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Dear Sirs,

Sub: Q2FY25 - 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 Q2FY25 Earnings Conference Call held on October 28, 2024. The transcript is also being uploaded on the Company's website i.e. www.lodhagroup.com under the Investor Relations section.

Kindly take the above information on your record.

Thanking you,

Yours faithfully,

For Macrotech Developers Limited

Sanjyot Rangnekar
Company Secretary & Compliance Officer
Membership No F4154

Encl: As above



“Macrotech Developers Limited
Q2 FY’25 Earnings Conference Call”

October 28, 2024



**MANAGEMENT: MR. ABHISHEK LODHA – MANAGING DIRECTOR AND
CHIEF EXECUTIVE OFFICER;
MR. SUSHIL KUMAR MODI – CHIEF FINANCIAL
OFFICER;
SHAISHAV DHARIA – CHIEF EXECUTIVE OFFICER
(EXTENDED EASTERN SUBURBS & RENTAL ASSETS);
MR. ANAND KUMAR – HEAD OF INVESTOR RELATIONS**

Moderator: Ladies and gentlemen, good day, and welcome to Macrotech Developers Q2 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Anand Kumar, Head of Investor Relations. Thank you, and over to you, sir.

Anand Kumar: Thank you. Good afternoon, everyone. Welcome to Macrotech Developers Q2 FY'25 Results Conference Call. We have with us Mr. Abhishek Lodha, MD and CEO; Mr. Sushil Kumar Modi, CFO; and Mr. Shaishav Dharia, Whole-Time Director and CEO for our Annuity Business & Extended Eastern Suburbs.

I would now like to invite Abhishek to make his opening remarks. Over to you, Abhishek.

Abhishek Lodha: Thank you, Anand. Welcome, everyone, and good afternoon to you. Wishing you a very Happy Diwali and a prosperous New Year ahead. May Samvat 2081 bring good health, happiness and prosperity for you and your family members.

Starting with a little bit of an overview of the industry and macro situation. As we are well aware, global political climate and geopolitical tension continues to remain at a high. However, we are seeing the start of the easing cycle in relation to monetary policy, which has been in tightening mode for the past 3 years.

This in our view, over the medium term, will also lead to moderation of interest rates in India and support housing, particularly the interest-sensitive sector of homes at the mid-level and entry level, i.e., homes less than INR 1 crore, which has been hit as the interest rates have gone up over the last 18-24 months.

In terms of the domestic front, India had a good monsoon, for which we are thankful. And there was the general elections, which have already taken place, and India now continues to move forward in its political and economic trajectory. We've seen some softening in high-frequency data such as IIP and GST collections on account of the pre-election related slowdown in spending but all in all, we remain in a positive mode in the Indian economy. With the festive season now underway, we see sentiments improving and we hope that the economy will continue moving forward in line with what the RBI has estimated, i.e., 7% or higher GDP growth rate, both for the current fiscal as well as for the next fiscal. All in all, we believe that the Indian macro presents a positive outlook for the housing industry, which is now in year 4 of its positive cycle, which started in late 2020.

Coming to the highlights of our performance in this quarter, as you're aware, Q2 generally tends to be quite a weak quarter because of the heavy amount of monsoon-related uncertainties, especially in the city of Mumbai, where we predominantly have significant operations. Plus, we end up having the inauspicious Pitru Paksha or Shradhh period in this quarter on most occasions. It was in Q2 in this fiscal compared to Q3 in the last fiscal. In spite of that, we had our best-ever quarterly sales performance in this Q2, with sales of just under INR 43 billion, which was up

21% on a Y-o-Y basis. And with this, we have cumulatively achieved over INR 83 billion of sales for the first half of the fiscal, which is almost 48% of our annual pre-sales guidance. We have historically observed that the first half tends to be between 45% to 48% of the pre-sales for the full year, so we are already at the upper end of the range that we've seen in the past. This, of course, is in spite of the fact that on account of the impact of the elections in the first quarter, there had been a slowdown in approvals.

But in spite of that, the company's wide base of projects, the fact that a large percentage of our sales continues to come from ongoing projects compared to new launches alone, has ensured that we are able to deliver consistent sales in spite of the backdrop, which was less than supportive in terms of the seasonality as well as the election impact.

