



“Arihant Superstructures Limited Q1 FY2020 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Arihant Superstructures Limited Q1 FY2020 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 this conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I will now hand the conference over to Mr. Umesh Jhawar, Vice President, Arihant Superstructures Limited. Thank you and over to you Sir!

Umesh Jhawar: Thanks Mallika. Welcome everyone and thank you for joining us for Q1 FY2020 result ended on June 30, 2019 earnings call for Arihant Superstructures Limited. I am Umesh Jhawar and I take care of Strategy and Investor Relations at Arihant Superstructures Limited. Please note that the above results and presentations have been mailed and you can view these on our website. To take us through the results and to answer your questions today, we have Mr. Ashok Chhajer –Chairman and Managing Director of Arihant Superstructures Limited and Mr. Pradeep Mehta - Chief Financial Officer.

We will be starting this call with a brief presentation giving an overview of the company’s performance followed by Q&A session.

I would like to remind that everything said on this call that reflects any outlook for the future and which can be constituted as a forward-looking statement must be viewed in conjunction with uncertainties and the risks that we face, these uncertainties and the risks included but not limited to what we mentioned in the prospectus filed with SEBI and in subsequent annual reports you can find on our website. With that said I would now turn the call over to Mr. Pradeep Mehta ji. Over to you Mr. Mehta ji!

Pradeep Mehta: Thanks Umesh Ji. Good afternoon ladies and gentlemen, the financial highlights for Q1 FY2020 on consolidated basis as compared to Q1 FY2019 as follows,

Revenue increased by 33% from Rs.439 million to Rs.582 million, EBITDA decreased from Rs.153 million to Rs.109 million. PBT decreased from Rs.64.5 million to Rs.25.5 million and PAT decreased from Rs.55.6 million to Rs.15.2 million. With this financial update, I request our CMD, Ashok Ji to take forward. Over to you Ashok ji!

Ashok Chhajer: Welcome everybody to Q1 concall for the financial year ending 2020 and as we see across in the market the last three months had seen after the interim budget where the financial institutions were not being supported earlier by the government until the last week when there was a statement by the highest authorities of Finance Ministry as well as the PM to revive it back. There have been many instances of real estate developers facing difficulty as the cost of financing was going high, less disbursement from home loans due to not availability of liquidity in the sector, all leading to it in this turbulence. We ourselves at Arihant have still been able to continue the execution on the site, which can be reflected with the work done on the projects. We received the occupancy certificate for the Arihant Anshula phase II, so the whole project we have got it completed with occupancy, and other projects are on the same lines of progressing well. I will open up the floor for question and answer, we can take it through each and everything in detail so please welcome for all Q&A.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Ajay Gupta from SBI Capital. Please go ahead

Ajay Gupta: Hi I just wanted to ask you regarding the Q1 numbers where we see 30% jump in the sales, but the profitability has gone down by 90% so is it because lot of expenses are getting front-loaded in the new project launches or is there anything else to be read in that particular statement?

Ashok Chhajer: There has not been any new launches and when we talk about new sales being on an higher side jump is for the ready possession projects at Arihant Anshula and Arihant Anaika going towards good sales amount and whereas the expenses towards those projects had already been accounted for and that is what we find that the expenses have dropped down and revenues have increased.

Ajay Gupta: What are the general sales about the market I mean especially in the MMR region and Jodhpur especially if you look at the recent budget proposal where the government has said, they are going to increase the reduction for the interest for the property of Rs.2 lakh to Rs.45 lakh. I presumed that some of your market is not really moving in a great way especially Jodhpur market. So is there any significant impact that you saw so far after the budget with this proposals?

- Ashok Chhajer:** We talk about Jodhpur projects. Yes this quarter we have seen a lot of slow down and whereas in the bracket of this affordable housing definition of Rs.45 lakhs and 60 square meters below in the MMR region, we have fared well in terms of sales also where you could get up around 167 flat sales. What is moving right now in the market is sub Rs.50 lakhs, the higher bracket sells but it sells at a little discounted price. If we see the movement of the sales across Mumbai or across India we find out that regions like Navi Mumbai are doing fairly well when compared to Mumbai and because it is still able to give the supply of affordable housing that is with the price band of Rs. 4500 per square feet and cost of Rs.25 lakh to Rs.50 lakh. Given all the instances of sales slow down in terms of ratio of each and every individual or a developer from the total inventory in hand versus the sales. At Arihant, we are having favorable ratios in terms of sales comparatively. So we stand good in MMR region and we find good opportunities also coming ahead where the capital investment would be less and our business development would be able to get us some of the projects in this financial year also.
- Ajay Gupta:** No just wanted to ask you this what quantum or what percent of entire let us say unit that you are building in MMR region, could be under sub Rs.50 lakh category any ballpark number that you can share with us?
- Ashok Chhajer:** The total projects are to a tune of say around 13,000 houses spread across for the coming years out of which around 5000 happens to be in Jodhpur and 8000 in Navi Mumbai and out of 8000 around 5000 are below Rs.45 lakhs around and around 3000 are within the range of Rs.1 Crores and around. It is 5000 Flats, which are in these region in this bracket and most of these projects are moving fast also as well as which would see completion in the shorter span of time where the phases are on. So currently if we talked about how many number of less under Rs.45 lakhs in this bracket and then it is to a tune of around 2000 flats.
- Ajay Gupta:** Okay now Sir I just wanted to understand about your ready inventory at present, what is the market scenario overall and what is your ready inventory at present in terms of volume and plus the value both?
- Ashok Chhajer:** Navi Mumbai, MMR region we would have and ready possession inventory of around 300 units and with an average size of Rs.40 lakhs around Rs.45 lakhs including one bed and two bed, it would be Rs.120 -140 Crores of inventory in hand. In Jodhpur, the total inventory in

