



“Arihant Superstructures Ltd. Q2 FY-16 Earnings Conference Call”

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Moderator: Good day, Ladies and gentlemen and welcome to the Arihant Superstructure Q2 and H1 FY16 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. 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 ‘*’ and then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Umesh Jhavar- VP- Strategy and Investor Relations, Arihant Superstructures Ltd. Thank you and over to you sir.

Umesh Jhavar: Thank you Malika, welcome everyone and thank you for joining us for the Q2 FY16 result ended September 30th 2015 Earnings call for Arihant Superstructures. I am Umesh Jhavar and I take care of Strategy and Investor Relations at Arihant Superstructures Limited. Please note that the results and presentations have been mailed to you 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 of Arihant Superstructures Ltd. and Mr. Aman Verma – Chief Financial Officer of Arihant Superstructures Ltd. We will be starting this call with a brief presentation giving an overview on 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 which can construed as a forward looking starting statement, must be viewed in conjunction with uncertainties and the risk that we face. These uncertainties and risks are 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: Hi good afternoon everybody welcome. Q2 as I have seen all over across India, the real estate across the industry the sales are dropping, the top lines are not good across even in Metro cities. At Arihant Superstructures Ltd., the total revenue was almost the same as Q1 and when we compare the shorter span of time from Q1 to Q2, it has seen an EBITDA increase of 17% and EBITDA margin is today at 27%, the net profit has increased from 39% from Q1; that is to the tune of Rs. 32 million that tells us what today works out is an old strategy which we had taken way years ahead of buying a land at very low prices and the risks being divided. Rather than depending upon one market to have the largest market share, we spread out to almost 7-8 different locations and that is yielding us new sales also as well as the sales which have been done earlier are propping up the top lines. This is how I think it would be looking ahead also in the years to come. The key factor of buying land at strategic prices will help Arihant Superstructures Ltd. a long way. We can now open up for any question and answer session, so that we can have more interactive session rather than a statement from our side.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. We will wait for a moment while the question queue assembles.

Ashok Chhajer: To add up, Arihant Superstructures Ltd. also launched up a project Arihant Anaika at Taloja and that has shown the strength in the market; that in this time the company is launching up project

not at pre-launch stage but after the all approvals were in place, after the construction has started and work has reached up to plinth stage, so that is what the time was, when we launched up new project Arihant Anaika at Taloja Phase-II. It has shown up good strength of the company in the market in terms of stability.

Diwaker Pingle:

I just have a brief question to the chairman on the general demand environment, as you know Arihant is very strong in the Navi Mumbai, MMR region and Jodhpur region, sir if you could just give a broad overview on how is the demand situation playing out in both these areas and how do we, obviously we know it is kind of slightly depressed right now but if you could talk about how the demand situation in both these areas, how are we still managing kind of attract people to come visit our sites and things like that and also with respect to Jodhpur, how is that panning out?

Ashok Chhajer:

There is actually a good market demand and the major things which they are eyeing out is for good rate and good bargain and with respect to that, as our land cost was low and we had good margins to play with, we have dropped down our prices which has proved to be an attraction and that is how sales are happening. Today the buyer is looking for a price lesser than what he has heard of in the last one year and if anybody who is adopting a strategy of going and selling the product at a price tag for the year 2013, there are good sales happening and that is what we have also done, we have swung back to around 2013 prices, though that are on the lower side but as a company it is yielding us sales as well as a company because of the margins which we had, EBITDAs which we had, it is possible for us to sustain and to have profits in the books.

Diwaker Pingle:

I think what you are saying is there is an obviously a demand. Should I assume that your realizations are slightly lower than what was earlier, given the fact that you have been, I think pricing it competitively so to say, which I will not say kind of going down in the pricing but obviously pricing it competitively to attract new customers, is that a right statement and if we do have some numbers of what kind of realization you are getting on the new project sales; that would be helpful?

Ashok Chhajer:

Also what added up Diwaker was in the month of October, the little swing, 1) the total CAPEX size was at a desired price by our buyers. 2) The housing loan interest rate has also dropped down and that is showing up a little more higher in buying strength, than it was at earlier. It looks like for buyers it is a good time ahead for having interest rates around 9.75% and 9.5% in housing loans. In terms of numbers, around the major contribution totally came from the month of September, the total numbers have been something around 110 units have been sold and October was still good, so we will keep it up, I think we will be able to achieve not the whole target but nearest to the whole targets in the year which we have decided.