In terms of our embedded EBITDA margin, I'm pleased to inform you that our embedded EBITDA margin for this quarter came in at 34%. And this is despite the fact that 38% of our presales for this quarter came in from JDA projects. So clearly, compared to our estimated full year guidance of around 31%, we are seeing higher profitability on account of the operating leverage that is kicking in as we scale up our business.

In terms of price growth, we continued our disciplined pricing strategy. And the total price growth for the first half of the year is at about 3% YTD, which is in line with our guidance for 6% to 7% price growth for the full year, which was 200 basis points or thereabouts lower than the expected annual increase in income.

We believe that this kind of price growth not only helps the market to remain sustainable and because of improving affordability, but it also gives the consumer good confidence that buying real estate is not a speculative activity but a long-term investment, which will keep compounding over the medium term.

Based on our embedded EBITDA margin of about 34%, our pro forma PAT for the quarter is at about INR 940 crores, which is about 22% of our pro forma sales for this quarter. With this being the case, if we were to convert it on to ROE on a pro forma basis, we are now well on track to achieve our ROE objective of 20% in spite of the enhanced capital base due to the equity raise in the last quarter of fiscal '24.

I am also pleased to inform you that our pilot phase in Bangalore has now been concluded successfully. As you are aware, when we entered Bangalore in mid-2021, we had mentioned that we would be in pilot phase for 2-3 years during which, we will focus on building a strong local operating team, understanding local operating nuances and making sure that we can showcase our delivery to consumers. We are pleased that in a period of a little over 2 years, we have achieved most of those objectives with a strong local operating team under leadership of our CEO, Mr. Rajendra Joshi, and supported by strong functional heads of sales, construction and business development. The team strength continues to grow and has now reached 125 people. We are also pleased that we have been able to now understand and develop good relationships in the construction ecosystem in Bangalore, and now construction is also progressing at the pace that is desirable.

You are already aware of the fact that we had strong start to sales of the 2 projects in the last fiscal. And therefore, now we conclude that our pilot phase is over, and we will now be moving into growth phase in Bangalore. In line with this, we have now added 2 projects with cumulative GDV of about INR 38 billion, one in North Bangalore and the other in an East Bangalore.

With this, our available inventory in Bangalore is now up to about INR 60 billion, and the BD pipeline also continues to remain quite strong and provides us good visibility for scaling up in Bangalore over the next 2 to 3 years.

Moving forward, in terms of our business development, we added, in the last quarter, about INR 55 billion of new projects across 4 different locations. And with this, we have now achieved more than 75% of our full year guidance. This substantial pace of business development showcases the attractiveness of Lodha to the landowners, and we continue to see a strong business development pipeline going forward, too.

At the end of Q2, our net debt stood at about INR 49 billion, which is 0.27x of equity, well below our ceiling of 0.5x net debt to equity. This is in spite of the accelerated business development, which we did in the first half. And in the second half, we expect that our operating cash flows will increase significantly, and our pace of business development will moderate.

I would highlight another achievement in terms of our average cost of funds. This quarter, we ended with an average cost of funds of about 8.9% compared to 9.1% at the end of the last quarter, a further reduction of 20 bps and the first time that our average cost of funds has fallen below 9%. Given our ratings and the business performance, we expect that we will continue to work hard on further lowering our cost of funds and hope to continue to see improvement, particularly whilst the interest rate in India also start getting lower as it is happening now globally.

I am pleased inform you on the ESG side that Lodha achieved an outstanding score of 80 out of 100 in the S&P Global Corporate Sustainability Assessment, ranking us as the 5th most sustainable company in real estate globally. We're also pleased to inform you that Lodha has retained its position as the sectoral global leader in the GRESB rating for 2024.

Both of these give us great satisfaction because not only are we growing the business in terms of our revenues and profitability, but I submit that we are also growing our business in terms of our reputation and our impact on society and the environment.

Moving forward, I would like to highlight an important development this quarter in terms of what is happening in the extended eastern suburbs, i.e., Palava and Upper Thane, where we have significant large holdings of about 4,500 acres. As we had mentioned in the last call, Palava and Upper Thane are going through a transition at this stage, moving from being lower mid-income locations to move to becoming upper mid-income locations and also, in select cases, premium residential locations.

