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National Stock Exchange of India Limited
Trading Symbol: LODHA

Dear Sirs,

Sub: Q1FY25 - Earnings Call Transcript

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

Pursuant to Regulation 30 of the Listing Regulations, we enclose herewith a copy of the transcript of the Company's Q1FY25 Earnings Conference Call held on July 31, 2024. The transcript is also being uploaded on the Company's website i.e. www.lodhagroup.in under the Investor Relations section.

Kindly take the above information on your record.

Thanking you,

Yours faithfully,

For Macrotech Developers Limited

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"Macrotech Developers Q1FY25 Earnings Conference Call"

July 31, 2024

MANAGEMENT: **MR. ABHISHEK LODHA – MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER, MACROTECH DEVELOPERS LIMITED**
MR. SUSHIL KUMAR MODI - CHIEF FINANCIAL OFFICER, MACROTECH DEVELOPERS LIMITED
MR. PRASHANT BINDAL - CHIEF SALES OFFICER, MACROTECH DEVELOPERS LIMITED
MR. ANAND KUMAR - HEAD IR, MACROTECH DEVELOPERS LIMITED

Moderator: Ladies and Gentlemen, Good Day and Welcome to Macrotech Developers Q1 FY'25 Earnings Conference Call.

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 "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Anand Kumar – Head (IR) at Macrotech Developers. Thank you. And over to you, sir.

Anand Kumar: Thank you. Good morning, everyone. Welcome to Macrotech's Q1 FY'25 Earnings Conference Call.

We have with us Mr. Abhishek Lodha – M.D. and CEO, Mr. Sushil Kumar Modi – CFO and Mr. Prashant Bindal – Chief Sales Officer of the Company.

I would now like to invite Mr. Lodha to make his Opening Remarks. Over to you, Abhishek.

Abhishek Lodha: Thank you, Anand. Good morning to everybody and thank you for joining us today. I hope all of you are well.

It's been a very interesting quarter in India. I would start by commenting on how one looks at the overall macro-outlook in India as well as across the globe and what it means for our business and then get into the details about how the business is evolving and where we see things progressing in the course of the next few quarters.

I think this quarter with the largest ever democratic exercise of the General Elections in India now having been concluded, has been a reinforcement of the long-term vision and desire of the Indian population to progress on the path of economic development through a strong Government. This in effect is a decision and a vote of continuity. The Government in turn after its election in June, has focused on continuing to deepen the strength of the Indian economy. The budget, which was presented last week, is another step in that direction with an increasing focus on job creation by supporting of the MSMEs, which are the big backbone of the Indian economy, and to support skilling as well as job creation for the youth. Both these steps we believe are very positive and as they are implemented will support the broad-basing of the economic growth story in India.

The Government has also decided to further support consumption through a moderation of the tax rate for those earning up to Rs.15 lakhs per annum. This once again is supportive of the lower mid income and mid income taxpayers and puts more money into their hands to meet their day-to-day expenses and enables an improvement in their quality of consumption.

There has been a lot of talk about the changes in the structure of the long-term capital gains. From the perspective of the real estate industry and more particularly, the primary sales of real estate, we think that this change is significant net positive.

In terms of new home buyers, it reduces the long-term capital gains tax rate and brings it down to 12.5% in line with other financial instruments and makes real estate a competitive option for people to look at from a perspective of diversifying their investments and maximizing their returns.

In terms of those who already own homes and will be looking at exiting those homes, there will be potentially a higher rate of long-term capital gains on account of the removal of the indexation benefit. And that in turn means that those who are seeking to minimize their tax outflows, will reinvest a larger proportion of their gains in buying their further homes or new homes which investment is exempt from long-term capital gains.

Therefore, from both the perspective of those who are buying new homes as well as those who are reselling their existing homes and buying further property, in terms of the primary real estate market this change in long-term capital gains not only makes the economy more efficient, but it is also net positive for the primary real estate developers. We also believe that the lower rate of tax in general is positive because it reduces the transaction costs, encourages better ebb & flow and a better rate of transactions in the market. This leads to further value discovery in the market. So, all in all, we believe that this change is a positive, though there will be a certain transitory pain of adjusting to this new regime.

We are further intrigued by the fact that the budget has reintroduced the incentives for first time home buyer for the lower income sections of society. We believe that it is extremely important that people get onto the home buying ladder as soon as possible. With the significant increase in rental across the country, it is seen now that while rentals might look attractive in the short-term, in the medium-term, rentals are unlikely to create wealth for the middle class and therefore buying a home as soon as possible is the best possible option, not just from the perspective of creating wealth, but also giving stability and respectability to the family. The reintroduction of the credit linked subsidy scheme is therefore a significant positive.

