factored in the guidance of gearing for the year?

Abhishek Lodha: Abhinav, Hi. Yes, in terms of the scheme, the scheme has been put up for approval to the concern authorities. It'll be finalized by NCLT. Time frame of, obviously, being a judicial process is difficult to comment on, but we expect it to happen in this quarter or next quarter. Obviously, that's only our estimate. It's not a firm guidance that it will happen in this time period.

As I said, its a judicial authority, which has to decide. And yes, we have taken all investments that we have committed to into account when we have reiterated our guidance on achieving our debt trajectory of being below 0.5x equity and below 1x of operating cash flow by the end of this fiscal.

Abhinav Sinha: Great. And lastly, you've also highlighted several large infra improvements happening near term around Palava and Upper Thane now. I understand you don't want to take aggressive price hikes on the residential side, although one can argue for that now. But on digital infra, can there be like a reset there as the infra improves quite substantially in the near term?

Abhishek Lodha: I think probably, I would like to differentiate between our digital infrastructure initiative, which is a pan-India play on industrial and warehousing in partnership with two global investors of great repute Bain Capital and Ivanhoe Cambridge versus our monetization of our surplus or excess land which is happening in Palava and Upper Thane where we have large land holdings.

In terms of our land holdings in Palava and Upper Thane, I think the infrastructure, which is completing over the next 12 months will give a substantial re-rating to the location. Connectivity will dramatically improve. And then as other larger things, including the Mumbai-Nashik leg of the Mumbai Nagpur super highway and the airport in Navi, Mumbai, become operational sometime in the next, I would say, in the 12 to 24 month time frame, it will be an even further boost.

In terms of land valuations for sale to third parties for any use, it could be for warehousing, it could be for industrial parks, it could be for data centers. We do expect rerating of these locations. We have also started seeing now that we are seeing multiple players getting interested in getting data centers to our Palava location, which meets all the technical parameters and with land in Navi Mumbai now really getting exhausted. Palava is starting to attract that interest. Nothing has been crystallized yet.

But when it happens, that will also be another trigger of a further upward rating in the land values because if you have multiple industries or asset classes wanting the same land plus the data centre land valuations tend to be much higher. In Thane, they have bought land at about INR20 crores an acre. We do expect an upward move in the land valuations, I would say, sometime in, fiscal '25.

Moderator: We have a next question from the line of Parikshit Kandpal from HDFC Securities.

Parikshit Kandpal: So this issue of RG on mother earth or the podium level. So what is your view there because the matter is in Supreme Court. So can it delay in the launch momentum for the second half, so how -- what approach you are taking there?

Prateek Bhattacharya: Our approach to regulatory matters is always the same of accepting whatever the regulatory environment is and moving further. The rulings in case of the land on Mother Earth RG are very clear. And in all our prior launches as well as the current ones, we are in compliance with that. So we do not expect any meaningful impact on our launch strategy or holdback method as project progressed on account of this regulatory change.

Parikshit Kandpal: But sir, any of those projects were on the podium level, I mean, which were in the launch pipeline and which may undergo a change?

Prateek Bhattacharya: No. I think the reality is that it's not that we have any idea of these regulatory changes, when they happen. But we, in general, given our commitment to environmentally sustainable developments like to preserve as much of mother earth as we can and not have significantly excavate out the whole site and keep the mother earth for which enables the planting of much longer-lasting variety of plantation. So because of our focus on sustainable development, there has not been an issue for us because that's already been part of our design and planning requirements for quite some time.

Parikshit Kandpal: Okay. My second question is on the Centaur, so the GDV, which you have disclosed about INR12,000 crores. So does that include the Centaur GDV? And what will be the potential the GDV from Centaur then?

Abhishek Lodha: No, it does not include the GDV from the potential acquisition of hotels. We only account GDV once we sign the definitive documents for an asset. So obviously, as you know, the V Hotels has not yet been signed up. So not something that we account for. At this stage, we will only update once the definitive documents have been put into place, we will update on the likely GDV. What I can tell you is that the development will have about upwards of 7 lakh square feet of carpet area.

Moderator: As there are no further questions, I would now like to hand the conference over to management for closing comments. Over to you.

Anand Kumar: Thank you, everyone. In conclusion, I would say that demand conditions remain very strong, as Abhishek mentioned, with a very strong consumer desire to own a home. And in our view, this is just the third year of the 15-year long residential cycle that we have just started. So there is a long runway of growth that we would see. Please feel to reach out to me on either the operations or financial performance. Thank you, everyone. Thank you.

Moderator: Thank you. On behalf of Antique Stock Broking, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.