Diwaker Pingle:

Excellent and when I look at your presentation, I see that we have about 11.4 million square feet of developable area, obviously that is a big number now considering that much of development is to be done, the question I have for you and for the audience is; when is the maximum

percentage of all these development going to happen, do I assume that they all are start taking shape in 16 or 17, when does the big project start?

Ashok Chhajer: Almost all the projects are on construction stages except the one; Arihant Akanksha and that is the biggest of all and that would....

Diwaker Pingle: Size of the project Sir?

Ashok Chhajer: It is around 2.5 million square feet, 2.7 million square feet saleable; so it is a good size project and yes, for the next one, one and a half, one year around with the government policies, we believe real estate is still the best asset class which any Indian can subscribe to. Given all the 6 asset class across the globe, I do not think it is easy for a normal Indian citizen to understand any of the other; maybe, the capital markets to a smaller extent, maybe to commodities or Hedge funds or private equity funds; it is still the most likeable and most preferred investment which will be seen across India because I think people understand it very well.

Diwaker Pingle: The last question from my side before I think probably the participants can now chip in. How do we kind of differentiate ourselves from the market that we are present in? What is it that drives customers to let us say, an Arihant compared to another xyz player?

Ashok Chhajer: Today what plays in people's mind is the security that the project is not going to see a stoppage at any given day and that is why they are secured at Arihant; that the group has a track record of two decades and above. The trust, the stability, the confidence which they have, that is paying us today large dividends, including the customer relationship; that is what we display in our advertisements also which most of the companies are not yet adopting ; there is no transfer charges for any buyer who has bought an apartment and wants to sell, there is no locking period for anyone to sell whatever he has bought at pre-launch or at the other stages is also. So, an exit is never locked and I think this should be adopted across the industry slow and steadily; if there is an exit it should not be locked. And at Arihant, any buyer who has bought anything, his exit is not locked.

Moderator: The next question is from the line of Rahul Jain from Systematix Shares. Please go ahead.

Rahul Jain: Looking at the square feet data which we have sold in the first half, if you could share in terms of what is the growth in terms of the million square feet v/s the first half and how you are seeing this changing behavior in terms of the sales? Is it more function of the kind of launches or I am little surprised that we have seen this growth coming from Jodhpur kind of a market v/s the MMR or around areas.

Ashok Chhajer: From Q1 to Q2, in terms of square feet, yes we sold something around in Q1 17, 000 square feet of space and in Q2 we sold around 98, 000 square feet of space. And contribution; I would say that major is from the MMR region other than Jodhpur. So the Navi Mumbai and MMR still dominates the lot.

- Rahul Jain:** Yes but your, the H1 v/s FY15, if I have to see, Jodhpur represents 23% of the area booked, so I think that is quite a substantial number.
- Ashok Chhajjer:** Yes, Jodhpur is a good market; it is not like a very bad market but still as actual leases, where a product is sold around Rs. 27 lakhs, Rs. 28 lakhs for a 2-bedroom-hall-kitchen in ready possession and surprisingly we have got good sales at Jodhpur.
- Rahul Jain:** And if I see this; per unit square feet kind of a data; for the first half it has come out to be 925 square feet, so this 1,65,000 square feet, this is the super built up number.
- Aman Verma:** Rahul, 1,65,000 is total H1 data.
- Rahul Jain:** Yes, so this is super built up?
- Aman Verma:** Super built up, saleable.
- Rahul Jain:** Okay, so the saleable per unit comes out to be around 925. So basically, I need to understand that the kind of region we may be working and the unit size also, I think this comes under the affordable definition and if the traction here is not that great, so I think it is overall worrisome sign, right?
- Aman Verma:** Rahul, on the other hand, we see a rising growth trends as compared to Q1 to Q2 in terms of number of units sold, in terms of square feet, in terms of realization per square feet. So, I would go on the fact that the trends are improving from quarter 1 to quarter 2 and hence we see further things getting better.
- Rahul Jain:** No, so firstly, actually when I asked about the square feet data, I was asking the H1 square feet which we might have sold.
- Aman Verma:** Rahul I will come back to you, I do not have that data, but I think..
- Rahul Jain:** If you have the rough volume growth number, if you have?
- Aman Verma:** No, as compared to H1-15, it is subdued only, this H1-16. What I anticipate that it was around 2.5 lakh square feet for H1-15 as compared to 1.65 lakhs, but I do not have the figure right now.
- Rahul Jain:** And from a future launch perspective also, if I see the major launches which probably are due are in the region of Panvel, Khopoli and Jodhpur, so the average realization in all these geography would be in the vicinity of 3000 to 4000?
- Aman Verma:** Panvel is within range of Rs. 6000 per square feet and other products are with a bandwidth of Rs. 3000 per square feet to Rs. 4000 per square feet.