However, it's even more heartening that a variety of different asset classes are now starting to kick in, in a meaningful manner at Palava. We've historically, of course, been residential led.

Over time, we've developed a modest amount of retail. And over the last 3 to 4 years, we developed industrial and warehousing income streams from Palava.

At this stage, for the first time, we have closed a transaction with a global hyperscale data center player in Palava, where approximately 40 acres of land has been transacted at INR 12 crore an acre. This transaction has now been concluded. It concluded in the month of October in terms of the cash flow being received.

Thus, for those who have been tracking the company since our IPO, you will note that the value of land was about INR 2.5 crore an acre when we listed in 2021. And now 3.5 years later, we have already concluded our transaction at INR 12 crore an acre, a growth of almost 5x. I would further want to share with you that we now have live, ongoing discussions valuing the land at INR 20 crore an acre.

Now the land at Palava being valuable and usable for a variety of different uses, residential - midrise development, residential - low-rise development, i.e., bungalows and townhouses, industrial and warehousing, of course support functions like retail and office and now data centers is a tremendous boost to the value creation and monetization of the land.

If and when the transaction at INR 20 crore an acre concludes, I would submit that the 4,500 acres, even at non-residential valuation, would itself be worth INR 90,000 crores in terms of the present value of the land. This was not even fathomable to even to us even 12 months ago and shows that with having high-quality land bank with good governance and good infrastructure, the value creation can continue to surprise on the upside.

The next point that I want to mention is our rental income growth. We had mentioned that we would be aiming to have INR 15 billion of annual rental income by the end of the decade and INR 5 billion by fiscal'26. INR 5 billion would cover all our interest costs and, in effect, make our development business have no need to support the debt servicing i.e., effectively debt free, the development part of our business. And by fiscal 2031, the amount would be much, much larger, well beyond the needs to service our debt.

I'm pleased to inform you that we now have visibility of about INR 1,200 crores of annual rental income from our annuity assets that we already own and are under development for fiscal'31. Obviously, we have almost 7 years to go, and this will continue to grow. And therefore, there is great visibility of the fact that INR 15 billion is highly likely to be delivered.

And I'm also pleased with the fact that the yield on cost on our rental assets is quite positive and high teens or even better. And that showcases the fact that we are able to create value across different asset classes. While we continue to remain and remain a focused residential player, this long-term addition of recurring rental income will further derisk our business and also aid our underlying EBITDA margins and profitability in due course.

Lastly, I would like to conclude my remarks with the highlights of the P&L. As you are aware, we have started transitioning towards the percentage of completion (POCM) methodology for revenue recognition for sales done after April 2023. All prior period sales continue to be recognized on the completion methodology.

During this transition period, both the methodologies will concurrently be going on, and hopefully in fiscal '27, we would have fully transitioned. In terms of our P&L, our revenue from operations for the quarter came in at about INR 26 billion, about up 50% Y-o-Y. Our adjusted EBITDA came in at about INR 10 billion, up about 74% Y-o-Y.

Our adjusted EBITDA for the quarter was about 36%. And therefore, it is important to correlate this with the increase in EBITDA on a pro forma P&L and also note that we are seeing the EBITDA grow even on a reported basis. Our quarterly PAT came in at about INR 425 crores, up more than doubling in this period.

Before I hand over to Shaishav Dharia, the CEO of our annuity businesses, who has also led this data center transaction and also heads our extended eastern suburbs market, I would like to share with you an announcement from the promoter group & promoter family.

The promoter family has decided to transfer about 1/5th of the shareholding of Macrotech to the Lodha Philanthropy Foundation, a non-profit Section 8 company, which is obliged to use all its income solely for national and social upliftment activities. The foundation will largely use the dividend income from MDL to fund its activities.

The foundation will be a stable long-term shareholder of the company. The foundation has undertaken not to sell any shares of Macrotech till March 2026, i.e., there is a lock-in till March 2026. And even thereafter, the foundation has undertaken not to sell more than 0.5% of MDL's equity in any financial year.

With this, the ownership of MDL is now substantially lying with the foundation, and we hope that MDL success will enable more and more resources to be available for national upliftment, much as, is the case with the Tata Group.

