

August 1, 2022

The Listing Dept.,
BSE Limited
Corporate Relationship Department
Phiroze Jeejeebhoy Towers
Dalal Street
Mumbai- 400001
Scrip Code: **543287** Scrip ID: **LODHA**

The Listing Dept.
National Stock Exchange of India Limited
Exchange Plaza, C-1, Block G
Bandra Kurla Complex
Bandra (E), Mumbai – 400 051
Trading Symbol : **LODHA**
Debt Segment - **DB - LDPL23**

Dear Sir,

Sub: Q1 FY23 - Earnings Call Transcript

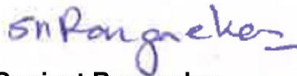
We are enclosing herewith a copy of the transcript of the Company's Q1 FY23 earnings conference call held on July 26, 2022. The transcript is also being uploaded on the Company's website i.e. www.lodhagroup.in under the Investors section.

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

Thanking you,

Yours truly,

For Macrotech Developers Limited



Sanjyot Rangnekar
Company Secretary & Compliance Officer
Membership No F4154



Encl: As above



“Macrotech Developers Limited
Q1 FY 23 Earnings Conference Call”

July 26, 2022



MANAGEMENT:

**MR. ABHISHEK LODHA - MANAGING DIRECTOR
AND CEO, MACROTECH DEVELOPERS LIMITED**

**MR. SUSHIL KUMAR MODI - CFO, MACROTECH
DEVELOPERS LIMITED**

**MR. TIKAM JAIN - CEO PUNE, MACROTECH
DEVELOPERS LIMITED**

**MR. ANAND KUMAR - HEAD IR, MACROTECH
DEVELOPERS LIMITED**

MODERATOR:

**MR. BIPLAB DEBBARMA - ANTIQUE STOCK
BROKING LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY23 Earnings Conference Call of Macrotech Developers Limited hosted by Antique Stock Broking. As a reminder, all participants' lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchstone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Biplab Debbarma from Antique Limited. Thank you and over to you, sir.

Biplab Debbarma: Thank you Jacob. Good afternoon, everyone and welcome to the Q1 FY23 earnings call of Macrotech Developers Limited hosted by Antique Stock Broking. Today we have with us, the management of Macrotech Developers represented by Mr. Abhishek Lodha, Managing Director and CEO, Mr. Sushil Kumar Modi, CFO, Tikam Jain, CEO Pune and Mr. Anand Kumar, Head IR. Without further ado, let me hand over the call to Mr. Lodha. Over to you, sir.

Abhishek Lodha: Thank you, Biplab. Good afternoon, everybody. Thank you for joining us once again for our earnings call. I hope all of you, your families and loved ones are well. To start, let me speak a little bit about the broader macroeconomic situation, both globally, as well as in India. The first quarter of the year, continue to present significant challenges as geopolitical conflict continue to drive oil prices up, which poses the biggest danger to India's resilient economy. Events over the last few quarters have resulted in inflation surging to high levels for almost all economies around the world, causing central banks to be in a race to raise interest rates.

As fears of high inflation resulting in sharply rising interest rates started giving way to fears of recession in the US and a sharp slowdown elsewhere. Most of the commodities have given up significant gains, but oil prices still remain higher than they were in January. The situation continues to have various risks and unpredictability ahead of it. For the housing sector specifically the two largest economies, China and the US face problems of different natures, with similar outcomes of impact on the housing market. The USA saw sharp increase in mortgage rates and refinance rates resulting in housing activity slowing down while the various problems in the Chinese real estate market threaten to result in a very significant impact on its economy.

You will however appreciate that housing is a very local market and the Indian housing market did not benefit from the significant boom that the rest of the world experienced between 2015 and 2020. We are now at the start of a very different cycle in India, and we have highlighted the drivers in our previous calls where we believe that the housing market in India is at the start of a long sustainable up cycle for a significant period of time, as long as 10 to 15 years. And that is reflected in our results over the last few quarters.

In India in the last quarter, like the rest of the world, the RBI raised interest rates sharply, but the increased mortgage rates to a certain impact have had a very limited impact on the EMIs for the borrower. EMI is being the monthly mortgage payments. As a matter of fact, Lodha brought in a program wherein our purchasers have a fixed interest rate of 6.99% for the next two years, which helps in significantly cushioning the impact for a middle-class housing buyer, especially in affordable and mid income housing, which are significant drivers of growth in India and specifically for us.

