



**“Arihant Superstructures Limited Q1 FY-16 Earnings
Conference Call”**

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MANAGEMENT: **MR. ASHOK CHHAJER – CHAIRMAN, ARIHANT
SUPERSTRUCTURES LIMITED
MR. AMAN VERMA – CHIEF FINANCIAL OFFICER, ARIHANT
SUPERSTRUCTURES LIMITED
MR. UMESH JHAWAR – VICE PRESIDENT OF STRATEGY AND
INVESTOR RELATION, ARIHANT SUPERSTRUCTURES
LIMITED**

MODERATORS: **MR. DIWAKAR PINGLE - CHRISTENSEN IR**

Moderator: Ladies and gentlemen, good day and welcome to the Arihant Superstructures Limited Q1 FY-16 Earnings Conference Call. As a remainder 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 entering “*” then “0” on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Diwakar Pingle of Christensen. Thank you and over to you, Mr. Pingle.

Diwakar Pingle: Thank you, Mellissa. Welcome everyone and thank you for joining us for the Q1 FY-16 Result Ended June 30th, 2015 Earnings Call for Arihant Superstructures. Please note that the results and the presentation have been mailed to you and you can view these our website at www.asl.net.in. To take us through the results and to answer your questions today we have Mr. Ashok Chhajer – Chairman of Arihant Superstructures Limited and Aman Verma – Chief Financial Officer and Mr. Umesh Jhavar – Vice President of Strategy and Investor Relation of Arihant Superstructures Limited.

We will be starting this call with brief presentation forwarding and overview on the company’s presentation followed by Q&A session. I would like to remind that everything said on this call that reflects any outlook for the future which can construe as a forward-looking statements must be viewed in conduction with uncertainties of the risk that we face. These uncertainties are risk and included but not limited to what we have mentioned in the prospectus filed with SEBI and in subsequent Annual Report which you can find on our website.

With that said, I would now turn the call over to Mr. Ashok Chhajer. Over to you, sir.

Ashok Chhajer: Yes, good morning, everybody, welcome. A brief introduction about the company, Arihant Superstructures Limited has its operations in real estate in the two sector that is Navi Mumbai MMR region and Jodhpur, Rajasthan. 13 projects are on the shelf out of which 12 have started construction in phase wise manner and with respect to the results and are around that the facts that we are aware on 11,000 homes under construction in phase wise manner around 11.4 million square feet in 12 projects and we deliver around 700 houses to 800 houses per year in terms of possession and handing over of the keys. The projects have taken up and forward implementation program. The results on Q1 would be right now told by Mr. Aman and then we will open-up the question and answer session.

Aman Verma: Good morning, everyone. I hereby present the financial review of Q1 FY-16 for Arihant Superstructures. Total revenues stood at 232.4 million. Net revenue was at 228.9 million. EBITDA stood at 54.5 million compared to 58 million during the last year for the same quarter. EBITDA margin was 23.8 as compared to 36.1 in the same quarter last year. Net profit was good which stood at 22.9 million in this quarter. The EPS has grown to 0.56 against 0.11 of the corresponding period last year. That is all.

I hereby, welcome questions from you guys in regards to the Q1 FY-16 results.