Thank you. And with this, I'll hand over to Shaishav.

Shaishav Dharia:

Good afternoon, everyone, and thank you, Abhishek. So just building on what Abhishek had said, I want to make 3 points, the first being a little more details around this data center transaction. Globally, the data center business is growing at about 25%. Asia Pacific today, there's about 10 gigawatts of installed capacity. But in India, we are still at less than 1 gigawatt. With the explosion in data and AI, this demand is going to increase significantly in India over the next decade.

But all the cloud companies, the operators face the key challenges: one, requiring land, which is much larger and scalable because the size of each setup for any one company has grown by 4 to 6x what was happening in the last few years. Second, to keep this scalability in mind, they require the land, but equally, power, water, fiber connectivity and other infrastructure, which is at world-class level. And lastly, the commitment of the park to sustainability is very important because the data center business has a slightly negative perception as huge consumers of power.

Work in Palava for setting up -- for making the location data center acceptable has been going on for over 5 years now. And it took us almost 15 months in our diligence process with one of the world's leading hyperscalers to get approved as a location, and the first phase of the

transaction was for 40 acres at INR 12 crores per acre. And as Abhishek said, we're now in talks at INR 20 crores per acre with other major players in the data center business.

Two important things to note in this. This is now a recurring business and not a one-off land monetization activity. Equally, we have the option now to build the data center and also create an annuity model and rent to companies who are not only wanting to own land. So this will add to the larger rental asset income stream, which is our vision for 2031.

So this links to the second part around the getting to the INR 1,500 crore target by 2031. So as Abhishek said, we are well on our way with INR 1,100 crores already identified. The data center opportunity to create rental asset streams plus new projects continues to allow us to grow from this INR 1,100 crores to INR 1,500 crores. And so across offices, retail, the green digital infrastructure business and the digital infrastructure business including facility management, we are well on our way to creating this annuity stream.

I think lastly, when we now reflect back on the Palava story, we are in this important transition phase right now where, over the last couple of years, we've been moving from just a low and mid-income development to mid-income to aspirational high-end development. As infrastructure continues to improve over the next 3 to 5 years, Palava will definitely have the ability to replicate what Gurgaon is today, which took almost 25-30 years, and we'll be able to achieve it much faster because we already have a lot of the inherent elements out there.

With infrastructure and the scale-up more towards aspirational high-end homes and also a mix of the entire economic ecosystem, as Abhishek talked about i.e., retail, warehousing, offices, now data center, this entire location can truly become that integrated city, and that's what's exciting for us over the next 3 to 5 years.

So let me stop out there. Just building on what Abhishek had already started.

Anand Kumar: Thank you, Shaishav. We can now open the floor for Q&A.

Moderator: Our first question is from the line of Pritesh Sheth from Axis Capital.

Pritesh Sheth: Firstly, on the volume numbers for this quarter and first half, we are seeing a bit tepid. Probably as per the calculation, roughly we are down by 20% on Y-o-Y, while large part of the growth that we saw in the first half was driven by realization. What's the outlook here in terms of volume growth going ahead? And how much more can the realization growth contribute in terms of the overall presales growth? That's my first question.

Abhishek Lodha: Pritesh, I think you observed rightly that the volume growth has moderated. And that is part of our communicated strategy, as I mentioned to you, of in the extended eastern suburbs moving away from the very lower mid-income entry-level housing more towards the upper mid-income and premium housing.

For us, this targeted mix change will obviously lead to higher realizations and lower volume for some time. And I would say likely on a sustainable basis that these will get reset. Probably a new base will be established by the middle of next calendar year. And then one can start looking

at that going forward. So yes, we do see that volumes are moderating due to our stated strategy at the very entry level, and that's where volume play a much bigger role. And therefore, on a cumulative basis, you will see a moderation in the volumes.

Pritesh Sheth: Sure. That's helpful. And in line with that strategy, on I think Palava, where we are in terms of launching our luxury project there, last quarter's call, you stated Q4 or second half is the timeline. Where are we on that timeline?

Abhishek Lodha: Yes. So I would say is that Palava, as I said, there is a variety of things which are happening. There will be an upper mid-income launch in Q4. There will be a premium launch in Q3. There is already a luxury project has been launched earlier this year. And we then expect to do all of these categories on and scale that up.