And this will have no significant impact on our operating metrics as it is increasing raw material costs to have little impact on our overall costs and thankfully input prices like steel have already started reducing over this last quarter. And inflation has started moderating in terms of construction costs. To a great extent the increase in cost is taken care of by the modest increase in house prices, which we aspire to keep below the salary growth levels in order to ensure that affordability remains high and increases further and that in turn increases volume. Thus inflation in turn might be creating a positive cycle for us as waiting buyers see the increase in modest increase in prices and start buying homes at an earlier point. The strong drivers of housing growth cycle, as we have explained, enable us to maintain great momentum during the quarter. And we

have been able to deliver 75% of our targeted growth guidance for the entire year in the first quarter itself. We remain very confident about achieving our targets for the year. Collections remained on track and strong cash flows enabled us to reduce debt by just under INR 500 crore.

We continue to focus on reducing our net debt to around INR 6,000 crore by the end of this fiscal, we continued with our asset light model of growth through the JDA route adding three new projects, worth GDV of INR 6,200 crore, which puts us well on track to achieve our guidance for the full year of adding projects worth INR 15,000 crore of GDV. We launched about 2.7 million square feet in the first quarter, and we expect to further launch about 8.5 million square feet for the rest of the year, which will give a strong pipeline for the coming fiscals too.

The potential to sign more new JDA projects continues to show great potential. And we will continue to follow the asset light high return JDA model over the next 12 to 18 months in order to increase our ROEs and enable us to grow into the geographic locations where we currently don't have presence while simultaneously keeping our debt at a very conservative level and meeting the guidance that we have given, which is to keep our debt at or below one year, our net debt at or below one year of operating cash flow.

Our digital infrastructure business continues to demonstrate the potential of creating significant recurring annuity income. As you are aware, we have already repaid a vast majority of the debt taken for our UK business, partially pre-paid the USD bond and the rest should also be paid very soon well ahead of maturity. Repatriation of the surplus back to India should be starting within this fiscal itself, bringing an end to the investment that we have made outside India and enabling us to fully focus on the growth within India, which we are extremely excited about.

I also want to highlight two important developments that happened during this quarter. As I mentioned in the last call, we were evaluating entry into the Bengaluru housing market and has progressed the decision to either enter or stop this investigation, during the course of this quarter. After careful evaluation of lasting almost nine months, we have decided to enter the Bengaluru housing market and have signed our first JDA on the same lines as we have done in Mumbai and Pune with attractive return profiles and strong cash flows.

The attractiveness of the Bengaluru market was well highlighted in the release, we made at the time of the entry and we will continue to provide updates on this in due course, including an introduction to the CEO of the business over the next couple of quarters. The Bengaluru market, I reiterate, does not alter the elements of our guidance for the fiscal '22 fiscal '23 in any manner. And we continue to focus on meeting and keeping our net debt at or below one-time operating cash flow. Secondly, with full confidence that our cash flows are sufficient to meet our debt guidance, we have updated our dividend policy from this fiscal and expect to start distributing our dividend for the fiscal year '23. This is a reflection of the strong underlying cash flow generation of the company, and will enable our shareholders to be rewarded, not just by appreciation in the value of the share price, but also by recurring cash flow, coming from the operations of the company.

And finally, as we have done in previous conference calls, we would like to continue introducing our management team to you so that you can assess the great depth of management skill that we have in the company, which is underlying and underpins the strong growth as a performance as well as future potential of the company. Today, we are going to have Mr. Tikam Jain, who has been with the company for more than 15 years earlier as Head of our Procurement Function. And over the last year, he has taken on the important responsibility as CEO of growing the business in the Pune region.

I now request Mr. Tikam Jain to join the call and thereafter, Sushil Modi our CFO and myself are available to answer any questions that you may have. Mr. Jain, over to you.

Tikam Jain:

Thank you, Abhishekji and welcome to all the participants. I've taken over charge of CEO last year and my tenure in the company is more than 17 years. It is a challenging

job I've taken, and I'm very confident that I will see that the Pune market grow very well. Our presence in Pune is more than a decade through our one of the Belmondo project, which is giving us the revenue of INR 250 crore to INR 300 crore every year.

In the expansion we have entered joint development at NIBM Road where we named this project as a Lodha Bella Vita, which is around 1.6 million square feet. And where we have the typology of 2BHK, 3BHK, 3BHK with study, 4BHK. Sales has been very nice, in last 10 months, we could achieve INR 450 crore of sales and which is more than the 60% of the launched inventory.

We have also increased the selling price in this last quarter, 3% to 5%. And we have another JDA, which is in the Hinjewadi, which is the GDV having around INR 2,600 crore and we have a 75% share. So based on the encouragement from the NIBM, lot of landowners are approaching us and they want to do the joint ventures. We are also very aggressive and hopefully, we'll enter into some of the JDAs this year only. For executing a good business we require a good team also, we could able to achieve, a formation of the good team over there.