- Moderator:** Thank you. Ladies and gentlemen, we will now begin with the question and answer session.
- Diwakar Pingle:** To get it started let me just pitch some questions right here. I think the question I have Mr. Chhajer is I think revenues obviously this particular quarter have been much better than in the corresponding quarter of last year. Could you just let us know what the key kind of drivers that are responsible for the up-tick in revenues?
- Ashok Chhajer:** Given the sector right now it is showing very sluggish trend and buyers are deferring the decisions as the sentiments are not pro speculation and the same is being reflected across the industry across the cities. But what is different at Arihant is that we had already taken up sales from the end users in the past two years and the progress with respect to construction and those sales are showing up in revenue and this incremental trend will also continue in the next quarter because the sales are already registered by the end users across the projects.
- Diwakar Pingle:** Okay. Maybe second question with one more obviously you did mention that the sector is going with a bit of a pain but Arihant being in the affordable housing space, how do you think being in the space actually is slightly advantageous compare to a lot of players facing a brunt of pain. Could you just explain to the audience as to how you kind of try to still attract customers and have the number of footfalls reduced or people are still coming and viewing the properties? What is the situation on the ground?
- Ashok Chhajer:** With respect to the segments today when we observe undoubtedly the affordable housing is a driver and the key factor of the real estate sector today and in terms of head counts when we see 80% of the sales are today across coming through the segment of affordable housing that is at a CAPEX between Rs. 20 lakhs to Rs. 60 lakhs for an one bedroom to two bedroom hall, kitchen flat in the city of Mumbai and that is how our projects all across right from Badlapur, Karjat, Khopoli, Panvel, Kalyanshil Road, Taloja, Jodhpur are in the segment of 20 1 to 50 - 60L ranging from one bedroom to two bedroom hall, kitchen. And that is what is going to still have a trend as the needy buyers are majorly from this segment of affordable housing. The upper middle class that has MIG and HIG would still wait for some months to see and observe what are the trends though the demand is still lying underneath.
- Moderator:** Hi, this is the operator; do we have the line for the management?
- Diwakar Pingle:** Yes, it is on.
- Moderator:** Okay, I am sorry. There was some disturbance from the line. You may now continue, thank you.
- Diwakar Pingle:** Yes, sure. Okay, I think thanks for this. I think we have some people on the line for questions. Maybe operator you can take the questions.

- Moderator:** Sure. We have our first question from the line of Anil Tulsiram from ContrarianValue Edge. Please go ahead.
- Anil Tulsiram:** Can you please explain your project level economics in terms of average realization, construction cost, and EBITDA per square feet?
- Ashok Chhajer:** Could you just be a little bit louder, sir? We just could not hear you.
- Anil Tulsiram:** Yes, Can you explain the project level economics in terms of average realization, construction cost, and EBITDA per square feet?
- Aman Verma:** EBITDA per square feet is around Rs. 800 to Rs. 1,000 per square feet and the average realization is Rs. 4,000 per square feet exactly Rs. 4,026 per square feet and the cost of construction is ranging something between Rs. 1,700 to Rs. 2,000 per square feet depending upon the structure in terms of its height.
- Ashok Chhajer:** Height, amenities.
- Aman Verma:** The cost of construction ranges Rs. 1,700 to Rs. 2,000- Rs. 2,100 per square feet.
- Anil Tulsiram:** Okay. What are the other expenses that EBITDA is only 1,000, ASP is 4,000 and cost of construction is 2,000? And what are the other expenses which we incur?
- Ashok Chhajer:** The land cost is the major component and in addition to it the finance cost and the administrative cost. Our average land cost is Rs. 250 per square feet at the buying stage and with respect to the approvals and finance cost it could be around Rs. 200 per square feet and the administrative cost ranges from Rs. 150 per square feet depending on the cycle of the aging of the lifecycle of the project and the marketing expense also ranges from Rs. 100 to Rs. 150 per square feet.
- Anil Tulsiram:** Okay. And is the construction carried out in house or through a third-party contractor?
- Ashok Chhajer:** The procurement is done by the company in house. The contracts for the labors are awarded to the labor contractors so, we do not hire labors and we do not hire people for the construction. It is done by the labor contractors. Rest all from procurement to engineering to design and interior as well as architecture and structures the complete set-up is there in-house.
- Anil Tulsiram:** Okay. And is there any minimum area which you should sell before you can start construction?
- Ashok Chhajer:** We generally have a trend of selling around 15% to 20% before we start the construction and we have been able to achieve it and that is how the working capital required for the progress of the construction is already in place. The rest of the 80% to 85% we have a bar chart with the cycle of the project that is maybe from two and half years to three years and equally distributed

to achieve the sale. And generally with the trends which we keep across we do not open up all the buildings in an project if a project consists of around 20 buildings - 25 buildings or 30 buildings. The whole of the project is not opened up for sale. It is also done in phase wise manner so that the inventory does not pile up. The general on the inventories per project is around 100 flats to 150 flats only though the total size of the projects would differ.

Anil Tulsiram:

Okay. And what is the average time for completion of each project?

Ashok Chhajer:

Around two and half years to three years. We have been able to complete the 23-storied Building right from commencement certificate to occupancy certificate with electric and water connection Arihant Amodini at Taloja, Arihant Abhilasha at Kharghar within a span of three years or 36 months.

Anil Tulsiram:

Okay. And whatever the projects are under consideration now, is there any undue delay in any of the ongoing projects? When I say undue day more than 12 months to any of the current projects?