hand would round about go to 100 units, which would mean an inventory of around Rs.55 Crores to Rs.60 Crores. So total inventory of Rs.200 Crores Jodhpur as well as Mumbai including Navi Mumbai.

Ajay Gupta: And this is the inventory available for ready possession that means it is already completed 100% you mean to say?

Ashok Chhajer: Where occupancy is received and where people have started to live in.

Ajay Gupta: Okay and finally Sir just want to understand recent decision by NHB where they stopped funding for the under construction project where earlier the housing finance company used to fund on behalf of the buyers now that funding is drying out. So what is the general sense in the market at present, is the liquidity still flowing to the sector, have you seen any improvement of late or what is the current situation there?

Ashok Chhajer: This is called subvention scheme and if you are talking about subvention scheme yes the subvention scheme has been stopped by the government. There had been some malfunctioning in the northern region of the country with respect to subvention scheme wherein we called it a scam, which was opened up saying that which could clearly tell that the home buyer was not really buying in house and it was routed by the developer through NHB to take finance at a lower rate. If we talked about Mumbai and Mumbai MMR region such sort of malfunctioning was very minimal and we hope that the government would take cognizance of the requirement by the sector leaders and would reinvent the subvention scheme with specific guidelines.

Ajay Gupta: Sir one final question, if you can just share with us industry wise I mean what could be the approximate ready inventory in terms of percentage as on today, we read lot of article about that inventory as five years so if you can share some number on that Sir?

Ashok Chhajer: I really do not have any total numbers, but by and large I categorized inventory into three portions where many of the people call each of them as inventory, a, some people call inventory as the total number of houses where commencement certificate is received and is under construction and either in phases or in total, some of them categorized inventory as only building which has started off but separating out buildings, which are not started off, but have still the occupancy certificate and third is the inventory where it is ready possession which is ready to occupy and not been sold. I think the real inventory which

would be calculated should be the ready possession as well as construction here in under construction as well as ready possession, inventory size compared to demand if we see is equal or substantially very nearby in the region of MMR region with the scale of infrastructure development, demand and traction where it is driving sales, but given the market, customer today has a cooling period of decision to buy house from the enquiry to closure, ranging up to almost 150 days, so we see a demand people want to wait and take a call cautiously. In MMR region, I find that if we talked about the buildings under construction and ready possession the demand is to supply is almost nearby but with some reports from some of the knowledge houses is they include buildings which are only the projects, which are got commencement, but yet not even started sales or construction, then the ratios are different so I find that yes it is not very far away at least in this region of MMR. In Mumbai where the project sizes are cost of the houses are big Mumbai, Thane etc., where the prices are Rs.10000 square feet to Rs.20000 square feet plus there it is a completely different scenario.

Ajay Gupta: Okay and Sir Do you see any pricing pressure in the near-term especially in the Mumbai market?

Ashok Chhajer: Core Mumbai yes there would be a big pressure I think that is a pressure and people or the developers are ready to square off sooner the better they want to book up the losses or be happy with the average profits, but in these region of affordable housing where still the lands where the development is nearby to the urbanization are finding traction and surprisingly some of the regions have even escalated in terms of price of land as well as to an extent of 4% to 5% sale price also. If we see our average sale price, it has shooted up from Rs.4200 to Rs.4500.

Ajay Gupta: Okay thank you Sir.

Moderator: Thank you. The next question is from the line of Tirath Muchalla from Elusividya Advisory Pvt. Ltd. Please go ahead.

Tirath Muchalla: In the results something about corporate term loans from STCI finance so what amount are we looking at?