Furthermore, as global inflation is now coming more and more under control, and we have already seen rate cuts by some of the leading central banks, particularly in Europe and now we are also expecting the Federal Reserve in the US to cut rates later in the year. This in turn will also mean that there is likely to be a moderation in interest rates in India which will also be supportive of the entry level home buyers who have been hit hard by the increase in interest rates in the aftermath of the inflation spike post-COVID.

So, all in all, we believe that over the next 12 months support to entry level housing, i.e., homes which are priced between 30,00,000 and 75,00,000 will bring the demand in that segment on par with the demand in the rest of the housing market which has continued to remain quite robust. Today, we have with us our Chief Sales Officer, Mr. Prashant Bindal, who will speak further on that topic.

Moving further away from the macro and getting more into how we see our business evolving, we believe that our performance this quarter is in line with our model of having sustainable, predictable growth on the back of a granular well-diversified base of projects.

We continue to act on our guidance around predictable growth, predictable price rise and continued business development, while keeping leverage very conservative, well below our ceiling of 0.5 times debt-to-equity.

I am pleased to inform you that we delivered our best ever for Q1 pre-sales at Rs 4,030 crores, which is 20% YoY growth. This is in spite of the fact that this quarter was hit by the general elections, which had an impact on the number of available days for selling as well as the focus of the population, plus the fact that the summer this year was quite severe with severe temperatures in many parts of the country which also affected our footfalls to an extent. In spite of that, we delivered our best ever Q1 performance, which speaks volumes about the underlying nature of our business and the predictability which we believe is quite rare in a real estate business.

The pre-sales performance was supported in a significant manner by our performance in Pune where we had sales of about Rs 10 billion in Q1, which is about 50% of our pre-sales in all of last fiscal year, and this sets us up well to become amongst the top one or two players in Pune over the next couple of years.

Our embedded EBITDA margin for the quarter was at about 33%, which is higher than our guidance for the full year at about 31%. And this was in spite of the fact that 43% of the pre-sales for this quarter came from our JDA projects, which tend to have a lower EBITDA margin though they have a higher ROE.

As I mentioned earlier, we delivered predictable price growth in line with our overall guidance of having price growth below wage growth. We are guiding to about 5% to 7% year-on-year price growth for the full year, and in the first quarter, the price growth was about 2%.

As you are aware, our revenue recognition is based on project completion for the sales which were done prior to 31st March 2023 and thereafter we have started moving towards the percentage completion methodology of revenue recognition.

For this quarter, our PAT is well over Rs 800 crores, which is at about 21% of the pre-sales done for the quarter.

In terms of business development, we added three new projects this year this quarter with the GDV of about Rs 11,000 crores, therefore that is more than 50% of our full year guidance has already been delivered in the Q1 itself.

This sustained pace of business development, which we have seen right from our IPO over the last three years, shows the attractiveness of brand Lodha for the joint development, outright model as well as the significant pipeline of business development opportunities that we see in Mumbai, Pune, and Bangalore, the three markets that we are currently operating in.

In spite of the significant level of business development plus a significant ramp up in construction spend in this quarter, our net debt stood at Rs 4,300 crores, which is 0.24 times of equity. This is really an exemplification of the fact that our business delivers strong underlying cash flows, and as we continue to ramp up our investment in construction, we will see in the second-half of the year significant acceleration in the free cash flow generation and operating cash flow generation for the company. This consistent performance, robustness in the business fundamentals, and strong balance sheet has resulted in a credit upgrade to AA Minus with a Positive Outlook by CRISIL which once again showcases how our performance is being viewed by external shareholders.

In line with the same our average cost of funds for the quarter came down to about 9.1%, down by almost 30 basis points for the year.

We continue to focus not just on the business performance, but in line with our philosophy of "Do Good, Do Well." We continue to make significant progress on our ESG initiatives too. This year we had the second batch of the Lodha Genius Program, which is a partnership with the Ashoka University and the Second Cohort welcome almost 200 students from 26 states out of a pool of over 3,000 applicants. The program was very sought after and well received, and we had top profile faculty not just from India but across the world, coming in and guiding these bright minds in developing their skills, particularly in the STEM area, but also inculcating a spirit of national and societal service in them.

During the quarter, we were also recognized as the Top #1 Real Estate Company by Great Place to Work.

We were ranked #64 amongst 2,000 companies across all sectors in the country, and the only real estate company amongst the top-100.