- Rahul Jain:** Okay, but how you are seeing the traction, I mean recently I was doing some checks in Panvel and was little surprised to see the rates in the range of Rs. 5500 per square feet to Rs. 7500 per square feet in Panvel and that too little far off locations from the station also. So, is there a good demand for this ticket size in that region?
- Ashok Chajjer:** Still it is selling.
- Rahul Jain:** Yes and I could see this across the board.
- Ashok Chajjer:** How was your experience when you wanted to close on the property or even how did you find it or what could you analyze it out at the end?
- Rahul Jain:** I just feel it is too far for somebody to pay Rs. 70 lakhs and staying ..
- Ashok Chajjer:** Still it is a very strong market.
- Rahul Jain:** 7- 8 kilometers away from the nearest station.
- Ashok Chajjer:** True. Still it is a strong market.
- Rahul Jain:** So, does that mean that the entry ticket point which in Bombay ...
- Ashok Chajjer:** But Rahul, you are seeing it across is the existing railway stations and, etc., but the futuristic proposed corridors and the transport systems, the master plans are superb as in Taloja Phase-II, where we have almost 3 projects, it is almost one and a half kilometer from the proposed Metro Railway Station which is construction wise half way through and which would start its operation in the year at least by 1st January, 2017. Similarly, when you talk about even Panvel outskirts, there are Railway Stations which are being extended, which are being built. So, the new, after a 5-year time, it would not be like a distinct location or distinct vicinity or 6-7 kilometers, it will again come within a periphery of 3 kilometers.
- Rahul Jain:** So, given that, from positioning perspective of most of our projects, I would say, they are kind of an entry price point for the Mumbai, MMR or whatever you know, any person who wants to work in Bombay and want to live anywhere nearby, so I think that Rs. 40 lakhs to Rs. 80 lakhs kind of a band is very well covered by us, so how you see this helping us in the total volume number going forward?
- Ashok Chajjer:** Numbers; in terms of these price range, it would see a good steady increase as over the months to come across also, the sentiments are going positive and I think customer will themselves pull another customer.
- Rahul Jain:** And the discount rates, which you were talking about that Fiscal '13 rate, are being offered now; these are specifically to the North market or is it across the board?

- Ashok Chajjer:** I think, it is across India and maybe on particular project. It may not be exactly, but yes, today it is not escalating and it is being sold at a price lower or at least at the same price as it was more than one year ago. So, nothing wrong in it; it is not like that property should appreciate for a home buyer, it is a purchase of an asset for use and he does not look into, he is just satisfied that he becomes happy with an increment in prices. As a company from our side, we term it as A) our construction cost, B) land cost, C) administration cost, D) our profit and keep on selling and till it sells, I think everything is good.
- Rahul Jain:** So I mean, I appreciate that you want prices to stay here; we would love to have that happen.
- Ashok Chajjer:** But it will now be affordable to us.
- Rahul Jain:** But from our own realization perspective in our own project which we may be doing for some time or may be close similar kind of a project in the same vicinity, how we have seen our prices, it has been flat form a 2 year perspective?
- Ashok Chajjer:** Yes, it has flat.
- Aman Verma:** Rahul, virtually if the prices have not increased, you know, it has actually reduced virtually; these are absorbing the interest and the escalation. The prices; virtually it has reduced.
- Rahul Jain:** No, but this is one of the rare occasion, where I am seeing a developer talking of a flat or effectively lower realization. I see most of the guys irrespective of their run rate going down by 30%, 40%, their realization looks up by 10% every year because they want to probably show profit for their investors on paper.
- Ashok Chhajjer:** Thank you Rahul, thank you very much. We have always believed in transparency and doing honestly and nothing wrong in running away with the facts which are existing and we are happy the way the business has been performing. I think we are comfortable, we are stable.
- Moderator:** Thank you, the next question is from the line of Nitin Gandhi from KIFS. Please go ahead.
- Nitin Gandhi:** How do you plan to overcome this; your inventory rising and long term debts continuously rising because sometime you have to take a call and clear off with this inventory because there is no point in building all this, right?
- Aman Verma:** Nitin, this is Aman with you. The company itself is an infancy and if you see our project profile, most of the projects are into sub-25 completion stage and at this stage, company needs money, in the form of external debts or internal unsecured loans or in form of equity. So, I do not see, this whatever small amount of debt, to be replaced in near future at least; coming two years. Going forward, after two years, we would plan to replace it by our reserve and surplus generating from the project or expansion of further acquiring new projects.

