



“Arihant Superstructures Limited Q1 FY2018
Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Arihant Superstructures Limited Q1 FY2018 earnings conference call hosted by Emkay Global Financial Services. We have with us today Mr. Ashok Chhajer, Chairman & Managing Director, Mr. Manish Mehta, CFO, and Mr. Umesh Jhawar, VP - Strategy & Investor Relations. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference, please signal an operator by entering "*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Adhidev Chattopadhyay of Emkay Global. Thank you and over to you Sir!

A Chattopadhyay: Good evening everyone. On behalf of Emkay Global, I would like to welcome the management of Arihant Superstructures and thank them for giving us this opportunity to host this call. I would now hand over the call to Mr. Umesh Jhawar for his opening remarks. Over to you Sir!

Umesh Jhawar: Thank you Adhidev. Welcome everyone and thank you for joining us for the Q1 FY2018 results ended on June 30, 2017 earnings call for Arihant Superstructures. I am Umesh Jhawar and I take care of Strategy & Investor Relations at Arihant Superstructures Limited. Please note that the results and presentations have been mailed and you can view these on 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 & Managing Director of Arihant Superstructures Limited and Mr. Manish Mehta, CFO of Arihant Superstructures Limited. 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 of the future and which can be considered as a forward looking statement must be viewed in conjunction with uncertainty and the risks that we face. These uncertainty and risks are included, but not limited to what we have 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. Ashok Chhajer. Over to you Sir!

Ashok Chhajer: Good evening and welcome everybody for the Q1 FY2018. The revenues this quarter has touched Rs.576 million where the EBITDA was Rs.109 million with a PAT of Rs.49 million and after minority interest Rs.39 million. With respect to what happened in the first quarter there had been the two big clouds of RERA and GST hovering over the real estate sector as well as uncertainty from the customer side how real estate pricing would be post GST, that is after the first quarter and post RERA registration. There had been a lot of stalemate in sales in this particular segment of housing. Though with our strategies of sales,

we could achieve 361 flat sale where the target is around 1800 flat sale this year annually and which means 150 per month and 450 for the first quarter. We have been short to an extent of 20% and we are confident of making it up in the coming quarters. What we did in the last quarter was to increase our strength, workforce from sales as well as admin, management, till now to a tune of around 70 to 75 people both in Navi Mumbai as well as Jodhpur and to get ready for the increasing demand for the affordable housing as well as to cater to the projects, which have kick started marketing/sales as well as engineering. In addition, two very respected people from the industry joined our board which has been enlarged and the additional independent director Mrs. Vijayalakshmi Iyer who is a former Chairperson, Bank of India attended the meeting also and has consented, Mr. Raj Narain Bhardwaj who is the former LIC Chairman he has been welcomed as an independent director. With this I throw up the session open for Q&A, so that we can straightaway come to the concerns of the real estate.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Ravi Purohit from Securities Investment Private Limited. Please go ahead.

Ravi Purohit: Good evening gentlemen. Couple of questions. One was now that GST is in place and RERA is also in place what is the status of our projects in terms of RERA registrations both in Maharashtra as well as Rajasthan have all our projects been registered and also what is the situation on the ground in terms of things like which the government had announced earlier in the year the CLSS scheme for MIG-I and MIG-II have any of our projects availed of those benefits and if yes how many flats we have been selling in those and where do we see demand in those particular segments?

Ashok Chhajer: We have registered all the projects, which fall into the category of the regulation of RERA and in number it is 14 projects across Mumbai as well as Jodhpur. The projects, which falls into completion category in Jodhpur as well as in Navi Mumbai that has not been registered as they were not required to be registered after getting the occupancy and the completion certificate one. Two from the RERA the after effects at Jodhpur was not that much as the customers were okay with RERA coming in or not, so that is why we could do the second phase launch of Arihant Anchal, which was priced at Rs.22 lakhs and where we opened up second phase, which was to a tune of 400 flats where we could sell 206 flats in the first 15 days starting from May 1, 2017 to May 15, 2017. In Navi Mumbai as Maharashtra had been very much vigilant about RERA and had been the maximum news hence the customer had been into a wait & watch mode and now after RERA registrations and etc., they are coming up in the same fashion because they wanted to wait for it. I see the GST as well as RERA

cloud fading in the next two quarters more and there on it will be in complete different real estate, which you could see up in terms of sales as well as implementation of the projects. One more thing you asked me..