I think the opening of the Airoli-Katai link, which has been delayed, is something beyond our control, but it will have some kind of a.. I would say, it would have a significant positive impact whenever it opens up most likely in the first quarter of the next calendar year, i.e., calendar year 2025 1st quarter. So we expect all of these launches plus this opening of the link to have -- to contribute to the more -- a bigger share of sales coming from upper mid-income and higher segments.

Pritesh Sheth: Yes. Sure. And this quarter, and I suppose the sales that we had on the land side with the data center player was part of the extended eastern suburbs presales that we have indicated. If I exclude that, then we were at roughly INR 200 crores, INR 250 crores presales on the residential sales. What's the outlook going ahead here?

I mean large part of the growth will be reliant on the premium segmentation that we are looking to do there? Or this quarter was just an aberration from the affordable mid-income, which have been our conventional segment there, and probably, we will see that recovery going ahead as well?

Abhishek Lodha: Pritesh, the numbers are broadly correct, a little bit off, but broadly correct. But having said that, I think we are, as we've discussed in earlier calls, too, in a planned transition away from the very entry-level housing and more towards the upper end of the mid-income and beyond. As a consequence of that, as we mentioned, we will be moving from a tilt of about 85% to 90% of our sales coming from lower mid-income and entry-level housing to that moving to 50%, obviously, over a period of 3 years.

What does that mean in terms of your direct question? It means that this quarter was an aberration. It was an expected aberration, again, partly driven by the fact that the monsoon tends to affect that segment quite a bit. They don't typically have their own transportation. And so typically, Q2 has some impact, partly also with the fact that we didn't plan or do any launches this quarter.

So overall, if you were to look at the sales numbers for Palava, just excluding anything to do with the data center, we are in spite of the transition plus the delay in the opening of the Airoli tunnel, we feel good about the fact that we will match or exceed last year's number. And then

obviously, the impact of the Airoli tunnel plus the data center will be further positive beyond that.

Pritesh Sheth: Sure. Got it. And then one last, since Maharashtra, as a state, is going for election, how much of risk we have in terms of launches, etc? And I know, I mean, we are not too much launch dependent. We have enough inventory. But just from industry-level perspective, do you see some slowdown in terms of launch activity, considering generally, there is some delays in terms of approvals postelection, et cetera? So what's your outlook there?

Abhishek Lodha: No real outlook, right? These things are truly unknown and not possible to have an outlook on. The way we deal with it is to make sure that our -- we plan our launches around this period in advance, which we have done. And generally, because of our business model, which is not so heavily launch reliant, we are able to deal with these 1 or 2 month related of slowdown in decision-making with reasonable comfort. Sometimes, it has an impact but not a huge impact.

So ideally no outlook, right? This is 2 months around the national elections and 2 months around the state elections once every 5 years. So it's 4 months out of 60 months. It's not really meaningful. It just happens in Maharashtra that it tends to come in the same year each time. So for 4 years, nothing happens, and then 1 year, it happens twice. So you see an exaggerated impact, but it's okay.

Moderator: Our next question is from the line of Puneet Gulati from HSBC.

Puneet Gulati: Congrats on good performance. My first question is, you talked about Bangalore moving from pilot stage to main stage. What does it really mean? I mean how would your capital commitments and pace of execution change? What should we think of in terms of future launches and sales guidance?

Abhishek Lodha: Thank you for that question. So in terms of moving from pilot phase to growth phase, as you know, we expect to move from our present market share of between 2% to 3% of sales in Bangalore for last fiscal when we did about INR 14 billion of sales, to move to more to 15% of the Bangalore market by the end of the decade.

So what that implies is we're hoping to gain about 2 percentage points of share on average each year. So we would expect probably this year to be higher than last year in terms of presales. So we would want to be somewhat higher, but it's come in the middle of the year. So we won't get the full 2% impact.

So hopefully, we closed this year, let's say, somewhere around INR 18 billion to INR 20 billion of presales, and from there onwards, one hopes to add about 1.5% to 2% of market share each year in Bangalore from fiscal '26 onwards.