Ashok Chhajer:

No.

Anil Tulsiram:

So all the projects are on schedule?

Ashok Chhajer:

Yes, once it is started off then we with an average of five months to six months of addition plus or minus the projects have been we have been able to hand over the keys to apartment owners.

Anil Tulsiram:

Okay. and I understand in the same areas your Karjat, even the Poddar Developers and Mahindra Lifespaces and other players also operates and the markets are currently not doing so well. What sort of competition do you face from these players?

Ashok Chhajer:

Well as on today when the demand is slow undoubted the competition is high and what works out is that a better quality of construction, good location and at a bit lesser price than the competitors. So there is competition and there is always an healthy market if there is an competition.

Anil Tulsiram:

Okay. I want to understand your sales strategy earnings whether you are sales are through direct sales are we have agents or how is it being managed?

Ashok Chhajer:

We have complete sales team in-house who gives the services to the direct customer as well as to the broker sales or the channel partner sales and we have the back office who gives the services after sales as well as the call center would take the first calls. So if you talk in terms of numbers around 45% to 50% of the sales are being engaged with direct sales and around 50% to 55% is through channel partners.

- Anil Tulsiram:** Okay. And channel partners how do we ensure that there is no mis-selling to customers?
- Ashok Chhajer:** Please come again.
- Anil Tulsiram:** When the sales are through channel partners or through agents there is a possibility of mis-selling. The agent, the channel agents, or the agents can promise more than what we can deliver. So how do we ensure that there is no mis-selling of the product?
- Ashok Chhajer:** Each and every interaction of client even if it is through channel partners, the first interaction as well as the finalization interaction is done at our office where though there is a channel partner we know the client by face, by name and we know what we are committing and what the client is committing to us. So there is a no gap where we do not know our client even if it is through channel partners. It is not like channel partners just brings up 10 cheques or 15 cheques or 20 cheques with name of the interested party and tell that these are the booking so that is not the pattern of working in our office.
- Anil Tulsiram:** Okay. And sir, one thing I understand is the company got listed with the reverse merger sort of things and over the years that some unlisted companies under the same management has also had been merged. So what has been the philosophy? Why it has been done in this way that is what I want to understand.
- Ashok Chhajer:** A) We did not want to come with higher valuations and that is why we opted out of an IPO and we would come on the platform of performances and projects and size of projects which would be seen live by the investors. The idea was to take a span of at least five years to just get introduced to the larger market of capital markets and we have patiently waited for our turn to come and today feel that our turn has come.
- Anil Tulsiram:** And still there are some companies under the same management in the same business so how the conflict is being managed?
- Ashok Chhajer:** Today at Arihant Superstructures Limited all the real estate is under the umbrella of Arihant Superstructures Limited. So there is no conflict of having parallel businesses in the same sector in the personal umbrella.
- Anil Tulsiram:** Okay. So in the unlisted companies under same management whatever the real estate business is there you mean to say everything has been transferred to the listed company and now there are no...
- Ashok Chhajer:** True.
- Anil Tulsiram:** No, same business being carried out?
- Ashok Chhajer:** Perfect. The 100% operations are under the listed entity.

- Anil Tulsiram:** Okay. And can you tell what is the target deliveries over the next three years? How much flats do you target to deliver in terms of area square feet?
- Ashok Chhajer:** In the next three years?
- Anil Tulsiram:** Yes.
- Ashok Chhajer:** In the next three year around...
- Aman Verma:** Five million.
- Ashok Chhajer:** Five million square feet that would be targeted to be delivered. I would differ Aman not five million CAGR of delivering projects would be something around 60%-65% and on the years to come it would see up a graph or it would see up in growth chart which would be multiple of the previous years. So in three years yes, around say 3.5 million or 35 lakhs square feet would be delivered.
- Anil Tulsiram:** This is per year or you are talking aggregate.
- Aman Verma:** Aggregate.
- Ashok Chhajer:** No, aggregate.
- Anil Tulsiram:** Aggregate. Our estimate in FY-15 around three lakh to four lakh square feet was delivered, right?
- Ashok Chhajer:** In FY?
- Anil Tulsiram:** No, in financial year 2015 the total sales was around three lakh to four lakh square feet, am I right?
- Aman Verma:** Yes, 4,80,000.
- Anil Tulsiram:** We are talking almost current 7 time jump.
- Aman Verma:** Yes, but before that the earlier two year was around 1 million and 9 lakh square feet. So last year we had a pinch of around 30%. But going forward we look to do on an average around 1 million 1.5 million per year.
- Ashok Chhajer:** That is possible because the number of project which has kick-started back in 2010-2011 were almost to one-third size what is today. So real estate generally its an cycle of two and half years to three years so whatever is started today would be delivered across in the coming years. When we talk about today across all the 12 projects around 50 lakh square feet of construction is on the shelf. So we are confident about it that we will be able to match-up the figures.

