November 03, 2023

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National Stock Exchange of India Limited
Trading Symbol: LODHA

Dear Sirs,

Sub: Q2FY24 - Earnings Call Transcript

Ref: Intimation under Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ('Listing Regulations')

Pursuant to Regulation 30 of the Listing Regulations, we enclose herewith a copy of the transcript of the Company's Q2FY24 earnings conference call held on October 30, 2023. The transcript is also being uploaded on the Company's website i.e. www.lodhagroup.in under the Investors section.

We request you to take the above on record.

Thanking you,

Yours faithfully,
For Macrotech Developers Limited

SANJYOT NILESH RANGNEKAR

Digitally signed by SANJYOT NILESH RANGNEKAR
Date: 2023.11.03 19:27:07 +05'30'

Sanjyot Rangnekar
Company Secretary & Compliance Officer
Membership No F4154

Encl: As above

"Macrotech Developers Limited

Q2 FY '24 Earnings Conference Call"

October 30, 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. RAJIB DAS – PRESIDENT, EASTERN SUBURBS AND NAVI MUMBAI – 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 Macrotech Developers Q2 FY '24 Earnings Conference Call hosted by Antique Stockbroking. 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 over the conference over to Mr. Biplab Debbarma from Antique Stock Broking. Thank you, and over to you, Mr. Debbarma.

Biplab Debbarma: Thank you, Malcolm. Good afternoon, everyone, and welcome to the Q2 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. Rajib Das, President Eastern Suburbs and Navi Mumbai; 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 today. We are a few days from Diwali. So wishing all of you a very happy Diwali and a prosperous new year ahead. To begin with, let me share my thoughts on the broader circumstances both globally as well as on the macroeconomic side. The emergence of the new conflict in the Middle East is a source of global concern, both for humanitarian as well as economic reasons.

We pray for all those who are affected and hope that things settle down soon. In spite of the continued global turmoil, India continues to make steady economic progress in what is clearly a very volatile period otherwise. We had, after initial concerns, a very decent monsoon, and reports indicate that the food production is at a record level. And consequently, we are starting to see that food inflation has abated and is likely that it will continue to abate.

India has recently been included in JPMorgan's Emerging Market Bond Index. It is further expected that other peer indices will also follow. And consequently, significant inflows can be expected in India from the next year.

RBI in its latest monetary policy has reaffirmed the GDP growth rate of 6.5% for FY '24, making India the fastest-growing major economy in the world. The RBI also indicated that interest rates at this time have peaked. And unless there are significant black swan events, the interest rates are unlikely to go higher from where they are today.

And that gives us confidence that if things do not turn adverse in an unforeseen manner, then there is likely to be starting of the rate cut cycle sometime next year. India, of course, continues to be a beneficiary of the China Plus One trend, and manufacturing continues to gain momentum.

Given the second leg of the job creation engine in addition to the strong and continuing services engine, which India has historically relied on, just as India continues its journey of being a steady ship in troubled global waters. Our focus as a company is to deliver steady growth while continuing to reduce risk. The quarter was marked by steady progress on our key goals: presales growth, debt reduction, improved ROE as well as strong performance on ESG and reputational metrics.

In Q2, which is otherwise seasonally the weakest quarter of the year, we had our best-ever presales, which came in at about INR35.3 billion. That led to strong cash flows, and our net debt came down by INR5.4 billion, now down to INR67.3 billion. Our adjusted EBITDA margins for the quarter, on underlying pre-sales basis, the embedded EBITDA was at about 30%, which again showcased the strong continuing profitability of the company.

Our ROEs on an underlying pro forma earnings now continue to move towards the high teens. It's a very proud moment to note that the globally recognized GRESB rated us as the number one residential developer in Asia for our ESG standards. Similarly, S&P Global Corporate Sustainability Assessment rated us as number two in the world amongst real estate developers.

It is indeed a very proud moment for us that an Indian company is now number one in Asia and number two in the world on globally recognized ESG indices in the real estate space. As we look at the concerns around climate change and more specifically in our major cities around air quality and pollution, it shows that it is very much possible in India that we can operate at the highest standards of ESG and still continue to deliver long-term sustainable growth.