Puneet Gulati: Understood. So that means your business development activity and all would kind of double from what you did last time?

Abhishek Lodha: Double from what we did last time when you say which year are you referring to?

- Puneet Gulati:** The previous FY '23, for example.
- Abhishek Lodha:** Yes, yes. FY '23, we only had 2 projects which we don't did as pilots. So obviously, for FY '23 and FY '24 were very muted from a business development perspective.
- But what I would say is that overall, the way to look at our business development is our stated business development targets, which tend to be in line with the projected sales for the next fiscal. And then to look at our net debt guidance, which is to remain well below 0.5x net debt to equity. So for us, those would be probably easier ways to understand what our business development will look like.
- Puneet Gulati:** Understood. And secondly, on your data center business, I also see there is a huge balance investment you planned out for almost INR 24 billion. So, what all do you intend to do in data center, just provide the buildings or actually provide the data center services as well with MEP, etc?
- Abhishek Lodha:** So, as it stands right now, the information that you see on our digital infrastructure only relates to our warehousing and industrial parks. Right now, there is no rental model of data center built into it. So that is something that will come up in the next fiscal onwards.
- We are just learning the data center business currently. The first park is going to start construction maybe in 6 to 9 months' time, and we'll learn. So that will come later along the way. Right now, this is all warehousing and industrial. We have 2 parks in Mumbai, 1 in Chennai and 1 which we are hoping to close in the NCR in this quarter.
- So that's really the investment. We've also bought out the stake of CDPQ in the business, and therefore, our economic interest has grown from 1/3 to 2/3.
- Puneet Gulati:** So I'm referring to Slide 19, where you talked about INR 24.17 billion balance investment in digital infrastructure. So that's...
- Abhishek Lodha:** Yes. So that is the industrial and warehousing part of our digital infrastructure initiative because right now, we are not doing any data centers for rent. The transaction we've done is where we've sold land to a global hyperscale player to build their own data center. They will be building their own data center. We might help them with the building.
- Puneet Gulati:** Understood. And thirdly, if you can comment on your experience in approvals in Mumbai, Pune and Bangalore, any slowness you are seeing or any change in the stance there?
- Abhishek Lodha:** No, I think it's all predictable. I think for us, approvals in Bangalore take longer because we are new there. So any new player in the market probably has to add 3 to 6 months beyond what a conventional local player would need, but other than that, I think approvals are pretty standard.
- Moderator:** Our next question is from the line of Abhinav Sinha from Jefferies India.
- Abhinav Sinha:** Congrats on strong numbers for the quarter. Sir, question to Shaishav on the data center part. When you're talking about the sustainable sales in this location, so what is the sort of opportunity we are looking at?

- Shaishav Dharia:** I'm sorry, could you repeat that?
- Abhinav Sinha:** So on data center, you said that the sale of land here could be a sustainable business model. So what is the opportunity we are looking at?
- Shaishav Dharia:** So the opportunity is quite significant over the next decade. The demand is growing in India or in a location like Mumbai, in particular, at probably 40%, 50% annually. We can have a significant share in this now having got established as a location, which has the right infrastructure, it has the right connectivity, all the strict requirements that hyperscalers or cloud companies require. So we can clearly see this as a very predictive, as a recurring model, both on the land side and potentially in the future on building and leasing out these data center buildings.
- Abhinav Sinha:** And Shaishav, will the realizations be higher for this land which you sell to data center versus the normal digital infra stock warehousing bit?
- Shaishav Dharia:** Absolutely, right? I think because the criteria for approving a location for data center is so high, we've been working on this for 5 years, and this one diligence transaction took 15 months. So it's not that anyone who has land or some access means they can become a data center.
- So consequently and also scalability, as I said, right? Before, people were setting up a data center park of 50 megawatts. Now they look at 200 megawatts. So you need scalable land. So consequently, the realization will only keep increasing. And as we said, the next transaction that we are again in discussion now is looking at INR 20 crores per acre.
- So, INR 2.5 crores becoming INR 12 crores becoming INR 20 crores, clearly, data center has far greater value. But we look at it as an ecosystem. Everything is not only about one asset class. There are different lands with different purposes and a different objective function. So we look to maximize on all the economic creators.
- Abhinav Sinha:** Abhishek, just a question on the strong sort of sales we have seen in South Central and Western geography. So which projects are moving? And is the upper end i.e., the absolute top end doing far better than the other segments?
- Abhishek Lodha:** We are seeing sales across, I would say, all parts of our premium as well as luxury business. Luxury sales are doing well, yes, but they continue to remain a modest part of our overall sales. So we are not a company where 50% or, even for that matter, 30% of sales are coming from the luxury category.
- The premium segment is doing well. The for-sale offices are doing well. So we are seeing, across the board, this strength in sales from in the premium as well as the luxury category.
- Moderator:** Our next question is from the line of Kunal Tayal from Bank of America.
- Kunal Tayal:** Abhishek, I wanted to follow up with 1 or 2 more questions on the data center business. Firstly, I think at a big-picture level, of course, I understand that both power and location, which has access to sea cables, is very important here. But other than that, if you could just highlight a few factors that worked in your favor towards clinching this particular deal?