Ravi Purohit: About the CLSS scheme has it taken off and have we has a company utilized that scheme for MIG-I and MIG-II category of?

Ashok Chhajer: The CLSS interest subsidy has to be availed by the flat owner himself directly by doing an application to the housing loan bank, so people have filed up their cases with SBI Jodhpur where they fall into this category of availing the interest subsidy and I do not have the numbers. We already have got some of the housing loans disbursed and largely are in still process because that tells that people have applied and it takes some time to get them this benefit. May be in the next quarter once they get this benefit the housing loan would be disbursed to the company.

Ravi Purohit: When we say that all our projects in Maharashtra could have been registered for RERA, we have made the applications or we have received the?

Ashok Chhajer: We have made all our applications on July 26, 2017 that was the last project, which was registered, which was filed application and registration certificate is being received on daily basis. I think something around out of what we have registered in Mumbai about 70% to 75% certificates have been received and maybe the other are to be followed up in the next 10 to 15 days.

Ravi Purohit: So typically in your experience they have taken like couple of weeks to come the turnaround has been like?

Ashok Chhajer: The RERA regulator earlier on the first stance when there were less applications they took seven days. There are table one, table two, table three, table four and everything is online, you can give your file where the approval stage has moved across and because maximum of the applications of Maharashtra around 10000 has been filed up in the last one week of July, so it would take up that little more time of one week or so. Still we would say that RERA is very fast to process up all the applications, so doing up 10000 in one month would be in good record time.

Ravi Purohit: But you are quite comfortable with the turnaround time?

Ashok Chhajer: Yes.

- Ravi Purohit:** Thank you so much and all the best. I will get back in the queue.
- Moderator:** Thank you. Mr. Chattopadhyay would you like to proceed with questions?
- A Chattopadhyay:** Yes I have some questions in interim. Sir first thing is I want to understand from a company point of view impact of GST and RERA particularly on a sales and our collection cycle how have we reworked our agreements and whatever GST now is there how are we passing on the benefit to customers in the form of input credit if you could give us some clarity on that please?
- Ashok Chhajer:** For the implementation of the GST the chart of masters has been prepared new and accordingly the book keeping is being done. Accounts are being maintained. To pass on to the benefit of the GST input credit we have worked out on real time basis on project to project with respect to that particular project sale price as well as the construction cost because these are the two factors, which maps out the total benefit to the company in terms of input credit and we have already written letters to all of our customers of different projects with the outcome of the maps, which ranges between 3.5% to 5% of input credit to be given as GST discount. The method of passing of the discount is not on rate basis. Our bill format we have formatted it out like say 1 lakh is the bill amount and 12000 is the GST, so the bill amount would be 112000 and below the bill amount there would be like GST payable by customer 8000 and GST payable by developer 4000. So under anti-profiteering act we have taken up the right measures where the department as well as the customer can identify that this is what has been passed to us.
- A Chattopadhyay:** Sure and also you could help us understand for any upcoming or new launches in terms of a collection cycle does it change under RERA are there any restrictions imposed and will it affect your cash flow cycle overall for the project?
- Ashok Chhajer:** Cash flows due to GST had been good in the month of June people paid up to a large amount of due amounts, which were there to get benefited from 6% of the total cost from service tax and VAT tax vis-à-vis to the 12% and coming forward with RERA and GST the sales would be what has to be looked into, but from the collection cycle I do not think there would be a large lag over. As such today the correction cycle has moved out to around 60, 90 days plus may be sometimes even some of the projects 100 days.
- Adhidev C:** Sure that was helpful. Sir next on the business and development side obviously with RERA coming in, so we are hearing a lot of smaller developers are expected to get squeezed out of the market, so what signs are you seeing of this, are you seeing lot more proposals coming

to you and what is going to be the company strategy on annual basis how much do we intend to set on land acquisition and how many projects would you like to take up on a fresh basis every year?