As a business, we continue to remain on track for our annual guidance on presales, on embedded EBITDA as well as on debt reduction, and we hope that we will exceed our guidance on business development. H1, as you generally know, is a period which tends to be around 45% of the annual performance, and the second half of the year tends to be more stronger with the festive season and generally more predictable weather patterns.

In H1, we generally plan for a lower level of activity, particularly launches due to the unpredictable nature of the monsoons, the timing of the monsoons as well as when you would have certain monsoon events. And of course, you have impact to a lesser extent of summer vacations and sometimes the inauspicious Pitrupaksh period. However, the Pitrupaksh period has moved to Q3 in this year. Thus, H2 tends to be about 55% of our overall performance for the year. And it contributes an even bigger percentage of the operating cash flow.

We are pleased to note that the new market that we entered last year, Bangalore, we plan to start our sales now with the launch of our first project in the month of November. Our journey in Bangalore, we hope and expect will follow our trajectory in Pune, early stages of focusing on building a strong brand, delivering product, understanding the local ecosystem and building the local team and thereafter scaling up in a meaningful manner as we have been able to do in Pune now.

Our business development pipeline continues to remain quite strong. As you would have already noted, we've delivered about 80% of our annual guidance already, about INR143 billion out of a guidance of INR175 billion. And we expect that this robust business development pipeline will continue, and we continue to see good deals across multiple locations, which continue to aid our supermarket strategy of being present across every 3 to 5 kilometers in the key cities that we are focused on.

During this first half of the year, our YTD price growth that is from 1st April onwards, was at about 3%, squarely in line with our guidance for the year of price growth of between 6% to 7%, which is 2% below the likely wage growth between 8% to 10% for white-collar workers who tend to be the home buyers.

We believe that this continued focus on strong affordability and making sure that we have nominal price growth, but at the same time, affordability does not take a hit is a very, very critical part of our strategy, and that is an important reason we believe, which will lead to long-term sustainability of the super cycle, which we expect to be 15 years of housing growth, and we are only in year 3 of that and making sure that price growth does not get too aggressive is a critical ingredient to ensuring the longevity of this cycle.

Another point that I'd like to make is that our journey to have the P&L more accurately reflect the period’s underlying business performance has commenced now with the sales after 1st April 2023 being eligible for revenue recognition under the percentage completion method.

Over the next 3 years from the start of the journey, i.e., by fiscal '27, we expect the P&L to be reflecting the underlying business performance quite well, perhaps at the most with a quarter's lag. It's important to note this year, in this quarter, revenue recognition is only about INR17 billion, whereas the presales are at INR35 billion. And yet, most of the overheads, which were incurred in this quarter had to be accounted as expenses in this quarter itself. Therefore, for the next few quarters, the best indication of our business performance are the presales and embedded EBITDA metrics that we have historically shared with you.

I'd like to focus on a few highlights of our for-sale business. We intend to have about 7 to 9 new launches over the next 6 months, about 8 million square feet worth INR12,000 crores in a variety of markets. This provides significant visibility to achieve our targeted presales growth for the year.

In terms of the new micro market, and I'm pleased to have our colleague Rajib Das with us today who leads the growing market of Eastern Suburbs of Mumbai. And he'll share his thoughts separately. But in terms of the new micro markets that we've entered over the last 2 years, let me share a few highlights.

Pune, we achieved presales of INR 1,100 crores in fiscal '23 with four operating projects. And in the first half of fiscal '24, we've already achieved INR960 crores of presales. We expect to cross INR 2000 crores of presales for the year and have strong confidence that not only will we emerge among the top thee developers in Pune by the end of this fiscal, but we can further continue to strengthen that journey and double our presales over the next -- further double our presales over the next 3 to 4 years.

Similarly, both in the Eastern as well as Western Suburbs of Mumbai, we are seeing strong growth in practice. We now have five operating projects in four locations in the Eastern Suburbs. Our presales in the Eastern Suburbs, in the first half, were at over INR 800 crores compared to INR1,200 crores that was for the full year of fiscal '23.

As I already mentioned, we are now targeting our first launch in Bangalore in the month of November and hopefully a second launch in the last quarter of the year and if not in the first quarter of the next fiscal.