Nitin Gandhi: Can I have September figures for the same?

Aman Verma: The secured is Rs. 52 crores.

Nitin Gandhi: Can you tell me long term; secured, unsecured both?

Aman Verma: Long term, around 100.

Nitin Gandhi: Same as '15. What is your inventory level then?

Aman Verma: Inventory is Rs. 197 crores.

Nitin Gandhi: And short term borrowing?

Aman Verma: Rs. 76 crores.

Nitin Gandhi: So increase is there in a short term. What are the typical rates for the short term and long term?

Aman Verma: For short term, it is around 13.5%, 14% per annum and for long term it is 15% per annum. So, our borrowings are nothing above 15% per annum.

Nitin Gandhi: And long terms are majority banks?

Aman Verma: No, those are all promoter funds.

Nitin Gandhi: Can you share with me, what are your funds committed for the Arshiya, Akanksha, Adita?

Aman Verma: Funds committed?

Nitin Gandhi: Yes, so far you would have committed certain funds to reach certain stage at this point of time wherein you need certainly debt to take up.

Aman Verma: Arshiya has a secured loan of sanction limit of Rs. 60 crores, wherein we have borrowed Rs. 30 crores till date. Akanksha does not has any secured loan,

Nitin Gandhi: What is your committed, what is your spend as on date; Akanksha?

Aman Verma: There is a contribution from promoter and the expenditure is around; Akanksha total investment till today must be something around Rs. 48 crores, Rs. 50 crores.

Nitin Gandhi: Okay and there is no secured borrowing against that?

Aman Verma: Nothing, absolutely.

- Nitin Gandhi:** And what about Adita and Agrima?
- Aman Verma:** Adita, I do not think there is any borrowings or any investment because it has already given the complete payback, so now what is coming in and out is at the construction level.
- Nitin Gandhi:** I am saying, Adita - Phase IV.
- Aman Verma:** Adita - Phase IV, Phase II, yes nothing.
- Nitin Gandhi:** And Agrima?
- Aman Verma:** Agrima, the project is yet not started, so our borrowings have not been done, the investment from reserves and surplus today, must be to a tune of around Rs. 35 crores, Rs. 40 crores. I can get back to you exact numbers and that is what is the land cost all across.
- Nitin Gandhi:** So, what you are saying is that; approximately, Rs. 120 crores is committed to the projects which are yet to be commissioned and against that your net worth is just half of that.
- Aman Verma:** Come again, Nitin.
- Nitin Gandhi:** As on date, the projects which are yet to take off, you have committed Rs. 120 crores against your reserves of Rs. 60 crores.
- Aman Verma:** Yes.
- Moderator:** Thank you. As there are no further questions from the participants, I now hand the conference over to Mr. Umesh Jhawar for his closing comments.
- Umesh Jhawar:** Thanks everyone for taking off time and participating in this call and I hope you got a broad sense of Arihant's operation and I look to interact with you in the near future. In the interim, if you have any questions, you can get back to me or Mr. Diwaker Pingle from Christensen to facilitate any questions you have, thanks once again and have a great day.
- Moderator:** Thank you very much members of the management. Ladies and gentlemen, on behalf of Arihant Superstructure Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.