- Anil Tulsiram:** Okay, fine. So when you say 35 lakh square feet this includes this existing 15 lakhs?
- Ashok Chhajer:** No, which 15 lakhs?
- Anil Tulsiram:** You said already 15 lakhs is under construction 15 lakhs that...
- Ashok Chhajer:** Yes, that includes. Whatever is there in under construction is included in 35 lakhs. When we talk about possession or giving handling over undoubtedly it includes all the construction which is in progress.
- Anil Tulsiram:** And going forward we want to concentrate only on the affordable housing or we want to have focus on the all the price spectrum starting from luxury to super luxury?
- Ashok Chhajer:** No, we do all type of housings and we have team which had delivered super HIG projects at Palm Beach Road and Super Luxury Projects at Jodhpur also. So we do all segment of product line tried from HIG, MIG B, MIG A, LIG and EWS but the portfolio when we compare to the sizes undoubly 80% to 85% of the portfolio is for the segment of affordable housing that is LIG and MIG A and 10% is MIG B and 2% to 3% is HIG.
- Anil Tulsiram:** I have few more questions, can I continue or?
- Ashok Chhajer:** Yes, you can continue somebody else do not want to pop-in. Please continue.
- Anil Tulsiram:** See in the project Agrima we have PPA with Rajasthan for LIG and EWS. Can you explain the progress for this project?
- Ashok Chhajer:** 650 flats have been already handed over to the government. The first phase which they had given approval, the second phase they have given as approval to start construction was in 1st April, 2015. We have three years to hand it over and seeing the pace of the construction which is under progress I think we would be able to hand it over much before what is being decided by the government. And we would be launching the position of land is already conveyed to the company by and registered document and the land revenue because of the sale component today stands in the name of the company. The environmental clearances for the sale component is also in-hand and a revision of plans would be in ground in the next one month. We would be in ground in the next one month. We would be planning to the launch of Arihant Agrima something around 16th of January.
- Anil Tulsiram:** And last time when I saw your Jodhpur project I think that was running behind schedule and you extended the date from 2015 to 2016. And the commentary in the Annual Report is that the market is quite dull so what is the situation there? How much you have sold?
- Ashok Chhajer:** With the projects on the shelf in Jodhpur around in Arihant Adita, we had put on shelf 700 flats out of which 500 flats are already sold and people have started taking possession of the

first phase which is ready for possession which is something around five building so and around 400 flats are today ready with keys possession which people are taking turn by turn. So not lagging very much behind the schedule as we started off the project sometime in September 2011 and around in January 2014 we were ready with the first building and on the cycle I think around three years of cycle of construction we are getting it targeted down.

- Anil Tulsiram:** What is your current land bank?
- Ashok Chhajer:** Today land bank in terms of acreages is something around 110 acres and in terms of built-up area is around 11.4 million square feet of built up area to be constructed.
- Anil Tulsiram:** Okay. And when we acquire land what are the factors which we look into before acquiring the land?
- Ashok Chhajer:** The major factor which is to be governed is seeing that there is no risk that is the land is having a very clear title and we take complete due diligence of it. The legal cell at our office which has retired Tehsildars, retired Circle Officers and people from the revenue department including three advocates they see to it that the land is clear and while acquiring undoubtedly what we see from the marketing aspect that what is the product which you can make here would it be a desired would it be an product which would be accepted by the market or the people who want to take and there some few points some first check lists customer is always taken care that is it in vicinity of an urbanization, it is easy in terms of transportation to come from the office to the house or from the market and the schools to the houses. So is it livable or not that is the major factor which we look in.
- Anil Tulsiram:** Okay. And what is the policy we are maintaining land bank for how many year construction you want to maintain at the land bank.
- Ashok Chhajer:** Today we have construction in hand for around six years in hand.
- Aman Verma:** Six year we have created a vision of six years.
- Ashok Chhajer:** So the total square feet of 11.4 million would be completed in phase wise manner in the next six year and also ongoing the inclusive growth would be added on to it. So I think there is an automation when we do construction, we do not do a single project at a time. So we cater to different geographical regions and to multiple number of projects because the cycle of the construction industry is kept into motion. So at any given portion of time we have at the same day that is something which is being land procurement happening, there is something where land clearances happening on the same day. Some other project is on design stage. The fourth maybe at launching stage, the fifth maybe at start of construction and some at the mid and some at the completion stages.