In terms of some select projects, I'd like to highlight how the strength of the Lodha brand are focused on high-quality product and the desirability of what we create leads to significant attraction as we start operating at new locations. At Matunga, which we launched in the fourth quarter of fiscal '23, we've already sold close to INR700 crores in less than 9 months.

In Andheri, we've sold more than 50% of the launch inventory within 9 months. In Hinjewadi again, we've sold in 7 months since launch, more than INR500 crores, which is 57% of the launch inventory. And similarly, at Kharadi, we have cumulatively sold about INR800-plus crores in just 10 months, which is about 64% of the launch inventory.

At Pune NIBM, not only have we seen great velocity, having sold more than INR 750 crores, just under 70% of the overall sales, but we also expect to see that the first towers will complete in the next calendar year. Thus, one sees that not only are the new locations contributing to sales, but also we are progressing with deliveries. And this combination of strong brands, strong sales and strong deliveries, we believe will set out the flywheel effect, which helps us expand the business, but also keep margins robust as we saw also in this quarter where the underlying EBITDA margins were at about 30%.

I'd like to highlight a little bit about the land that we own in Palava and how land values have been moving. At the time of our IPO, the estimated value of the underlying land. This is not the residential land, but land that one would sell for industrial or other purposes was at about INR 2.5 crores an acre. But now we have transactions which are happening upwards of INR 5 crores per acre, and we expect that this number will further inch up north of INR 6 crores per acre.

This is the benefit, of course, of having a high-quality ecosystem, well planned infrastructure as well as the fact that consumers as those who are setting up there, warehouses and industries have recognized the benefit of being within the larger Palava ecosystem. And obviously, over time, we expect this to further grow as other asset classes come in. And hopefully, we should be crossing the INR 10 crores mark sometime over the next 24 months. And that kind of underlying value of the land will create significant free cash flow for the company.

The beneficiary of all this activity is not just the cash flow that we generate from the land, but it's also the demand that we have generated for our developments, which are located close to these industrial and warehousing developments. In spite of the substantial increase in mortgage rates, Palava continues to see strong traction from consumers.

We are also starting to upgrade and premiumize the product that we are offering so that we have a broader mix of consumers that are staying over there. And that is complementing the number of different asset classes, which are now operating in the Palava ecosystem in addition to residential, including office spaces, high street retail, multiple schools, two hospitals, which are now under development, life sciences and research, R&D facilities and so on.

We obviously see these -- the effects very clearly, you have a situation where a hospital is coming up and the doctors who are operating in the hospital want to buy a plot for a villa or build or buy a high-end apartment and so on.

So the effects of the ecosystem, we believe are quite strong. And as the infrastructure in the area completes, some of these projects have gotten elongated beyond our earlier estimates, but we expect that a number of these will now start completing, including the Airoli Katai Naka Freeway, which should reduce the travel time from Airoli down to 20 minutes in a predictable manner and to BKC in 45 minutes, which should be completing now any time in the next 6 months.

Plus, of course, the Navi Mumbai Airport, the Trans Harbor Link and the Thane Dombivli link road. So projects which will complete a little bit further in the future, but later in this decade, include the metro line number 12, which have three stations located within Palava, the Mumbai Ahmadabad Bullet Train for which construction is in full swing. And the first station after BKC is just a short drive from Palava, maybe 5 to 10 minutes drive from Palava. And generally, the overall infrastructure upgradation.

So we believe that Palava as well as Upper Thane will benefit from these dual sources of infrastructure as well as job creation, which is happening in a meaningful manner in those areas.

Before we dive and I hand over to Rajib, I'd like to reiterate the fact that we continue to see strong home buying interest and momentum on the ground. We continue to see meaningful increase and improvement in conversion rates over the last 12 months. Activity is strong across different price points. And there is a clear preference for buying branded homes, high-quality homes where quality and product and lifestyle comes first and price come second, which, of course, gives increasing branding power to us.

We believe our journey of being a steady player focusing on steady growth, predictable growth is something which will hold us in good stead. We continue to remain focused on delivering a 20% CAGR in presales and about 20% ROE, which we believe helps us deliver on the mandate of being a steady, predictable but high-growth company.