We believe that the in latter part of the year, the next three quarters present a great opportunity for our business to continue to scale up in line with our previous guidance. We have a very robust pipeline of business development opportunities. We have a strong pipeline of new launches in the second half of the year. As I mentioned earlier, with the ramp up of construction spend, we will also see an acceleration in operating cash flow generation in line with our guidance of operating cash flow of approximately INR65 billion for the full year.

We are also approaching the end of our pilot phase in Bangalore. As you may remember, we had said that in the pilot phase, we will focus on developing our local operating team, understanding local nuances and making sure that our execution is in line with our brand promise of delivering the world's finest developments.

With the launches of the two projects last fiscal year in Bangalore, both of them are very well received and we are very comfortable with the sales, the on-ground sales situation and setup that we have in Bangalore.

On the construction side:

We are also making good progress and we expect in the next one or two quarters, we will conclude our pilot phase in Bangalore. We have also started studying which new city will be considered by us for the next piloting an entry. We are currently considering a couple of cities and expect to make a decision on the next city that we will do our pilot in the latter half of this current fiscal year.

Now, I'd also like to highlight our extended Eastern Suburbs:

The township projects of Palava and Upper Thane. As you may be aware, there is a significant amount of infrastructure upgradation work which is now approaching completion in this location. We expect the Airoli-Katai freeway to be operational in the second-half of this fiscal year and next year we expect the Navi Mumbai Airport to start to become operational and be fully operational in 2026 and thereafter in the later part of the decade, we will have the bullet train which connects BKC to Ahmedabad, and the first stop after BKC will be at Palava.

With this, we aim to develop the premium housing market in Palava in addition to the current focus on mid-income housing. And that strategy has now consciously being implemented over the second-half of the last fiscal year and in this quarter. In this transition, we are focusing on certain types of product and are reducing our focus on certain other types of product. And we expect that for the full year, we will deliver about 20% growth in Palava and Upper Thane in line with our medium-term guidance of growing sales in Palava and Upper Thane from Rs 2,300 crores for Fiscal '24 to Rs 8,000 crores by the end of the decade, which is a CAGR of about 20%.

We believe that Palava and Upper Thane provide an amazing opportunity to create a new urban center for the Mumbai region and a standard of how urbanization should be done in India and become an example for the entire country.

We are pleased to inform you that HDFC Bank, India's largest private bank, has recently opened its residential training center. It's an iconic building where they have the capacity to train about 300 employees at the time. That center was recently inaugurated by the Managing Director of HDFC Bank, and we are very pleased that they have made such a large and substantial investment in Palava and built a building of truly global standards.

We also have the Jupiter Hospital Group, now constructing its largest facility in the country in Palava, which is a 400-bed facility, and there is also a second hospital under construction.

So, overall the level of activity in Palava and Upper Thane is gradually and significantly increasing. The warehousing and industrial parks are also shaping up well. And we expect that this part of the business will contribute significantly to value creation in the course of the coming years and will deliver strong sales and underlying EBITDA performance.

To conclude my comments, now I will just highlight the key aspects of the P&L:

As I mentioned earlier, we are now having revenue recognition on a project completion methodology for sales done up to 31st March '23 and thereafter for sales done after that date, we are following the percentage completion methodology for revenue recognition.

Basis this methodology, our revenue for the quarter came in at about Rs. 2,847 crores, which is 76% YoY growth, our adjusted EBITDA was about Rs.959 crores and our PAT for the quarter was about Rs.476 crores, tripling on a like-to-like basis over the previous period. Of course, as I've highlighted in the past, the P&L for this year as well as the next two years is not a very accurate reflection of our underlying performance but will become much more closer to our underlying performance as we fully migrate to the percentage completion methodology of revenue recognition. In the interim period, we would request everybody to focus on our pre-sales and the embedded EBITDA of those pre-sales as better proxy of our performance and an indication of what is happening in the marketplace.

With these remarks, I now hand it over to our Chief Sales Officer – Mr. Prashant Bindal, who is joining us on this call to speak about our sales momentum and the on-ground demand conditions. Over to you, Prashant. Thank you.

Prashant Bindal: Thank you, Abhishek.

As Abhishek mentioned, on the ground, we are witnessing a very continued strength in the housing demand from the end users. And within that, the demand for the quality product from branded developers is even stronger. And this is across the geographies and across the segments. And as Abhishek pointed out, our biggest strength is our predictability and our consistency. We promised 20% growth for the full year in our full year guidance and in our Q1, we already delivered Rs 4,030 crores, which was in excess of 20% growth, and also a second consecutive quarter of more than Rs 4,000 crores. So, that shows both the consistency as well as the predictability that we were talking about.