We have reached around 200 people where proper CEO, COO, Strategy Head, Sales Head, Marketing Head and BD person is also there. Pune real estate market is INR 35,000 crore to INR 40,000 crore. And right now, we are at 3% to 5% of the Pune market. And we aspire for more than 10% market in coming two to three years. So we are very aggressive in Pune, very enthusiastic for the Pune market. We want to cover the all micro market as a strategy. We want to have our presence in all the market whether it is North, East, South, West.

So the ultimate goal is to achieve the 15% to 20% real estate market of Pune. I hope we will achieve this; we have achieved a lot in past and hopefully in Pune we will definitely achieve it. Thank you.

Abhishek Lodha: With this potentially we can get into the Q&A. We will be very happy to take the questions that you would have or any clarifications that you might be desiring around our performance.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Kunal Tayal with Bank of America. You may proceed.

Kunal Tayal: Abhishek my first question is, it's great to see enhanced launch plans for fiscal '23, but given that your bookings outlook is unchanged, does it mean that you are anticipating a lower conversion here or is there a different dynamic out there?

Abhishek Lodha: Kunal good question. I think, as you're aware, the overall launch pipeline is also reflected from a function. It also reflects in sales, depending on the timeline of the launch, given the overall outlook for launches this year, we believe that this launch pipeline will contribute to the sales outlook for fiscal '24. For fiscal '23 we believe that the launch pipeline should lead to a similar level of sales as we have guided to. We do not and have not seen any reduction in conversion rates. It just is a matter of the timing of the various quarters and when these launches will come to do better.

Kunal Tayal: Got that. My second question is around the dividend policy, obviously, great to see something formalized here. But you know, just curious that given we are also headed into maybe a softer environment on the macro, what were the puts and takes between choosing for a dividend policy as against letting cash accruing books?

Abhishek Lodha: Kunal I'm sure you're aware the company's underlying, operating cash flow generation, is quite strong. We'll be generating somewhere close to INR 6,000 crore of operating cash, this fiscal and a consequently, we expect our net debt to be down to approximately INR 6,000 crore also by the end of this fiscal. In that context this year, if you look at the utilization of INR 6,000 crore, we will be using almost INR 3000 crore for debt reduction while then balance being used towards, growth as well as interest payments.

Now, if you look at it for the next fiscal, we are guiding to a situation of 15% to 20%, of the PAT, being used for dividend distribution, which number will be given where we are for fiscal '23, somewhere between INR 250 crore and INR 300 crore of dividend distribution quantum for fiscal '23.

So given the fact that we are not looking at any significant, further reduction in debt at that point in time, the dividend distribution is an indication of the company's belief of the strength in our operating cash flows. And yet you will notice that even if we were to maintain a modest to increase in operating cash flow for fiscal '24, the surplus available for after growth and interest payments will be very, very substantial. And there will be significant amounts of cash accruing to the books of the company after the pay out of the dividends.

Sushil Kumar Modi:

So Kunal, just to add, nonetheless point being taken that this is a subject that one would keep visiting from time to time. So and the growth at that point definitely will be kept as a precedence. So depending upon the environment, if the need be then to that extent in any case, dividend percentage can be suitably, will be deliberated at the board and basis the board guidance, whatever kind of board feels taking into on both micro & macro environment, one would judiciously get to the final number that we decide to distribute.

Moderator:

The next question is from the line of Pritesh Sheth from Motilal Oswal. Please go ahead.

Pritesh Sheth:

Congrats on the set of numbers, first, just a follow up on dividend again, my view is little different I mean, INR 250 crore, INR 300 crore potentially this year, and maybe two, three years down the line with this 15%, 20% of consolidated PAT, cap that we have right now, we would be at around INR 500 crore. And I think the visibility of cash flows that we have wouldn't the dividend, would have been more than, what we have guided for, what we are capping it for?

Abhishek Lodha:

Pritesh, this one, there is no right or wrong answer to, I think from the company's perspective, the intent is to showcase the fact that the company's operating cash flow is now at a point and it's capital structure and debt equity positions are at a point where we feel very comfortable. The company growth plans, which we have augmented significantly, as you have seen over the last four, five quarters are well supported by the operating cash flow of the company. And therefore, now we are in a position where the company shareholders will be, can be rewarded through regular distribution of dividend. As Sushil mentioned, all factors, macroeconomic performance, et cetera, are always going to be taken into account by the Board. As we look at the dividend distribution, as you would have noticed the company prefers to be modest and conservative in terms of its outlook and guidance.

And therefore we believe the 15% to 20% range on the dividend distribution is the right, metric to be considering at this stage the Board has taken that view after a lot of deliberation, and obviously we will be open to, you know, not only reviewing it from the perspective of the macroeconomic, as well as our performance factors, but over two, three years, we will of course, take into account how the business of the company evolves and what else we can do to make sure that shareholders are having the best utilization of the capital that their company is generating.