- Ashok Chhajer:** We already closed up in facility with STCI on the month of ending April and in continuity for the same project for the new phase, we were talking for an around Rs.15 Crores as a term loan and construction finance combined.
- Tirath Muchalla:** And this would be for a new project or for our existing?
- Ashok Chhajer:** Existing project but a new phase, for so one buildings, we are not into and policy of right now to build up without sales and then sell the whole product by taking up a debt. We would prefer to have sales first moving ahead and the debt would add on that will be taken up for speeding up the construction phases.
- Tirath Muchalla:** Ready inventory that we have what is the timeline to try and sell that or the sales that is over right now?
- Ashok Chhajer:** Our targets to our sales team is that get us totally sold out in three months but as very commonly known that it is not only the offer which sells like a fast moving consumer good. So I think comfortably we would be able to sell 50% of the ready possession inventory by next six months
- Tirath Muchalla:** Okay that is encouraging and Arshiya I think all three phases are completed almost?
- Ashok Chhajer:** The last phase is put up for occupancy so that would be the completion of the all ongoing phases the new buildings we are not starting right now, and we will wait for the ready inventory to be completely sold out.
- Tirath Muchalla:** Okay and in terms of cash flows for this financial year how much are we expecting from our receivables?
- Ashok Chhajer:** Around I think we should be able to inch up higher than the last financial year and what we see currently it was down to something between a bandwidth of Rs.275 Crores to Rs.300 Crores.
- Tirath Muchalla:** Okay that is out of I think total Rs.400-odd Crores of receivables?
- Ashok Chhajer:** Yes I am talking about receivables, collections. So receivable will always be higher if we talk about receivables, yes it would be Rs.100 Crores, Rs.150 Crores plus.

- Tirath Muchalla:** Okay and in terms of budget how much do we need to incur in terms of construction costs and approvals and all that?
- Ashok Chhajer:** For this financial it is in long cycle so the phases which are under construction for all the projects combined would tune up to around Rs.700 Crores to Rs.800 Crores wherein what would be required this year would be around Rs.400 Crores which would be practically possible to do the engineering so if we get Rs.400 Crores of collections, we would be increasing the speed of our execution and that would reflect into the balance sheets in the numbers. If we are able to do Rs.250-300 Crores or something around we would be just close to the last year marks or an inch upper than that. So we will have to wait for the season, which is starting off this August that is first holiday is coming up in this first week right from Bakrid to August 15th etc., so let us see how does it moves. If I think unless there are not more surprises from the government, I think we will tell that yes seeing the experience the group being into real estate since 1988 and I had seen now four to five cycles ups and down, I find ourselves quite stable and this is what is the need of the hour. The P&L does not matter whenever the sector or the time is not so good, but it is stability which is important and stability can be judged by the operations. So all the operations right from launching small new project to continuing the construction and completing the construction on some of the other site, would be the thing which should be viewed across and I think we will fare well on these parameters.
- Tirath Muchalla:** Okay let us say in the next 12 months or so, what are the projects that we hope to complete at least....?
- Ashok Chhajer:** This year we should we should be able to get occupancy for Arihant Arshiya the last phase, the Arihant Alok Karjat at three buildings that is something around maybe 200 plus flats for phase I. We should be able to complete Arihant Anmol Badlapur, the ongoing phase. We should be able to get nearing to Arihant Anaika II which is the hotspot which is around 250 plus. So add onto it from here till the to the year ended, it would be around 800-900 more flat coming to the position of offering to possession for the clients.
- Tirath Muchalla:** In terms of Arihant Aspire that we still have quite a while to go for completion that is not any kind of...there is no urgency there?
- Ashok Chhajer:** That project is just below the ground level. That is the one which is where we will have to put up more attention and which has not fared well in terms of our projection and

expectations, maybe from some engineering side and some support from the sales side, we should be able to revive it back. So that is one where you see that it is dragging us and the management is focusing on it. But as it happens in real estate, it cannot be a one-day strategy which can put the projects back into and full rolling model. It would take around six to nine months to get it back into motion.

Tirath Muchalla: I am sorry but your point is that sales are difficult or construction is struggling?

Ashok Chhajer: Sales were difficult, but dropping down the prices by 10% that is monsoon discount, where still we have some good margins because of the good purchase of land prices across the company Arihant Aspire is something around Rs.150 after capitalization of interest in the land cost putting the company into a good position that it is not draining down due to the lower land cost. Yes, what is most required is engineering rather than sales. There are substantial good sales, which has already happened 200 plus flats are sold. There is a line of credit available from HDFC to a tune of Rs.187.5 Crores, which is yet to be withdrawn. We have not drawn down until this extent and we plan to get the engineering back into motion so once they start spending and billing would start and once billing starts there would be cash flows also.

Tirath Muchalla: This is being handled by capacity, the construction.

Ashok Chhajer: Yes.

Tirath Muchalla: Great. Thank you so much Sir.

Moderator: Thank you. I will now hand the conference over to the management for their closing comments.

Umesh Jhavar: Thank you Mallika. Thank you everybody to be on the concall and we will be happy to interact with you in the next quarter also. Thank you so much.

Moderator: Thank you very much members of the management. Ladies and Gentlemen on behalf of Arihant Superstructures that concludes this conference call. Thank you for joining us and you may now disconnect your lines.