And the strength in the business is coming in large, uniform across mid-income, premium as well as the luxury segment. And within all these segments, we see a very consistent, continuous premiumization trend that is happening, for example, even in aspirational segment, the consumers are moving from 2BHK to 3BHK and in the premium segment from 3BHK to 4BHK.

And Lodha, by virtue of being present across all segments, coupled with a very strong brand pull, is a big beneficiary of that industry dynamic. As you are very well aware that we are very granular in approach when it comes to pre-sales and do not excessively depend on any particular segment, be it location or any one launch or any geography. Our pre-sales have come mainly through nearly 40 different projects spread across micro markets and segments. And this gives us enough data in terms of what kind of consumers are coming, how many consumers are coming, what kind of conversion is happening to give us a very basis to give the confidence on the strength of the demand and how we operate across all these segments.

The competition in our market remains benign and rational as it is largely led by consumer affinity towards the stronger and trusted brands. There is a great desire of consumers to buy a Lodha property and we have seen that across the new geographies that we have come in, whether it be in Pune or Bangalore and even in Bombay and in MMR as we go across other geographies.

The consolidation in the industry is another very important trend. By some estimates in the market of MMR, the contribution of the branded player, the large player is still 25% to 30%. And in our view this number could easily reach to 40% to 45% by the end of the decade, as the weaker player with no brands keep exiting the space. This will keep the industry structure good for the branded developers like us and very good for the consumers because the consumer expectation is a great quality product and product on time. And for that you need resources, you need expertise, you need that operational strength. And I think Lodha as a developer, we provide everything on that regard.

Another highlight of this quarter for us has been that we crossed Rs 1,000 crores of pre-sales from Pune, where we only started expanding less than three years back. Abhishek pointed out the pilot that we are doing in Bangalore. We started this pilot of expanding in Pune about three years back. And within three years, from less than Rs 250 crores sales in FY'21, we have achieved Rs 1,000 crores business in a single quarter and that shows how our sales machinery works in the expansion stage. We clearly see ourselves achieving over Rs 3,000 crores of sales from Pune this year and become among the top three players in the city and potentially we hope to be the largest player in the coming two to three years in Pune.

We have significantly scaled up our sales team in Pune as well as boosted our network of channel partners in the city. We have more than 500 channel partners that we have engaged in Pune. Just to give an idea, we have nearly 4,500 channel partners that we engage in MMR, and we have already reached 500 channel partners in Pune. So, Pune just provides us the template to grow in the newer cities and which we hope to replicate in Bangalore over the next few years. We clearly see that 25% of our pre-sales is now being contributed to the new geographies, that is excluding MMR and that makes us even more diversified and a more consistent and a predictable player. So, as you know, we have guided to grow our pre-sales by 20% for the full year and achieve Rs 17,500 crores, we can look at a growth mainly coming from three different elements; 6% to 7% coming from pricing, 3 to 4% to be delivered by volume growth at the same location and 10% to 15% to be delivered by adding of new locations. So, in this way we need to add five more projects on the base of the 40 projects that we have had last year. So, you will see that by the end of the year, we have about 45 projects in the system and a few launches coming up mainly in the second-half and which gives us a significant portion of pre-sales. So, this gives us the confidence that whatever guidance that we have given for Rs 17,500 crores, we are fairly confident that by the end of the year we should be there.

Thank you. We can now open the Q&A queue.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Kunal Tayal from Bank of America. Please go ahead.

Kunal Tayal: Abhishek, my first question is on the diversification strategy. If I could ask what have been your sort of key observations from the Bangalore pilot and does it lead you to a conclusion that geographical diversification is absolutely worthy, and what are some of the typical risks that need to be actively managed as part of the strategy?

Abhishek Lodha: Hi, Kunal, great question. Our learnings from the Bangalore pilot is that investing in building the local operating team, having a strong leadership and inculcating the same culture that we have centrally, are all very important parts of the long-term sustainability from an internal perspective. From a more market perspective, we believe that the consolidation in the industry and the desire for a higher quality of life are integral to the Indian consumer. Given the state of urban infrastructure where you live makes a big difference to how you live. And therefore, given Lodha's track record in not only creating some of the world's finest developments, but also managing them well and actively maintaining hospitality standards which are significantly sought after by consumers and therefore our brand has a significant pull factor even in markets where we have earlier not operated in. Having said that, we believe that the slow and steady strategy is the right strategy for us. We do not want to go into too many markets. We are very comfortable. As we discussed earlier that the three markets that we are operating in right now, which is Mumbai and Pune and potentially scaling up in Bangalore once we come to conclusion on the pilot by the later this year, will be a significant support to our goal of long-term pre-sales growth of 20%. We will of course look at more pilots in the coming years, but we do not see that we need to be in many, many cities to deliver on our growth plans.