Pritesh Sheth:

Absolutely. I mean, that's what I wanted to know, whether there's a scope of revision in this 15% to 20% and you have answered that. My second question, since Mr. Tikam is here, on Pune, so I think we have started this exercise of JD addition since last 15 months. And we have progressed particularly well in our core market, which is Mumbai, but not so in Pune, we have had a couple of project additions, obviously. That's good. But how is the visibility from here on, in terms of project additions?

And what are the, you know to start with, what are the core markets that we are looking at? Probably what we understand from here is, Western Pune market, which is Pimpri-Chinchwad belt and which also includes Hinjewadi where we have had our first project addition, is kind of picking up well, both in terms of demand and supply that is coming

in. But what's the outlook on the other micro markets in Pune and our potential of adding projects in those markets?

Tikam Jain:

So, as I told you, in my introduction that we want to cover the entire Pune, not as a particular market. So, we are looking for spread into all the areas of Pune where we can create a lot of inventory in all the areas, That is the whole strategy, basically.

Abhishek Lodha:

So I think, the point being that as you know, Pritesh, our strategy is more micro market focused. So thereby meaning we are looking into all the markets in parallel in tandem and kind of trying to consummate the transactions one after another. Obviously, as you would appreciate, this is a journey and it'll take its own time, but just seeing what we have achieved in last six, seven months, potentially you would appreciate that this is pretty significant because in last 10 months we got to, the new project itself has given us the sales of as Tikam clearly indicated initially, around INR 450 odd crore. So that means the Pune market itself potentially may contribute to our overall top line pre-sales kind of 10% plus in this year itself with hopefully our some of further launches around the new tie up that we and one being, as you know, we have announced with this quarterly results itself in Hinjewadi.

Sushil Kumar Modi:

And if I may add to that, our strategy in any market is first driven by the focus on generating good profitability and good ROEs. And we are always balancing that with the desire to grow and therefore what we expect, what you expect from us in any new market is steady growth focused on profitability, focused on ROE and in Pune, our trajectory is exactly that the growth is coming, the partnership performance, the partners want to see execution. The partners want to see how, we deal with the JDA partners and that in turn creates momentum and positivity. You will see over the next three quarters, four quarters that, Pune market will also start, showing good, good business development i.e. land JDA partnership projects coming through, but always our focus being on gradual growth, which is profitable as well as good on our ways.

Pritesh Sheth:

Sure. Got it. And one last question on, INR 300 crore of digital infrastructure sale that we had in this quarter, what are the contours to it? I mean, is the 110-acre Palava land that we transferred to the platform also part of that sale?

Abhishek Lodha:

Sushil do you want to take that?

Sushil Kumar Modi:

Yes, the dominant part of that sale is, what has been put into this platform, which is effectively the, our contribution to the platform also gets taken care beyond the cash flow that we generate. So obviously our share being one third, so two third becomes the incremental cash flow in the process.

Pritesh Sheth:

Got it. So 110 acre, we need to take two third of the share into our consideration, right that's how we will look at it?

Abhishek Lodha:

Yes. The approximate consideration. Sorry will be a 100%, and against that we would have our share of investment that goes as a outgo because from a bookings end point it's 100% gets realized first.

Pritesh Sheth:

Okay. I was actually particularly concerned about, the value that, we have had, I mean, for 110 acres to close to INR 300 crore of sales. So realizations are somewhere around INR 3 crore per acre, and we were already at around INR 4 crore per acre. So is my math right or there's some difference to it?

Sushil Kumar Modi:

No that is not incorrect. The land value at which the land has been sold to the platform is approximately about INR 3 crore an acre. So total consideration is a little north of INR 300 crore somewhere close to INR 350 crore. And the fact is that as the, we have a very variety of different users and mixes that we use for the land in Palava. We have looked at, we have used land for this large-scale platforms, which we have done with Morgan Stanley, earlier with ESR, and now with Bain Capital and Ivanhoe Cambridge.

We do land, which is sold to direct users, which we have done with various operators. And then we have, land which is sold to players who are actually bringing in different kinds of asset classes like training, like a bank has set up a training center, a pharma

company is setting up its R&D unit, a hospital chain is setting up a large-scale hospital and so on. So depending on the size of the transaction, the pricing can move north or south. And also depending on the restriction on use, because we also put restrictions on the use in order to encourage diversity of economic activity, at Palava. And so the land values are linked to both these factors.

On average, the land value realization continues to be north of INR 4 crore an acre when you look it for the full fiscal this quarter, obviously because there was a single large transaction in the industrial and logistics park category of user, the average realization is slightly lower, but generally we are north of INR 4 crore.