With this, I'll pause now and hand over to Rajib for his remarks in relation to the Eastern Suburbs, which he leads. Thank you.

Rajib Das: Thank you, Abhishek. Good afternoon, everyone. The Eastern Suburbs spanning from Matunga in the south to Mulund in the north consists of at least 10-plus distinct micro markets, each with its unique characteristics. Historically, a residential area, the region has undergone a remarkable transformation in recent years, driven by substantial infrastructural development. This transformation has made it an ideal market in terms of affordability, connectivity to all major business hubs of the city and access to increasing social infrastructure. These developments are set to enhance the business and the residential desirability of the region, strengthening both volume and price growth going forward. The market offers a wide range of opportunities from mass housing to luxury condos.

The Eastern Suburbs represent a substantial primary market of about INR 200bn of sales, and it has grown at a CAGR of approximately 12% to 15% between FY '21 to '23. On the back of strong industry consolidation, desirability of our products as well as Lodha's commitment to quality and timely delivery, we have witnessed very strong growth in the market.

Having started in the region as recent as the second half of FY '22, we achieved over INR 1200 crores of presales in FY '23, which was our first full year of operation. For the current fiscal year of FY '24, we are aiming for at least a 40% to 50% growth over the previous year, which translates to around INR 1,700 crores to INR 1,800 crores in presales. At the end of H1, we are already at INR 800 crores and are well poised to meet this target.

By the end of the year, our footprint would have increased to five to six operating projects in various locations of Eastern Suburbs such as Mulund, Powai, Vikhroli, Sion, Matunga and Bhandup. Furthermore, the robust demand for our projects and products has allowed us to increase prices by about 6% to 7% annually, which is in line with the pricing strategy of modest and digestible price increase, which is at least 200 bps below the white collar salary growth, keeping the affordability strong.

Our goal in the next few years is to expand our market share to 20%. To achieve this, we plan to add two to three projects in our region annually as per our supermarket strategy of having noncompeting projects within 3 kilometres to 5 kilometres radius to ensure the presence of our brand in each of the 10-plus distinct micro markets. We already have a robust pipeline of new opportunities, some of which are in advanced stages of discussion and these projects will be launched in the upcoming financial year.

Regarding our organizational structure, we operate with a decentralized system in which each regional CEO is responsible for managing all business parameters within their respective region. The Eastern Suburb region currently has around 200-plus associates across various departments of sales, construction, customer experience, design, marketing, strategy and property management. Given the region's accelerated growth stage, our people strategy is to create a healthy mix of experienced Lodha associates from other projects and new hires to support our continued expansion.

In conclusion, we are committed to achieving our ambitious growth targets in the Eastern Suburbs region. With our strategic approach, strong brand presence and a pipeline of exciting opportunities, we are well poised for success.

Allow me to stop over here and hand it over to Sushil.

Sushil Modi: Hi. Perhaps we can move to the Q&A. Whomever would have queries or clarification to seek. Thank you.

Moderator: Thank you very much. The first question is from the line of Puneet Gulati from HSBC. Please go ahead.

Puneet Gulati: Yes. Thank you so much and congratulations on good numbers. Can you talk a bit about the experiences that you are having in terms of business development in cities like Bangalore, what kind of IRR are you expecting from the projects there? And how is the competitive intensity in terms of big lands?

Abhishek Lodha: Hi Puneet, look, frankly, in the scheme of things for Macrotech, as you know, Bangalore is something that we are more in the pilot stage at this point, not really looking for aggressively adding projects. So just from a Macrotech standpoint, perhaps it may be a bit of early to speak about.

But nonetheless, whatever at least we are doing, our IRR thresholds for typical JDA that we have always mentioned would be kind of 30% plus. We haven't seen any significant challenge as of now getting there. Yes, there are a good number of branded players already existing.

So, henceforth, it will be wrong to say competition won't be there. But equally, the sizability if you see alongside the competition, perhaps you would be able to appreciate that as we move on and as we now launch our first product sometime in this month, in the month of November, we'll get to hear how the people has received and thereby, what kind of potential that lies ahead of Macrotech going forward, be it in terms of the consumer sales and the by default getting our raw material land tie-up.