Kunal Tayal: And then just a quick follow up on the rest of FY'25. How are you thinking about business development for the remainder of nine months? I know you said in your opening comments that the pipeline is generally strong. And then just on the matter of detail part of it, are you breaking out how much could land sales contribute to the annual target?

Abhishek Lodha: Hi, Kunal. Once again, great question. But in terms of business development, yes, the pipeline is quite robust. Last year, we over-delivered on our business development goals and we continue to maintain our guidance for this year. The pipeline is actually quite strong. So, there is no reason why we shouldn't be able to or even somewhat exceed our guidance. In terms of our overall sales mix, we don't break it out by segment as where we said those will keep varying from quarter-to-quarter and year-to-year overall in terms of what we provide guidance on is our overall sales, pre-sales and the embedded EBITDA of those pre-sales.

Moderator: The next question is from the line of Puneet from HSBC. Please go ahead.

Puneet: My first question is if you can talk a bit about the business development that you did in this quarter, was it more of the nature of JV, JDS own land, how do you intend to approach this getting into the rest of Fiscal '25 and how are you thinking about the redevelopment opportunity in Mumbai and your role there?

Abhishek Lodha: Hi, thank you for that question. In terms of business development, we continue to look at both joint development as well as outright opportunities. We are focused on making sure that we deliver on our ROE targets while ensuring that our levels remain very conservative, and within those two constraints we look at both of those strategies, and it varies from quarter-to-quarter because sometimes things will culminate in one quarter, sometimes they will go over to the next quarter. So, I don't think the quarterly number on the breakup between the two is important. But over the medium term, we like to have our sales come at approximately 60% from the owned lands and 40% from the joint development lands and we think that we will be able to deliver that for this year and also going forward.

Puneet: And the Rs 18 billion that you spent on the growth and development, would it be fair to say that that is attributable to Rs 111 billion of GDV or would you need to pay more for that as well?

Abhishek Lodha: Sorry, I couldn't understand your question clearly. Could you please repeat that?

Puneet: Sorry. So, in your cash flow statement, there is an Rs 18 billion investment with respect to the GDV. Does it relate to the Rs 111 billion GDV that you addadded, do you need to pay more beyond this Rs 18 billion for the GDV that you added to your books?

Abhishek Lodha: So, I was saying that out Rs 18 billion is not entirely attributable only to the Rs 111 billion of new GDV added for business development. It is largely attributable to that, but obviously we also have payouts done to our joint development partners from projects which we have taken earlier and other related expenses. So, it's not a one-to-one correlation. And for the projects that we have added this quarter, we will of course have further spent also in the time to come, not that the entire spend has already been done.

Puneet: And can you also comment a bit upon what you are seeing in terms of pricing growth in Mumbai market? I know you've been very calibrated about how you want to take that price increase. But are you seeing any signs of exhaustion or in your projects, at least you've been able to take those regulated price increase frequently?

Abhishek Lodha: I am sure you observed. Our price growth for the first quarter was at about 2% and we do think that the steady price growth phenomena allow you to keep compounding that price rather than do spiky price growth and then not be able to do much for some time thereafter. We see that price growth momentum at a reasonable pace is still very much there because at these price growth levels, you get affordability growing year-on-year. So, there is no push back on that. So, at this stage we see that our ability to deliver on this price growth level sort of in the mid to high single digits continues to remain there.

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

Abhinav Sinha: Abhishek, I just wanted to ask on Palava. I think in the townships last quarter, I think you've given a 30% sales growth target, but now you are talking about 20% for the current year. So, has something changed there?

Abhishek Lodha: Good question. I think in the opening of the Airoli-Katai tunnel, it looks like it will happen only in Q3 or perhaps even at the start of Q4. We were earlier expecting it to be in the first half of the year. So, to that extent, there will be a slight impact, but in line with as you would have noticed, our overall 20% CAGR is what we will need to deliver in order to get to Rs 8,000 crores of sales by the end of the decade and that continues to persist. Sometimes you will have this sort of quarter of variance on certain external factors, but overall, there is no change in the trajectory and actually we are quite pleased with over the last six to nine months as we brought in some of our premium products that has been received quite well in those locations. And therefore, we believe that our strategy of adding premium to the mix in addition to mid income housing will help deliver on this 20% steady compounding at Palava.