And the associated question is, it's great to hear that you're now looking at the capital values going up from INR 12.5 crores towards INR 20 crores. Should we think of this as now that you have the first data center and probably a line of sight to more, it aids in more accretion of certain kind of infrastructure or other sort of pluses to that land parcel that were not visible to prospective buyers earlier?

Abhishek Lodha: Yes. So I'll request Shaishav to answer the first part of the question, which is a little bit more around the competitive advantages that we have in Palava for data centers. And then I'll come to the second part of your question. So I'll just hand it over to Shaishav for the first part.

Shaishav Dharia: If you look at the data center business, I think Mumbai is always going to remain as the most attractive location because of its location, access to the deep sea cables etc. But Mumbai also has the challenge of trying to find land, which is scalable, has the right power infrastructure, the cable networks to ensure that the latency parameters are met and the right water supply, along with basically locations that can also help data center companies be sustainable.

The industry attracts a lot of negative thought. Palava, because of its strategic location in terms of where it is relative to the deep sea cables, the road infrastructure, the power supply network out there, what we've done around water and recycling.

And lastly, it being co-located with other infrastructure helps a lot. So the plan we were talking to has been looking for this large land and primarily catering to the future of AI. AI demand is going to make the requirements go up by 3x to 5x compared to what was happening before. So they've been looking for 3 years in Mumbai, could never find scalable land.

And then we've been in touch with them for a while. They came to us, did all the technical due diligence, did all their testing and found it to be as good a location in Mumbai as anything else. So this is now the competitive advantage of getting approved as a location, which meets all the technical parameters, has the scalability and, more importantly, the ecosystem for this setup to happen linked to the larger other economic activities. So that's why it's become a competitive advantage.

And lastly, because of our own capability in construction and development, they want to look at us as the -- as an option for developing their building itself because they feel we can do it far faster than them doing it on their own. So the ability to be a land provider with infrastructure, with master planning and the developer, all of this becomes now truly Palava's competitive advantage.

I'll let Abhishek answer the next one.

Abhishek Lodha: So Kunal, in terms of what this does from a business and value accretion or unlock perspective, the first thing to note is this is not a replacement for any existing use of land. This is a fast tracking of the use of land, right? What revenue we will make or what margins we'll make from the residential we will make. What we'll make from the office and retail, we will make. What we'll make from the industrial, we will make. And we will probably slow down on warehousing because no longer are the value supporting warehousing.

But this is a completely new category, which even 12 months ago, while Shaishav and team have been working on it, 12 months ago, there was very little light at the end of the tunnel. And now we have a transaction at INR12 crore an acre. And as you know, the first transaction to establish a location is always at a discount, which is the reason why the true value discovery of maybe close to INR 20 crores an acre is likely to happen, we hope, over the next 2 to 3 quarters.

We think that the data center business, given the overall scale up in AI, if NVIDIA can be valued at what it is valued at, clearly, the world believes that AI is going to scale up in a very, very large way. And I would say that in a very small manner, the data center part of Palava is really a proxy to the AI scale-up and the data scale-up in India.

So we see this as a completely new category. Not only does it sort of help monetize the land faster at very good values, but it is all incremental. Overall, I think realization from residential and realization from data centers, not immediately, but I think over the next 2 to 3 years, might start converging.