Puneet Gulati: And within Mumbai, in terms of business development, would you focus on JDA? Are you also looking to become more aggressive in the society redevelopment projects, etcetera? Any thoughts there?

Abhishek Lodha: Puneet, frankly, from our standpoint, these dynamics of redevelopment, JDA, all these are, in some sense, less relevant. For us, all is in some sense, one and the same. What we really look forward is that, we should be looking for a land which we have the ability or that provides the ability to launch quicker, be it the redevelopment, be it JDA on a clean land. It doesn't matter.

What matters is the size of the project, which delivers the certain return thresholds in absolute terms as well as on the margin terms and thereby the IRR. So long those are deliverable and it can be something that can be quickly brought to the market, because that is what brings the returns, right? So those are the ingredients that we will typically look for.

Puneet Gulati: Correct but society redevelopment is slower to launch to market. So will that fit into your scheme of things or would you rather avoid that and go for other projects which can be quick to launch from the time you acquire?

Abhishek Lodha: No, as I said, so long quick to launch ingredient is pretty much there alongside the return threshold, we don't make any distinction.

Puneet Gulati: Understood. That's helpful. And lastly, on your FY '24 launches, are they looking broadly on track. There was pretty much nothing this quarter, right? I mean, second half looks to be heavily loaded in that ways. That's how one should read it?

Abhishek Lodha: Yes. We tend to do as much as possible in the second half because especially Q2 tends to have this monsoons unpredictability. You don't want to time a launch at a weekend when monsoons throw the city out of gear.

So we typically tend to plan it in the second half of the year. Not saying that we don't do anything in the first half of the year, but it tends to be more loaded to the second half of the year. And yes, in terms of our launch pipeline for the second half, it all looks reasonably in place. Obviously, the ones which are planned for March sometimes can slip to in April, but it looks to be all in place.

Puneet Gulati: Understood. That's very helpful. Thank you so much and all the best.

Abhishek Lodha: Thank you.

Moderator: Thank you very much. The next question is from the line of Saurabh Kumar from JPMorgan. Please go ahead, sir

Saurabh Kumar: So I had a few questions. So first is the impact of the BMC order on pollution and all. Do you think this impacts your construction spend at least for this quarter?

Rajib Das: Hi Saurabh, the BMC's guidelines have been around for some time. We're, I would say, largely compliant with them. There are going to be certain supply chain issues, which have not yet cropped up, but there is a likelihood of certain supply chain issues cropping up. If they stop the transportation of heavy vehicles within the city in order to control the pollution-related issues.

That is a contingent event if the air quality reaches a certain threshold, which they classify as severe. So at this stage, I would say that there is no impact on our construction schedule or spend, but there is a downside risk in case the air quality crossed threshold that has been stated to be severe.

Saurabh Kumar: Okay. Understood. The second is essentially -- so you talked about this Eastern Suburbs. So we are seeing a lot of infrastructure come up like Navi-Mumbai Airport, the Trans Harbour Link, the Airoli connectivity, which you spoke about.

So if you have to imagine, what happens, let's say, two years or three years out, would you expect, let's say, the differential in pricing between where Palava Airoli belt rates versus, let's say, the Andheri East, Goregaon, Kandivali belt to trade because the relative infrastructure is higher in Eastern Suburbs should that differential start to narrow down because the differential today is more like 3x to 4x?

Abhishek Lodha: Saurabh, so I think, we see that pricing at any location are driven by two things. One is quality of life and second is the length of commute. Palava has been very well received when it comes to the first metric, which is quality of life. Which is the reason why it enjoys a premium over other projects in the micro market. And where we expect to have substantial upside benefit coming in terms of pricing is now the length of the commute.

Length of the community is in minutes, in time count, which is how a consumer thinks about it. So yes, over the next few years, and it is incremental, right, because you have the Airoli tunnel, for example, opening, then the Trans Harbour Link may happen to become really active maybe six months to 12 months down the line, then you have the metro train kicking in probably towards the '27, '28.

And then you have the bullet train from BKC, which is scheduled to complete in 2029, 2030 for this leg. So every one year to two years, you are going to see that the time it takes from Palava to the main epicenters of the city is going to continue to come down. And as that happens and you combine that with quality of life, what you are saying is very, very highly likely to come through.