Ashok Chhajer: Yes the business development and land department have already got a good pile of projects and opportunities, which we are filtering out what would be the good one to us and would be more profitable, but the management's basic principles that has been adopted is that affordable housing would be taken on outright basis by purchase of land and for any product, which is above Rs.5000 per square feet we would prefer or we would target that, it is taken on an asset-light model where what we shell out for the cash is less for the land payments.

Adhidev C: Sure Sir! That was helpful. I will come back in the again in the queue for more questions.

Moderator: Thank you. We have the next question from the line of Apurva Mehta from KSA Shares and Securities. Please go ahead.

Apurva Mehta: Just wanted to ask that now post GST implementation one-and-a-half months has already passed, so how is the demand and how are the new sale of the flats going on, is it coming back to normal or still there are people who are not willing to buy or something like that?

Ashok Chhajer: The frontline sales executive's feedback from our office who interact with the clients is that they are not very much talking of GST. As earlier they also used to pay up 6% of service tax and VAT tax and today around an average of right from 3.5% to 5% say around 4% of rebate being given to the old and new clients both it appears to be that it is a matter of only 2%, which they try to get it bargained from the price point of view and be satisfied with the purchase, which they have done, so there is no step back from the customer side looking into that, that is a huge burden of GST as it is being passed on by the developer also under anti-profiteering clause.

Apurva Mehta: Another thing was that how would we impact on the input credit, which we are going to get, it would be totally passed on that there will be some benefit, which will be kept on our side?

Ashok Chhajer: We have kept up 0.5% in benefit not to be passed because that would be additional cost towards the management setup and consultants and all the administrative work, which has been required, so as a company we are not keeping with us anything.

- Apurva Mehta:** Post the new implementation of RERA what will be a shakeout in our industry, is there a possibility that there will be all the small builders or the builders who are not efficient will have to close down their shops?
- Ashok Chhajer:** I do not put it as small or big, it is about the culture of working, so whoever would adopt to the regulator and the processes set by the regulator they would always have position and who already had been into not doing things in a proper fashion and did not have any attitude towards servicing their clients majorly having taking customers for granted. On that front some of the people who have not been into bending towards services they may think that this is not a even playing field for them today. Let me opt for any joint ventures or JDA, but we cannot put it up like that. All the small will go off and the big would remain. Undoubtedly the bigger developers would consolidate and strengthen the position because they are into adhering to the act and the regulations.
- Apurva Mehta:** Thanks a lot and wish you all the best Sir!
- Moderator:** Thank you. We have the next question from the line of Hemang G from Anvil Shares & Stock Broking. Please go ahead.
- Hemang G:** Actually I joined late in the call. I just wanted to know how much square feet we had sold in the quarter.
- Ashok Chhajer:** We sold around 361 flats, which is the size of 333000 square feet.
- Hemang G:** How do you see the full year as far as your target is concerned like how much?
- Ashok Chhajer:** We are targeting around something around 1.7 to 1.8 million square feet, so that is around 1800 flats.
- Hemang G:** Thank you very much.
- Ashok Chhajer:** The value, which has been sold for your further more information out of the 333000 is Rs.100 Crores.
- Hemang G:** Sorry.
- Ashok Chhajer:** Rs.100 Crores.
- Hemang G:** Thank you very much.