Moderator: The next question is from the line of Sameer Baisiwala with Morgan Stanley. Please go ahead.

Sameer Baisiwala: Sir the first question is what's the total repatriation potential from London?

Abhishek Lodha: Sameer, as we have guided, in the past that amount will be approximately in the range of INR 1500 crore of total repatriation from the UK back to India, partly in fiscal '23 and partly in fiscal '24.

Sameer Baisiwala: And the second question is, over the last few months, a lot of companies have reported or projects have reported strong sales in South Central Mumbai. So I just wanted to check, how do you think park and world towers are doing, and the outlook on these?

Abhishek Lodha: Sameer, I'll request, Sushil to share the detailed performance. But we continue to see that our market share in South Central Mumbai continues to remain very strong. Generally the demand is more focused on projects, which are high quality and given Lodha's projects and the delivery that we have done. And if you have visited, some of the others on the call have visited clearly, both park and world towers are the most sought-after projects when it comes to that price ticket, the price bucket of INR 5 crore to INR 10 crore in South and Central Mumbai.

And we continue to see very good, both walk-ins as well as conversion levels, in the projects. And as we move forward, we continue to see the South-Central Mumbai is a good market when it comes to sales momentum. Sushil would you like to add.

Sushil Kumar Modi: So in the park Sameer, we recorded new sales of around INR 300 odd crore in this quarter and the world tower, the new sales were in the handle of around INR 200 odd crore. So kind of pretty much in line with what we were seeing the last year, last financial year. So I think the strength of both the projects continues to be appreciated and continuously seeing the momentum.

Sameer Baisiwala: And what's the expectation that your quarterly sale would be say INR 500 crore per quarter or is it going to be any different?

Abhishek Lodha: Sameer we will have to take into account the seasonality, as you well know, real estate sales are quite tilted towards the second half of the year. And especially in South Central Mumbai, the first half gets affected by vacations as well as then there is a Shraddh period which comes in late September. So we expect that the first quarter is generally I would say from a ranking of performance, it's the third, is the third best quarter of the year, with Q2 being the worst quarter of the year. So we expect that, sales momentum in South Central Mumbai will only increase and we are surpassing our last year sales performance for South Central Mumbai in this fiscal.

Sameer Baisiwala: And the final question I have is the cashflow from operations. So is it fair to say that, right now we are getting a pretty good helping hand from the finished inventory, but as you go forward, next few quarters ahead, our collections will drop, I mean, as a percentage of presales and the construction costs will go up. So Sushil your thoughts on how would cash from operations pan out going forward.

Sushil Kumar Modi: I mean, we for the full year guided to cash flow from operations of about INR 6,000 crore of which INR 1,350 crore were generated in Q1, we are of the view that the cycle on construction, as well as cash inflow has been well seen in our company over the last

seven, eight years. And you will notice on a consistent basis that our collections tend to be in line, with our sales or often slightly higher than the sales number that we report also. So we see no drop in that ratio of collections to sale. There may be quarterly variations, but generally there is not going to be any change in that ratio that we are collecting compared to the sales that we have.

And therefore you notice that this quarter, in spite of adding INR 6,200 crore of new GDV, our debt has gone down by about INR 450 crore, which is really a reflection of A) the strength of the operating cash flow and B) the ability of the company to utilize the cash flow, both for debt reduction, as well as for growth. So we maintain our full year guidance of generating approximately INR 6,000 crore of operating cash.

Sameer Baisiwala: My question was actually going beyond fiscal '23, because you will continue to get the benefit of finished inventory on your book for some time. So I'm just looking out say two to three years that, you are right now in a bit of a sweet spot is all that I just want to check out?

Sushil Kumar Modi: Sameer, I guess, we are happy to share with you our operating cash projections for the medium term also, which is beyond fiscal '23. We do believe that ours is a cycle, as you will notice, we are sitting on INR 7,000 crore, INR 8,000 crore, INR 9,000 crore of ready inventory even today. And that number, we keep selling that down and it keeps getting added because our construction at various projects is at various stages. So we believe it isn't, given the scale of our operations and the quantum of throughput that we produce. I'm sure you'll notice that we deliver just over close to 12,000 units, this fiscal. So with that kind of scale of operations, it isn't that any one building or any one project, leads to an outsized impact on the operating cash flow, at any one point in time, it just is that there is a significant number of projects at different stages at all points in time, but happy to, we are very happy to walk you through our operating cash flow projections for the next three years, and Anand will connect with you to take that forward, if you would like.

Sameer Baisiwala: That's fair enough.