Saurabh Kumar: Okay. Understood, sir. And lastly, on your Pune strategy. So on Pune two things. Are you doing more JDA or are you doing more own? And secondly, like how would you say that, you are differentiated from competition because Pune has a pretty decent set of developers operating there for a long time. So you're doing large format townships, more high-end developments or just kind of more thoughts on your strategy in Pune? Thanks.

Abhishek Lodha: Pune, in terms of land acquisition, obviously, our strategy is JDA-led. Generally, our strategy is on joint-development-led because that's where our ROEs are higher. And that sort of as we get to this mix of about 40% of our sales coming from JDA, which should happen by the end of this fiscal or sometime next fiscal, then we will sort of start becoming more balanced as a mix of JDA and outright.

So that strategy sort of keeps sort of evolving in line with market opportunities as well as how we are looking at it at a corporate level. I would beg to differ with your point of view in terms of how our brand is perceived versus what the existing competition in Pune is. I think, the Lodha brand is perceived in a much higher light by the Pune consumer as in terms of the quality of the design, the quality of the product and the service standards.

And I would say this for both Pune and to an extent for Bangalore is that there are good players who do what I would say, mid-end product. But when you talk about product, which is lifestyle-oriented and value-added, I think Lodha has a big lead in the consumer's mind in terms of what it brings to the table.

Saurabh Kumar: Okay. Maybe I take this offline. And just one last question. Sushil, what is the total now left from UK.? Is that over now? Or is there any balance left?

Sushil Modi: As I said last September that INR1,100 crores-odd was yet to -- what to come, of which INR550 crores has already come, the rest INR550 crores, we are expecting potentially in this financial year any time. But that should come this financial year. This would once for all kind of get out of the UK thing.

Saurabh Kumar: Okay. Thank you, sir.

Moderator: Thank you very much. The next question is from the line of Kunal from BOFA. Please go ahead.

Kunal Tayal: Thank you. My first question is that during the quarter, there were media articles saying that regulations and procedures around society redevelopment could be simplified. So Abhishek, would you view that as an expansion of opportunity for more business development? Or would you also view that as potentially a lot more supply that can come into the market?

Abhishek Lodha: Our view, Kunal, is that supply and regulatory changes are areas which don't really impact the business cycle in any significant manner simply because ultimately, it's about what product does one build and who is building it and whether the consumer is comfortable with both of those.

The simplification of society redevelopment procedures or for that matter any other easing of business environment is very welcome because it improves productivity for whoever is involved in it. We have done some society redevelopment or tenanted property redevelopment in the past. We are open to exploring it in the future, too. So it's a source of supply.

The great thing about Mumbai is that supply is always there and available in different forms. And that is what allows Mumbai to operate at a scale that it operates at much bigger than any other market in the country because the supply is available. Consumers can get what they want. And that is good for a long-term healthy market and also it reduces the incentive for excessive price growth because supply keeps coming to the market.

Kunal Tayal: Yes. Got it. Okay and then just a follow-up here is that, there are a lot of divergent data points in the market right now on how fast exactly is the MMR market growing. So what would be your assessment that on your projected bookings growth of almost 20% for the year, are you gaining market share? And the spirit of the question is, do you sense that the number of market participants are increasing because the cycle is in an established strong phase right now?

Abhishek Lodha: Our market share growing? Yes, certainly. I think we certainly believe that our market share is growing. And that has to be seen from the context, not just from the sales growth, but also from the fact that as we increase the number of locations in line with our supermarket strategy, there are unaddressed markets in the past, which we are now addressing. And therefore, automatically, share growth is happening.

The fact is that, the top five developers in Mumbai have less than 25% market share as of last year. And therefore, there is a lot of room to grow on consolidation. There is also space for new entrants, if they so wish to enter. Now what happens to those new entrants and how they perform, time will tell. I have no view on that.

But top line as well as bottom line are areas which one has to look at closely as one enters new markets. And that's why when we enter new markets like Pune earlier, and now Bangalore, our focus is on not just top line, but also on making sure that the bottom line comes through along with that and execution comes to along with that. So there is room for Mumbai to support one player or two players or three players who want to enter from outside Mumbai.