Abhinav Sinha: The premium product that we have bought in versus the one that we are also talking about, can you sort of give some details of where they are and what's the pricing looking like?

Abhishek Lodha: So, the premium product that we are launching in Palava now is pricing at about Rs.15,000 to Rs.16,000 per square feet of carpet area which is 50%-plus premium to the pricing for the mid income product. We have launched one product what was known as Phase-I of Palava overlooking the golf course. The next product that we are intending to launch in that segment will be overlooking a large riverfront park, which will happen in the second-half of the year. We're looking at locations which are premium locations within Palava and Upper Thane which has great natural ecosystem in addition to the overall physical infrastructure that we have created, and we are seeing good traction. Earlier, we had launched the villas which are plotted lands which were sold by us and then we had the buyers construct the villas and that has also done very, very well. So, if we bring in a steady stream of high-quality product, differentiated product in terms of its amenities and sizing as well as location, there is already good demand for it, and in the second-half of the year, as the Airoli-Katai tunnel opens up, we expect that demand to fructify into stronger sales.

Abhinav Sinha: Sir, secondly is on the retail. You detailed a pipeline this time in presentation on slide #20. So, a) can you describe where is this high street retail located and b), any timeline for this?

Abhishek Lodha: You've picked up an important point of our strategy around annuity income. As you know, we are targeting an annuity income of about Rs.5 billion per annum by Fiscal '26 so that we can cover all our interest costs from annuity income. The high street retail location which are shown on Slide #20 are under construction right now and will be ready in Fiscal '26 and partly before that and partly maybe in Fiscal '27, but with the sort of average of Fiscal '26, all of this is already under-construction across the various residential sites that we have. We take parts of those locations and convert which are sort of having good prominent road frontage and are doing high street retail development there.

Abhinav Sinha: Maybe one question is for Mr. Bindal as well. Just wanted to ask if you know you can help us with the recent trends on footfalls and the conversions at the site?

Prashant Bindal: See, in Q1, we had almost 24,000 walk-ins happening. But the most interesting part was that our conversion was almost 8.2%. If we compare it with over the quarter-to-quarter, just to give an idea, last year the same quarter the conversion was about 7.3%. 7.3% to 8.2% may look innocuous but it's a 12% swing and that has played a very, very important role in our overall growth of about 20%. This conversion has been a consistent growth. Imagine it moved from 7.3 in 7.2 in Q1 last year to 7.4, 7.6, 7.8 and now it has finally crossed the 8% mark. I think this is a very, very healthy trend. And this kind of conversion, if you believe, although the 10% is the Holy Grail, hopefully if we continue with this trend in next 18 to 24 months, we hope to be as close to 10% mark. But the first goal is if we can take it from 8% to 9%, I think that itself will be a very, very healthy trend. So, that's a very positive sense. Because we keep on analyzing the consumer behavior, the shift within the premium segment, that's what I mentioned in my call also that moving from 2BHK to 3BHK, 3BHK to 4BHK, because that is what the consumer trend is very clearly showing. So, if we're able to understand the consumer behavior very quickly and in terms of diversification of the geographies also perhaps we go into very detail into the consumer behavior what is required in terms of say for example just to give an idea in Bombay, the size of the kitchen was very important, in Bangalore, the size of the living room becomes very important and in Pune, most of the consumers are working couple. So, these kind of details when we get into and prepare a design accordingly, and source accordingly, that plays a very important role in the overall conversion and walk-in.

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

Kunal Lakhan: My first question was on the Palava premiumization strategy. Just trying to understand the thought process there because we do feel that the falling interest rates or declining interest rates would benefit mid income category, and also this in conjunction with say the Government announcement of spending about Rs.2.2 trillion towards like urban households. I am assuming that the CLSS scheme till the time it was operational would have benefited some place like Palava. Just moving away from, say, mid income to getting a little more premium, it sounds a little counterintuitive.

Abhishek Lodha: Hi! Yes. I think if the strategy was to move away from mid income towards premium, it would definitely be I would say not only counterintuitive but also would not make as much sense. Our strategy is slightly different, and I will try to articulate it a little better. Our strategy is to add premium product in addition to our mid-income segment. It is not replacing our mid-income segment, it is additive, it is taking advantage of the improvement in infrastructure in the country. our strategy is to add premium product to our existing mid-income strategy. We do believe that our entry level mid-income product is to our compact 2BHK product will benefit significantly from the reintroduction of the CLSS Scheme, as well as from the reduction in interest rates, which we think are likely over the next six to 12 months. Having said that, the premium strategy is really a play on the infrastructure that we have created and the quality of life that we have created in Palava and benefits from the infrastructure of connectivity, which is coming through at that location. This I can say is similar to the evolution of Gurgaon, for the NCR, which earlier started off as a lower mid-income and then a mid-income location and over time has become a premium location, driven by the same factors of good connectivity, job creation as well as high quality of life. So, we see that we will be playing both in the mid-income segment as well as the premium segment. If the question specifically raised to our strategy to moderate our presence in the Crown segment, that really has to do with the fact that we believe that our entry level product is best served by taking advantage of the compact 2BHK and higher rather than having the very small 1BHK product, and that is a conscious call in terms of the kind of mix of consumers that we expect would be best to be living in Palava.