Abhishek Lodha: Sameer just to add considering that, our continued growth trajectory, what we would see as we envisage, that kind of INR 6,000 crore of an operating cash flow that potentially we have projected for this year becomes kind of, if I may say so a floor going forward too, because as you know, our business in any case runs on a bit of a negative working capital cycle. So thereby meaning even with the intensity of higher construction costs with the increase in the presales number, the collection will keep improving equally and thereby the operating cash flow intensity will continue to kind of, improve beyond what we have forecasted this year. And for sure would not see any downward trajectory in terms of operating cash flow strength.

Moderator: The next question is from the line of Kunal Lakhan with CLSA. Please go ahead.

Kunal Lakhan: Abhishek we plan to start paying dividend from next year. And, you also said, earlier that company's growth plans can be supported by the operating cash flow. I just wanted to understand how you are looking at reducing the promoter stake to the prescribed limits. Would you look at raising equity and diluting the shareholding or would the promoters look at selling down their stake?

Abhishek Lodha: I think Kunal you've answered the question within your preface itself. Given the fact that the company's operating cash flows are quite strong and the company is in fact moving towards pay out of dividend. There is very limited need for the company to raise primary capital and therefore, the dilution of the rest of the promoter's stake, which we are still, you know, 20 months away from the timeline to achieve it. The most of the sell down of the promoter's stake will have to be from the, will have to be secondary sale. Given that the company has a very high focus on achieving an ROE of close to 20% over the next three years, it would be not prudent for the company to raise, primary capital, further is at least our current assessment. And therefore it will largely be through secondary sale.

Kunal Lakhan: Secondly, on the ESG spend, right, we have earmarked about \$500 million, over the next five to seven years. Any analysis, we have done on what will be the ROI of this spend or what could be the cost savings of due to such a spending?

Abhishek Lodha: Kunal the spend that has been highlighted when we did our recent announcement of the accelerator for sustainable urban development in partnership with the globally renowned Rocky Mountain Institute is a reflection of our company's commitment to becoming a global leader in the ESG space and specifically setting up benchmark when it comes to sustainable development of housing and real estate in general. The accelerator at Palava will enable global solutions to be tested, live in a real-world environment in India, and therefore be rapidly accelerated for implementation in India, not just in Lodha projects, but we intend to have that information freely available, for all stakeholders so that, as fast as possible India can move towards its climate change goals. In terms of that investment, that investment is inherent and not additional to our planned spend on our projects.

As you are well aware, we have been focused on sustainable development for a very long period of time. And therefore, as you would have noticed in our various investor and quarterly updates, the actions around making a minimum negative impact on the environment and making a positive impact are inherent to what we build and design and therefore these investments are part already of our standard costs, that we incur for our projects and therefore our underlying profitability and ROE parameters already reflect these costs.

It's just that over the next few years, as we scale up the quantum of spend towards this initiative also scales up in ratio of the growth in the company and as India's largest housing developer, and one with where we see we can deliver sustainable growth of 20% or higher for the medium term, we expect that doing this in a manner where ESG continues to remain high focus is the right thing for us to be doing as a company. There isn't any change on our underlying profitability or ROE, but we believe that by doing so, we will set a very high standard and benchmark for India as well as globally and make our contribution as a responsible corporate citizen.

Kunal Lakhan: My last question was on the Bangalore market, look, Bangalore has been a quite organized market with a lot of reputed developers. So what will be a strategy here, in terms of penetrating this market, because we have tried some of your peers entering that market, and not doing much over the past few years, but how are we approaching this market? Do you think, the kind of success that we are seeing say in Pune market today, we'd be able to replicate that in Bangalore as well?

Abhishek Lodha: We feel very confident about the fact that our entry into Bangalore is a strategic choice we have made, and we have made it after careful deliberation on what it is likely to do for us as a company, as we have mentioned in our release, our focus will be on gradual growth, again, focusing on underlying profitability and good ROEs. And we are doing so by investing in our team, building a strong team so that we can deliver these outcomes. Where do we differentiate ourselves is in our product quality, as you will notice, also in a very competitive market, like Mumbai Lodha's product design, product delivery, service quality stands out.

And we are seeing the same in Pune and we expect to do the same in Bangalore too. Yes, Bangalore is a good market with good developers, but ultimately the share of the top five players is only around 30%. We respect those players, but at the same time, we believe we have certain skills, knowledge, global learnings, and capabilities, which we will be able to bring to that market and, raise the overall standard in that market too. And as I mentioned, will do so in a gradual manner, focusing on underlying profitability.

Moderator: The next question is from the line of Abhinav Sinha with Jefferies. Please go ahead.

Abhinav Sinha: So my question is on the cost and pricing front. So on the construction cost the labor component, because the largest is still not moving, despite the large inflationary pressures we are seeing broadly. So, firstly I mean, does it worry you that this will start

moving up in the next half of the year? And secondly, can you also update us a bit on how the pricing has behaved in some of your key micro market in Mumbai?