But we don't see that competitive intensity is in the manner that you are stating it because we believe that the business has moved from being a commodity to being a branded business. So it doesn't really matter, how many people are selling cellphones. There is Apple and then there is Samsung and then there is everybody else. And that's how we believe, real estate is also moving to.

Kunal Tayal: Yes. Got it. Thank you.

Moderator: Thank you very much. The next question is from the line of Pritesh Sheth from Motilal Oswal. Please go ahead.

Pritesh Sheth: Yes. Thanks for the opportunity and congrats on a very strong performance. First is in terms of micro market performance capacity, South Central had a very good quarter. It wasn't specific to any particular project because we have been hearing certain transactions in media? Or do you see this improvement across projects because of people's preference for larger homes? And how do you see this trajectory for South Central as a market going ahead?

Abhishek Lodha: So you're right, that South Central Mumbai in the first half of the year and particularly in Q2, has done quite well. it's probably a story which is similar to other markets where you add locations, you have growth. Plus, we are seeing price growth in existing locations. And to an extent, we are seeing volume growth also in existing locations.

So this time in South Central Mumbai, you, of course, had the World Towers and Park contributing. But you also had Lodha Malabar contributing, you had Lodha Bellevue contributing. So, we see that generally the market in South Central Mumbai is very deep. We are, by far, the most desired brand in this market. And as we bring in supply, we expect to continue to see the momentum grow.

There are probably two new locations we'll add in the second half of the year within South Central Mumbai, land, of course, is already acquired and approvals are in place. So we expect that this momentum continues for some time. You can have quarterly ups and downs.

But generally, what we see across our business is out of our 20% growth, about 6%, 7% will come from price of the balance, 5%, 6% will come from volume growth in existing locations, and then 6% to 8% will come from volume from new locations. And in different measures, that's a story, which is now playing out in South Central Mumbai too.

Pritesh Sheth: But any pricing strategy in South Central Mumbai would be different from the other markets because of higher propensity to pay for the customers. So would it be different?

Abhishek Lodha: I would say is that, again, which I answered it in a different context, but I'll say it again, pricing strategy that we have is to charge a premium to competition because we believe, we deliver the best product and the best service and there is and people get the best lifestyle and have no problem in paying a premium to the market.

And that's really our pricing strategy across the board. Having said that, when it comes to price growth, we are conservative. We believe that once a project is started off and a pricing is established just because there is demand, one should not go ballistic on price increases because affordability is a key consideration.

So our pricing strategy is pretty similar across markets. There is no exception to South Central Mumbai has a higher propensity to pay because consumers across the board want great value. Value is a combination of price combined with what product and service one is getting.

Pritesh Sheth: Sure. Got it. And second, on your JDA, it has been like 2.5 years now since you have been doing these transactions, preferably JDAs. Any change in terms of land owner expectations that you have seen during this period? And how are we tackling it, if at all?

Abhishek Lodha: We believe that the JDA pipeline and the JDA dynamics can be evidenced by the level of business development that we've done in the first half of the year. We believe that Lodha's attractiveness as a brand, what is attractive to the consumer or what is attractable to a lender is also attractive to the landowner, which is strong governance and great execution capability. And in that context, we continue to see a healthy pipeline. I would say the pipeline is lot bigger today than it was 18 months ago. And consequently, we can afford to be picky and choosy about what transactions we do and making sure that the margins that we target, which is 18% in Mumbai in terms of PBT and ROEs in excess of 30% on these JDAs can be delivered with room for error.

Pritesh Sheth: And just lastly, on your digital infra business, where you mentioned that pricing have increased to INR5 crores per acre now and since in last few quarters, I mean, the volumes have not been as big as what probably we have been mentioning roughly INR600 crores, INR700 crores kind of a target every year. So is pricing becoming a bit resistant now for people who are looking to buy land and probably once the infra comes up that time, we will see more volumes and transactions? Or how do you see the volume of transaction that is happening now? Is it in line with your expectation or maybe it can improve in future?