- Anil Tulsiram:** No, but what is the target in terms of years of construction capabilities like say some companies maintain three years to four years worth of sales as land bank. Some companies maintain 15 years to 20 years like Unitech, Ashiana Housing maintains four years to five years worth of construction as land bank so what is your policy?
- Ashok Chhajer:** Six years.
- Anil Tulsiram:** Six years, okay. This EBITDA you said 800 to 1,000 when I took your numbers and just divided by whatever the construction completed you have given I arrive at the figure 600. So when you say 800 is it the current? Or is it your target?
- Ashok Chhajer:** That is the target.
- Anil Tulsiram:** And what is your current EBITDA?
- Ashok Chhajer:** Current is also 850 as per the CFO. Current is also at 850. You can get in touch with CFO, he will give you more clearances on what is per square feet of profit which is happening on the business undertaken.
- Anil Tulsiram:** Okay. And what is the total debt on books as on date?
- Ashok Chhajer:** Total debt on book is around Rs. 150 crore out of which 45 crores is from external borrowing and 105 is long-term unsecured loans from the promoters and the directors.
- Anil Tulsiram:** Okay. And what is the total advances from customer?
- Ashok Chhajer:** I think we can get back to you exactly.
- Moderator:** Thank you. We have the next question from the line of Gaurav Gulati from iWealth. Please go ahead.
- Gaurav Gulati:** To the point that you said there is quite a lot of problem in Mumbai in terms of real estate. Is there any such problem in Navi Mumbai or Jodhpur?
- Ashok Chhajer:** Navi Mumbai in terms clearances do not have that much hindrances undoubtedly there has been hiccups and stringencies from the authorities of giving approvals but it is not on technical grounds it is on working grounds or it is on the ground of them to get it clarified. I mean to as BMC or as in Mumbai because of the rules and regulations changing and because of the DCR technicality there is a prolongment of giving approvals from the authorities to the developers that is not the scenario in Navi Mumbai today.
- Gaurav Gulati:** And what about Jodhpur?
- Ashok Chhajer:** Same, the small cities are very simpler.

- Gaurav Gulati:** And how is the economy shaping up in the small cities?
- Ashok Chhajer:** Economy scales when we compare to Jodhpur it is a center of the seven joining district so there is an inward migration on year on year basis. Today the population is something around 20 lakhs population which is a fairly good size of population compared to the when we talk about 2-Tier cities. And the living standards are high also and there are good facilities in terms of education and infrastructure are happening and industrialization in the region of Jodhpur.
- Gaurav Gulati:** Okay. One question related to again economy there is quite a lot saying on “Housing for All” scheme. So is it really working on the ground as well “Housing for All” schemes to 2022?
- Ashok Chhajer:** I would say because when you compare that when they want to tell about “Housing for All” the major attention is towards the needy people which the developers have been not catering to and that are houses below Rs. 15 lakhs that was something from Rs. 8 lakhs to Rs. 15 lakhs depending upon the cities and the depending on the size of the cities. In this direction the government is taking very good steps and the participation from the developers or the stakeholders or the contractors are happening up to larger extent.
- Gaurav Gulati:** Okay, fine. So we have a presence in that segment as well?
- Ashok Chhajer:** Yes, we have the major presence in that segment only.
- Gaurav Gulati:** Okay. So in Jodhpur our ticket size would be somewhere around 15 lakhs for that category of it?
- Ashok Chhajer:** No, EWS, LIG we have a ticket size where the government is giving a cost of 2,50,000 for one bedroom and 3,40,000 for two bedroom which we have to give it to the government and the pre-sale component which we have that is ranging for two bedroom, hall, kitchen 30 L so similarly for one bedroom, hall kitchen around 20 L. So 25 L is the ticket size in terms of MIG A and for the 8 to 15 L it is categorized in the category of economic weaker section and low income group.
- Moderator:** Thank you. As we have no further questions, I would like to hand the floor back to Mr. Diwakar Pingle. Please go ahead.
- Diwakar Pingle:** I think before we close Mr. Chhajer I just had one kind of query for Mr. Chhajer. How should we see the next three quarters panning up as far as Arihant’s business is concerned I mean will we see some kind of momentum building up or do you think this will continue for some time given the kind of condition in the market. How should we kind of view the next three quarters?
- Ashok Chhajer:** The condition of market in the next three quarters, I personally would say that is not going to change in terms of sector and in terms of cities and where real estate is happening. When we talk about Navi Mumbai it may have a little edge as the inauguration of the airport would be