Kunal Lakhan: My second question was on our cash flows this quarter. Your cash flow from operations was slightly lower this quarter. If you can give some drivers behind that and how should we look at this number going ahead considering our guidance of Rs. 6,500 crores for the year?

Abhishek Lodha: Yes, I think that's a pertinent observation. The cash flow for the quarter was lower or is lower than the average that you would see out of the Rs 65 billion on a quarterly basis. On account of the fact that it's a cycle, we have ramped up construction spend significantly and generally the first quarter of the year tends to be slightly lower on collections because there's summer vacations and people travel a bit. So, all of those factors come into account. Even generally if you take a look at historical periods, our operating cash flow tends to be significantly loaded towards the second-half of the year and we expect the same trend to continue for this year. So, the first half of the year will be lower on operating cash flow, the second-half of the year will be higher on operating cash flow, but we remain on track for the guidance of about Rs 65 billion of operating cash flow that we gave at the start of the fiscal.

Kunal Lakhan: One kind of an historical question, like in the past, I am just highlighting the illustration that you've given in your presentation about like the LTCG impact. We have seen that in the past, like if the pricing growth has been kind of tepid, the new regime would be adverse in terms of taxation for the customers. And with the with the 6-7% kind of a pricing growth that we expect annually, would this regime be beneficial overall for the Mumbai market or this would impact demand in some way?

Abhishek Lodha: We of course take into account the fact that the removal of the indexation benefits means that the nature of taxation has changed. We also believe that consumers, when they are buying homes, are looking at homes as end users who are looking to buy for the long-term and are not really driven doing this token of tax considerations. Having said that, the fact that the tax rate is now in line with all other financial assets, makes real estate, I would say, as an attractive asset. The total return as you would see from our slide 4 generated from real estate is close to 9%, 10% on a post-tax basis, which is much higher than any other asset class which has fixed income or low capital risk characteristics. So, all in all, we believe that the new regime as I mentioned in my remarks, is beneficial for primary sellers on account of the fact that it is lower over the sort of rate of taxation, even though indexation benefits have gone away, plus, the fact that those who are reselling homes will reinvest a higher proportion of their accrued gains to minimize their tax liability. So, generally we see no adverse impact from these long-term capital gains and there will be some winners and some losers, but on an overall net basis, it's a net positive in our case.

Kunal Lakhan: Just to follow up on that, how many of our customers are generally upgrading or selling their existing homes and then buying into our projects, any percentage would we have?

Abhishek Lodha: We know what percentage of the first-time home buyers, but whether they are selling their existing home or whether they are keeping their existing home and buying a home with us is not a data point that we have.

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

Pritesh Sheth: Just a question related to our legacy strong markets like the South and Central and Thane. Palava, we discussed in detail. But for these two markets, the growth last year was around 10%, 12%, right? Do you think now these markets are kind of saturating in terms of contribution and for the market share gain won't be possible in these micro markets considering our position there or you still think that there are, certain pockets in which we don't have projects and we can grow further and gain the market share to contribute 20% growth from these markets as well?

Abhishek Lodha: Hi, Pritesh. Thank you for that insightful question. In terms of South-Central Mumbai, as you know it's a very large geographical market and there are pockets where we will start actually being present and continue to remain present at our new pockets where we are gaining presence or adding projects, and there are of course some pockets where we are completing projects and therefore will have lesser presence for the short-term while we look at replenishing the land. But overall, at the level of the market, we do believe there are opportunities to grow and expand and the market will provide a decent level of growth going forward. Obviously, some of the newer markets provide a much higher level of growth or the markets where we have had lesser presence or are underpenetrated, provide a much higher level of growth. But we do expect that South Central Mumbai will continue to remain a positive growth market for us on the back of the market, expanding our brand positioning in the market, plus the opportunity to add some new locations. In terms of the Thane market, once again, it's a market which is wide, it's broad, it's a market where there is a high degree of competitive intensity. We have largely been present historically in the northern part of the Thane market, which is the north of the Ghodbunder and have had very little presence in the southern part of the Thane market and we do see some opportunity as we add projects in the southern market, we add a certain part of the Thane market, we added two projects last year to gain some growth there. So, Thane as the market once again we see that we are not fully penetrated and there will be some growth coming from that.