Abhishek Lodha: I would like to clarify a few things. Our digital infrastructure business is our warehousing and industrial parks business, where we develop warehousing and industrial parks initially in Palava, and then we are now doing across other locations. What you are referring to in terms of land value is Macrotech Developers selling land to third parties, which would include our digital infrastructure partners or platform also.

So I just wanted to distinguish between those two. In terms of the land sales and land momentum, as you can imagine, it's chunky. Last year, we sold 140, 100 plus acres in a single transaction to a warehousing development entity. And obviously, that takes them three or four years before they are able to fully monetize that. That's the nature of the business. We see right now that the momentum on land sales is reasonable.

You may have read about the fact that we've recently divested of a subsidiary to a company which is focused on building logistics and solutions called New Cold, which is a globally renowned cold chain logistics company. We've just announced the transaction for INR1.5 billion transaction will complete then funds should come this quarter. So we're quite in a good space when it comes to the quantum of land that we want to transact.

The piece which is not necessarily, I would say, predictable is the acquisition that the government does for its infrastructure. So in the last fiscal, there was more acquisition done by the government for its infrastructure this year, there has been lesser. It's dependent on what their priorities are and so on. So sometimes that number varies a lot. But what is sold to the market, I think, is moving quite well.

Pritesh Sheth: Sure, that’s helpful. That’s in from my side. All the best and Happy Diwali to you and your team in advance. Thank you.

Abhishek Lodha: Thank you.

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

Abhinav Sinha: The first question is on cash flows. So we seem to be trending well on our guidance on net debt for the full year and you already alluded to second half being much stronger on inflows. So if there is a bit of a surplus here, what are the strategies we are looking for, how to utilize that cash flow?

Abhishek Lodha: We do expect that the debt reduction in the second half of the year will be higher. And as Sushil also mentioned, we expect to receive about INR550 crores from the U.K. in the second half of the year. So that will also help. Having said that, I think it's a net debt number.

We, of course, look at our business development opportunities on an ongoing basis. But it's possible that net debt might be slightly lower than at one point and then go up in the next quarter if it's gone below where we want to be. So that's a normal part of the business because business development opportunities or opportunities to deploy this capital don't necessarily come in the same time frame as the cash flow coming in. Obviously, while we paid out our first dividend last year, we expect to increase our return to shareholders also over time, either in the form of dividends or other means. So all of those things will be considered by the Board at the right time.

Abhinav Sinha: Sir, secondly, on the township side. So sales momentum on residential, despite the uptick you're seeing broadly and also the infra improvement, it seems to be flattish in the first half. So I mean, what will you sort of ascribe that to? And also, do you think some government intervention is needed for this segment now?

Abhishek Lodha: I think the overall performance of the extended Eastern Suburbs for the full year will see meaningful growth over last year's number. Last year, we did about INR23 billion, and we expect that number to be growing meaningfully. So we have meaningful growth when it comes to the sales performance in the extended Eastern Suburb in spite of the impact of the increase in mortgage rates.

In terms of the segment between INR30 lakhs and INR75 lakhs where the sensitivity to mortgage rates is the highest, clearly, there is some impact on demand there. And any intervention from the government which supports sort of these people who are buying their first home, starter homes, would be welcome.

We of course all read some news reports in that regard. And if that were to come through, that would be, I would say, the right thing from an economic perspective because housing not only creates an immense amount of employment, but it also creates wealth for those who own homes and therefore, to get the families onto the housing ladder as early as practical, especially when we've had this increase in interest rates for reasons which are global in nature, nothing to do with things these families have made choices on. It would be, I would say, a positive intervention if it were to come. We, of course, hope it happens, but let's see.

Abhinav Sinha: Thanks Abhishek and all the best to the team.

Abhishek Lodha: Thank you.

Moderator: As there are no further questions, I would now like to hand the conference over to Mr. Anand Kumar, Head, Investor Relations, for closing comments. Please go ahead, sir.

Anand Kumar: Thank you, Malcolm. Thank you, Biplab. In conclusion, I would only say that I reiterate the point what Abhishek mentioned, the demand conditions on the ground remain very robust and the early read through of the festive season is quite encouraging. With this, we conclude the call. I would like to thank all of you and wish you for all the festivals coming up. Thank you.

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