Abhishek Lodha:

Would you please mind just repeating that question?

Abhinav Sinha:

Yes, sure. So, question on firstly the labor component where the cost hasn't really moved over the last several quarters, but there is lot of inflation and it can start moving. So, does it worry you, towards the latter half of the year? And secondly, on pricing in the various micro markets and how it can change and what you're basically seen there in the last few odd months?

Abhishek Lodha:

In terms of the overall mix of inflation, we believe that the labor market inflation over the last two years, and it's not just the last 12, 15 months, is reflective of the fact that in India, construction is attractive sector for those who are moving from the farm to the urban areas. And therefore the labor cost inflation in construction continues to remain moderate. And I think that's not likely to change very quickly. So we aren't unduly concerned of any sudden spike in underlying inflation of labor costs. And generally, I think given where the commodity cycle is where the global macro picture is in terms of demand in the developed economies, we feel that also there will be some moderation going forward in some of the components, non-labor components of construction costs, and therefore we are sanguine about the overall construction costs inflation going forward as we've explained in our quarterly presentation, the annualized rate right now is running at about 9%, and this takes into account the period from 1st, April, 2021. So all the impact of the last 15 months, which has been as globally a quite an inflationary period, and the impact of that 9% growth in inflation is translates into about a 2% increase in our cost of goods sold.

So overall the risk of inflation to housing profitability in India is quite moderate and very different from most of the other markets, where the ratio of construction cost to sales price, as well as the labor cost inflation are very high. As I noted in my opening remarks, every housing market is very different, and I think India's housing market, both from the demand side, as well as from the supply consolidation side, and also on the inflation side is very, very different from some of the other markets that are followed globally and is quite well poised. In terms of price growth, what we saw in the first quarter is average price growth of between 1.5% and 2%. This is quarter on quarter averaging about 1.7% across our portfolio. And this is in line with our guidance that we expect to see 6% to 7% annualized price growth for this fiscal, and which will be below wage growth and therefore in our opinion will keep affordability high and keep volumes growing.

We saw in the first quarter of this year, that as there is modest price growth volumes have also grown quite significantly for the industry, which is a very heartening sign and tells us that the price growth is actually a positive for the industry and can be supported going forward.

Moderator:

The next question is from the line of Alpesh Thacker with Antique Stock Broking. Please go ahead.

Alpesh Thacker:

Just couple of questions. First one is more from the strategy perspective, by that, I mean, since we've started doing this asset light strategy and we are mostly focused on the JDA, type of business model, but few our peers, they moved away from JDA to JV. So is there any thought or strategy behind that JDA model is more beneficial or more profitable for us or any thought on that as why not JV model?

Abhishek Lodha:

It's an interesting question. Typically the question that is asked is why not outright versus a capital light model. Both JDA and JV are examples of modalities of doing capital light model, given the fact that we like to do, all our business, within MDL's full control end to end control when it comes to design construction sales and so on. We find that the JDA model has very clear demarcation of responsibilities between the landowner whose job is to get the land and get the approvals. And the rest of the responsibilities are clearly with Macrotech. So, we find that the JDA model is much clearer. Having said that, I think, the balance between outright and JDA is important for our business because JDAs have higher ROEs and moderate profitability, outright have

higher profitability and moderate ROEs. And the combination of both of these will allow us to generate our 20% client growth with ROEs approaching 20%. And so therefore we have no particular view on why not JVs, but we like the JDA model because it is clearer on responsibilities.

Alpesh Thacker: Just second question more from Pune and Bangalore, so what is a team size in Pune and Bangalore?

Abhishek Lodha: So I'll answer on Bangalore and I will ask Mr. Tikam Jain to respond on Pune, since he himself is present on the call. Bangalore, we are currently about 20 people in Bangalore, and we will grow in line with the growth in our projects. So currently a modest size team in Bangalore. Mr. Jain, if you can give an overview of the team in Pune please?

Tikam Jain: We are right now more than 150 people and we are continuously on the recruiting process. And by end of this financial year, we want to reach 250 people. That is the overall team size we estimate.

Moderator: The next question is from the line of Mohit Agrawal with IIFL. Please go ahead.

Mohit Agrawal: My first question is again on the Bangalore market. So, typically Bangalore projects, we see, have a different margin profile versus, Mumbai. So what is the kind of margins we are going to see in Bangalore projects you've clarified for the Mumbai projects it's going to be around 18% at the PBT level so if you could clarify that? And again, what kind of IRRs also from the overall projects in Bangalore that we see? So that's the first part of the question. And secondly, you've also mentioned about 15% market share in Bangalore over time, so that's like almost, INR 6,000 crore of annual sales and like 8 million square feet to 10 million square feet of sales. So what kind of timeline are you giving yourselves in terms of reaching that target of 15%?