- Moderator:** Thank you. We have the next question from the line of Deepak Kapoor, an Individual Investor. Please go ahead.
- Deepak Kapoor:** In the press release you said you sold 361 flats this quarter and in the presentation you have shown that you Arihant Anchal Jodhpur was launched in May 2017 and you sold 225 plus units there, so is my understanding right that from all your other projects you could only sell about 135 odd units?
- Ashok Chhajer:** Yes that is what I told that in Jodhpur clients were not so much in the backfoot for RERA and GST. Mumbai there were a lot of uncertainty and there were a lot of news, assumptions and talking on both these across media and individuals. People wanted to wait to understand what real estate pricing would be, so that is why Navi Mumbai sales had been slow.
- Manish Mehta:** April, May, June not just June.
- Ashok Chhajer:** April, May, June yes.
- Deepak Kapoor:** I think the last concall around you indicated target of selling around 1800 units during the year do you think you will be on track to achieve that?
- Ashok Chhajer:** Yes 100%. As GPC 1800 that means 150 per month and one quarter means 450 and we have reached up to 361, so 20% short of it and in terms of numbers something around 80 to 90, which is very much doable as everybody knows that real estate season in reality starts from October, November, December and last till March and first week of April, so April half, May, June are always vacation period and then July, August something seasonal, so the real sales happen up only from the month of October. This time due to RERA and GST it would take one more quarter to get the momentum up.
- Deepak Kapoor:** So what you mentioned about GST and RERA affecting sentiment and creating confusion are you seeing anything improving on the customer side in the last one-and-a-half months?
- Ashok Chhajer:** When we see our call center as well as the lead side the sales at Navi Mumbai has generated something around 6000 to 7000 leads in the last one-and-a-half two months, which is good substantial to filter out.
- Deepak Kapoor:** Great. Sir could you just throw some light on the EBITDA margin compression year-on-year from 23.5% to about 18.9% Q1 FY2017 to Q1 FY2018 the EBITDA margins are down about 450 basis points?

Ashok Chhajer: On Q1 to Q1 there is no improvement, but on Q4 to Q1 there is a decrease because the project, which has got triggered off for the first time revenue recognition is Arihant Alok Project, which is sub Rs.3000 per square feet of product line and where the project is on area sharing basis to the landowner, so it is on asset light model rather than the other projects, which triggered off in the Q4, which were all ownership projects. So what happens in an area sharing or in JDA or in JV or in where landowners where anything is shared with the land is that the topline for the sales from our side remains the same, but the expenditure goes down totally to the project and that is how the margin between such projects, so will always be little less where there is an asset with asset light and joint venture project and to largely see our company if you analyze all the projects at one go you find out that there are two baskets of projects with different behaviour of profit of margins and revenue, some of them are with margins of 15% and below and some of them are 25% and around, so this quarter what poured in was from the category of first one where the Arihant Alok as well as Arihant Adita where the margins has been relatively lesser than the 25% than the other basket. Coming forward we are looking forward for project sales from new launches Arihant Akanksha as well as ongoing Arihant Aalishan, which are within little higher ticket size with higher margins and Arihant Anshula with higher margins, so this is how the behaviour of the projects would be there. Two baskets would be there with such a different type of revenues.

Deepak Kapoor: Blended EBITDA margins for the financial year do you think?

Ashok Chhajer: Blended EBITDA margins as per projections and the business plans it is 33% and something around 1% or 2% plus minus, but that is on the total project and total project cycle. This year we would be able to do up with the same around EBITDA margins of say 27% to may be 30%, which would come to know more clarity only after Q3.

Deepak Kapoor: Alright Sir! Thank you so much. I will come back in the queue if I have another question.

Moderator: Thank you. As there are no further questions, I would like to hand the floor back to the management for closing comments. Please go ahead.

A Chattopadhyay: Thank you so much everybody for participating in today's concall and with this I end the concall. Thank you so much.

Moderator: Thank you gentlemen. Ladies and gentlemen, on behalf of Emkay Global Financial Services that concludes this conference. Thank you for joining us and you may now disconnect your lines.