Pritesh Sheth: In terms of Pune, we had a strong quarter. Would you consider it as just one-off because we had a great launch there or we can actually look at this Rs 4,000 crores kind of a run rate on annualized basis this year itself?

Abhishek Lodha: As we have said in many different contexts, we don't read so much into one quarter. Ours is a diversified granular business. We can't take the number for one quarter and extrapolate it into four for the full year. Having said that, we expect meaningful growth in Pune this year. We did under Rs 2,000 crores of sales last year and we do expect that that number will get closer to Rs 3,000 crores for the full year. So, our expectation is closer to Rs 3,000 crores, not Rs 4000 crores for Pune for this fiscal.

Pritesh Sheth: And one last is on the embedded EBITDA margin performance. So, in this quarter was 33%, last quarter, which was 31%, while our guidance for the full year FY'25 is still 31%. So, again it was just more to do with the mix of sales during the quarter, which led to the embedded EBITDA margins or we should see this improvement going ahead and eventually it would flow down in your guidance as well?

Abhishek Lodha: As I said, reading too much into one quarter would not be prudent, but yes, there is some upward positive bias towards the embedded EBITDA margin. We want to sort of see how that pans out over the next quarter or so before we sort of start seeing how that would reflect in our long-term guidance. But yes, I think while the mix of sales has had a contribution to make, but even add this about 6%, 7% price growth, we see that EBITDA margins move up modestly, and we do think that in the course of the decade, we can move from the low-30s towards the mid-30s in terms of our underlying EBITDA margins.

Moderator: The next question is from the line of Parikshit Khandpal from HDFC Securities. Please go ahead.

P Khandpal: Abhishek, earlier in the call, you spoke about adding new locations. You are evaluating a couple of new locations. Just wanted to understand which part of India you are looking at and what kind of potential sales you are looking to do from these locations in the next to three to five years?

Abhishek Lodha: In terms of our evaluation, as I mentioned in my remarks, we are approaching the end of our pilot phase in Bangalore and we are hopeful that in the course of this fiscal year, we'll be able to confirm that our pilot has successfully concluded and we are now at a stage where we feel comfortable in the Bangalore market to expand our presence there. In line with that, we are also studying any new markets, new cities that we can start a pilot process, because that process for us is a six to 12 months study process and then a three-to-four-year pilot process. So, it's a fairly long process that we follow before we make substantial commitments in any new city. Having said that, we are currently exploring a couple of cities and hope that in the course of this year we'll be able to conclude on any of those cities we want to start our pilot in. Over the next three years, we don't expect this new city to contribute any significant amounts in terms of our overall pre-sales. Pilot phase by definition is an exploratory phase and therefore we don't expect any substantial contribution from the new cities. For the next three years, you should focus on Mumbai, Pune and Bangalore as the drivers of our performance and growth.

P Khandpal: Second question is on capital allocation. So, given that we have a mix of JDA and outright which we have laid out, but in case if we get say a large opportunity where the big cheques has to be written, so say 2,000 or 3,000 crore cheque, maybe a 10-year kind of a project, so how flexible or open we are, what quantum do you think can go in large writing large cheque given we have a strong balance sheet now?

Abhishek Lodha: While we consciously work towards a strong balance sheet, we are also very prudent in terms of our capital allocation and risk appetite. As I mentioned and Prashant also mentioned, our focus is on diversified granular growth rather than just having from one chunky growth and we like to cap any single location exposure to about 5% of our networth in general, in exceptional cases it may be slightly higher, maybe 6-7%. But we are really not in a position where we want to go out and allocate huge amounts of capital to single location.

P Khandpal: Single location or you mean a single project, I mean, could it be a single land?

Abhishek Lodha: I should have said, single project.

Moderator: Ladies and gentlemen, that was the last question for today. We have reached the end of the question-and-answer session. I would now like to hand the conference over to Mr. Anand Kumar for closing comments.

Anand Kumar: Thank you, everyone for joining the call today. I hope we have been able to answer all your questions. If you have any further questions or would like to have any additional information, we would be happy to be of assistance. Feel free to reach out to the IR team for the same. And on behalf of Macrotech, I once again thank you for taking the time to join us today. Thank you.

Moderator: On behalf of Macrotech Developers, that concludes this conference. Thank you for joining us. You may now disconnect your lines.