Abhishek Lodha: In terms of, as we have said repeatedly, our entry into Bangalore is strategic and the growth will be gradual. Our goals for achieving that kind of market share are over a moderate period of time. We expect to get to, 10% market share in five years and then grow to 15% thereafter. So it's a very gradual increase you can almost count, 2% to 3% share coming to us every year. So it's no dramatic investment or no dramatic, presence in Bangalore, it'll be gradually increased. So the idea being that between Bangalore Pune and Mumbai, that is almost two thirds of the value in the top seven Indian cities. And by serving these three markets, we have access to markets which are currently worth almost INR 175,000 crore. And over the next three years, it will grow to almost INR 225,000 crore in terms of value. And therefore Lodha's growth trajectory from here onwards we closed fiscal '22 with the base of INR 9,000 crore of sales. We feel quite good that even that scale of market that we are serving, we can maintain consistent top line growth of 20% or thereabouts and do that in a prudent profitable manner.

Mohit Agrawal: Sure. And what about the IRRs and margins there?

Abhishek Lodha: I think, you know, IRRs for our business continue to be driven by the acquisition model. So as we have guided in the past overall, we are aiming to have JDAs typically have IRRs which are close to 40% or higher, and that is no different for Bangalore. In terms of margins, Mumbai margins are about 200 basis points higher on the JDA model, compared to Pune and Bangalore. Pune and Bangalore PBT margins tend to be modestly lower. So, Mumbai will do between 18% and 20% on the JDAs, when it comes to PBT levels and Bangalore and Pune will do between 16% and 18% when it comes to PBT levels on the JDAs. Outright projects of course, tend to have higher profitability, but for the next 12 to 18 months, our focus is largely on JDAs and outside Bombay, which is Pune and Bangalore till we build up substantial capability and substantial success. Our focus will continue to be on the light model, capital light and risk light model of JDAs.

Mohit Agrawal: Okay. Understood. And one more question is, on your digital vertical, so you've given a target, I guess, of INR 600 crore, INR 700 crore annually, annual sales now with this, joint venture with Bain Capital and Ivanhoe Cambridge, does that target change and

what role do you see, beyond this 110 acres, injecting into the platform, what role do you see, in this platform? Like, do you see yourself going pan India in warehousing also over time?

Abhishek Lodha:

Yes. The platform with Bain Capital and Ivanhoe Cambridge is a pan India platform. It'll focus on the bigger cities, including the top metros, we from the Macrotech Developers side, we have given the platform, the seed asset at Palava, which is the 110 acres of land. We will continue to add other assets from our portfolio so that our overall investment into the platform is largely in terms of assets and not in terms of significant incremental cash flow. So we'll keep adding other assets over time. But yes, the platform is gearing up now to expand across the country.

We will, over the next quarters, bring in the CEOs, and leadership team of the business to interact with you so that you can directly ask them questions. But they are looking at Bangalore. They are looking at NCR, they are looking at Pune, as they build out the warehousing and industrial platform, because they are intending to invest \$1 billion, and build almost 30 million square feet over the next three to four years. So it's a very significant platform and it'll be across various geographical locations in India.

Mohit Agrawal:

Yes. And just to clarify, is Macrotech looking at operating and getting involved into the construction and operating of these assets as well, or they will just be financial investors outside the Mumbai market?

Abhishek Lodha:

No, Macrotech Developers Limited is the owner of the Opco. So the structure of this platform is a Propco and an Opco. The Opco is significantly owned and managed by Macrotech Developers Limited. There is a completely separate team, which looks at our green digital infrastructure platform as a completely separate operating team, which sits in this Opco. And of course, with this new platform coming in, that team is being significantly augmented. And that team will look at doing all the parts of operations, which is land acquisition, approvals, construction, leasing, and for the platform, it'll be the operator of the platform and it will generate significant recurring fee income for Macrotech Developers Limited, in addition to the rental income, which will come from Macrotech share as the financial investor in the Propco.

Moderator:

This was the last question. And with this, we hand over the line to the management.

Anand Kumar:

Thank you everyone. Thank you for joining the call today. As highlighted earlier, consumer interest in housing remains very resilient on the ground it's robust and growing stronger with each passing month. We are well on track to achieve our stated guidance and our strong launch pipeline in the second half, going ahead, including this quarter, will help us achieve our guidance. Feel free to reach out to me or Sushil for any further queries that you may have. Thank you.

Tikam Jain:

Thank you.

Sushil Kumar Modi:

Thank you.

Abhishek Lodha:

Thank you all. Thank you for your time.

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.