Kunal Tayal:

I understand. Okay. Good to know. And just one quick follow-up on the residential side of the business, Abhishek, if you could sort of share your views on what trends you are seeing around land prices in Mumbai. And is any of that sort of posing any bit of challenge to a 6% to 7% pricing escalation for yourself or still all within comfortable levels?

Abhishek Lodha:

Kunal, I think if you look at the pricing growth and if you look at the margins, I think that will answer the question for you. The fact that our BD is running well ahead of any plan, more than 75% done in 2 quarters, the fact that margins are expanding and the fact that we have still held firm on our stated strategy around price growth will tell you as a combination that the calculus is working quite decently.

We are not seeing land prices doing anything funny. We obviously don't compete at the very small projects. We don't want to operate in those projects, which are less than INR 100 million of GDV. So that's where probably you get some heating up and you have all this sort of intensively competitive redevelopment, which we have consciously stayed out of.

But when it is projects of any scale, I think the market is pretty efficient right now in terms of what margin it is leaving on the table, keeping in line the fact that price growth is a reasonable and one which improves affordability rather than highly speculative double-digit price growth.

Moderator:

Our next question is from the line of Praveen Choudhary from Morgan Stanley.

Praveen Choudhary:

Abhishek, congratulations on your announcement of the foundation. That's very generous. I have 2 questions. The first one is on Page 19 of the presentation, where you mentioned FY '31, you're hoping to get INR 12 billion of rental income. Would you be able to provide some kind of guidance by slightly near term, let's say, FY '27 of the same rental income?

The second question is related to data centers, which obviously is very exciting for everybody. We just want to understand your long-term strategy here. It seems like initially you will sell land and then you will build the bare shell and rent it. Would you go all the way in terms of becoming data center technologically more advanced, building colocations so that you can capture a higher

percentage of the value chain in this one? Or you just want to be the landlord and let someone else take care of technical part of it?

And connected to that one, you mentioned you have 4,500 acres in Palava. What part of that land are you earmarking for data centers over time?

Abhishek Lodha:

Yes. Thank you, Praveen, and thank you for your compliments on the foundation. We think that as businesses, it's very important for us to know that we exist in a nation and a society. And we are duty bound to use our success to make our society better off. So we hope that we can do our bit in this manner.

Coming to the questions that you had. In terms of our projection of income for fiscal '27, we have given a projection for fiscal '26, where we hope to end at a run rate of about INR 5 billion. So that will not be the full year number, but the run rate at the end of the year should be at around INR 5 billion. And therefore, for fiscal '27, you will have that INR 5 billion plus something more. So you can say close to INR 6 billion for fiscal '27. Although I don't have an accurate current projection for fiscal '27, I have one for fiscal '26.

In terms of the data center business, we currently foresee ourselves as the infrastructure providers. We provide the land. We provide the approvals. We help with the construction. Over time, we migrate into owning the bare shell and renting it out to the players. We haven't quite frankly understood the value chain beyond that or understood whether it makes sense for us to play in it or not.

Historically, we've been quite conservative in focusing on what we do well. We know that the built infrastructure, we have a clear and significant competitive advantage. So we feel very comfortable playing there. Anything beyond that is generally not our piece of cake, but as we learn this business, we will evaluate.

In terms of our 4,500 acres of land at Palava, 2 points I'd like to make. One, we do replenish a big chunk of the land that we use in a year. So it's not that the 4,500 acres is some fixed number, and it will keep diminishing as we use it up. So to that limited extent, it is an annuity. It's a perpetual income stream.

The second point is that we haven't specifically earmarked any space that will only be used for data centers because all our land is multi use. We don't have to use it for data center. We don't have to use it for residential. We can use it as is best suited to the needs of the development of Palava City. So I think we expect that around 50 acres of land per annum should be used towards data center. But who knows? Over time, that could even further move around.

Moderator:

Ladies and gentlemen, as there are no further questions, I would now like to hand the conference over to Mr. Anand Kumar, Head of Investor Relations, 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 any information, we'd be happy to be of assistance. Feel free to contact with the IR team or me. On behalf of management, I once again thank you for taking time to join us today and wish you a very Happy Diwali. Thank you.

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