seeing up day light within one year or so and with respect to the scenario we always have a philosophy that there is never a no market. There is always a market for a specific product at a specific time and on the same line we have already built up over strategy to change the product line which suits to the existing buyers and that can pull them across to prepond their decision and that is where we have today strategy that the product should not have more fills but it should have but it should have better planning good quality of construction and at an very reasonable price.

Moderator: Sure. We have the next question from Anil Tulsiram from ContrarianValue Edge. Please go ahead.

Anil Tulsiram: Yes, just want to understand your profits your revenue are declined by 9% but your profits have increased tremendously so, what is happening in the numbers?

Ashok Chhajer: This quarter we had a project where the total construction was completed and stock in hand had a sale that is why the sales revenues are increased whereas the cost towards these sales were already completed in the previous year. It was already booked in the previous year.

Anil Tulsiram: So can you explain your revenue recognition policy, how do you recognize revenue on percentage completion or completed contracts which that you use?

Ashok Chhajer: We have adopted percentage completion of project methods since 2012 onwards wherein the first filter is that the estimate cost of the project should have been met by 25%. So if 25% of the total construction cost excluding the land cost is being tied up on the first filter that trigger is there for revenue recognition and the second filter that the sales amount received by end customer should be to a range of 20% of the total flat value which he has purchased. So after these two filters the revenue reorganization is done with respect to the percentage of construction which is completed. So we do not recognize with or show up numbers with saying that Rs. 10,000 of cheque is received and hence the sales have been booked or we do not adopt completion method where we differ the tax liability to an larger extent because that would be an one-time burden when the projects would be seeing completion day.

Anil Tulsiram: Since you are adopting percentage completion you said we have recognized the cost of construction in the earlier quarter. If we are working percentage completion we recognize the cost in the same quarter in which sales is recognized, right. I have not understood why the revenues have declined by 9% but your EBITDA has increased.

Ashok Chhajer: As we told that the revenue is related to the construction expenditure which has taken place so for the project Arihant Amodini the total construction expenditures were booked in the financial year ending 2015 March the product which was ready possession those flats have been sold in this quarter due to which the revenue is there but the cost is not square footage is sold hence the profit increases.

Anil Tulsiram: Okay. And another thing over the last three years, what is the average construction we have been doing every year?

Ashok Chhajer: Around at a time on the shelf there is an ongoing construction for 23 lakhs to 30 lakhs square feet and in terms of possession around 10 lakh square feet of possession is given. So it is by a thumb rule that three years of cycle is there one-third of the square feet that has be delivered and for delivering 10 lakh square feet there has been an online construction for 30 lakh square feet happening.

Moderator: Thank you. Ladies and gentlemen, as we have no further questions, I would like to hand the floor back to Mr. Ashok Chhajer, Chairman. Please go ahead.

Ashok Chhajer: Aman, would you like to take it up from here, from closing comments?

Aman Verma: I on behalf of Arihant Superstructures Limited I hereby, thank everyone for taking their precious time out and participating in this concall of Q1 FY-16. I hope you already have a broad sense of Arihant's operations and business model. I would like to interact with you guys further for any sort of queries and further interaction. I would welcome your queries in regards to the results and other business operations of Arihant, you can always put your queries Diwakar and Umesh, I will be available to answer these. I once again thank you all for participating in this presentation.

Moderator: Thank you gentlemen. Ladies and gentleman, on behalf of Arihant Superstructures Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.