"Arihant Superstructures Limited Q3 FY 2018 Earnings Conference Call"

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MANAGEMENT: **MR. ASHOK CHHAJER – CHAIRMAN AND MANAGING DIRECTOR, ARIHANT SUPERSTRUCTURES LIMITED**
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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Arihant Superstructures Limited Q3 FY 2018 Earnings Conference Call.

We have with us today, Mr. Ashok Chhajer -- Chairman and Managing Director; Mr. Pradeep Mehta -- CFO; and Mr. Umesh Jhawar -- VP (Strategy and 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 after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Umesh Jhawar -- VP (Strategy and Investor Relations). Thank you and over to you, sir!

Umesh Jhawar: Thank you. Welcome everyone and thank you for joining us for the Q3 FY 2018 Results Ended on 31st December 2018 Earning Call for Arihant Superstructures. I am Umesh Jhawar and I take care of Strategy and Investor Relations at Arihant Superstructures Limited.

Please note that the 'Results' and 'Presentations' have been mailed and you can view these on our website www.asl.net.in.

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 -- CFO.

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 constituted as a forward-looking statement must be viewed in conjunction with uncertainties and the risks that we face. These uncertainties and risks are included, but not limited to what we mentioned in a 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 Afternoon, everybody. Welcome to the concall. The revenues this quarter stood at Rs. 410 million with EBITDA of Rs. 84 million and PAT of Rs. 26.65 million which is a drop of almost 50% from Q3 FY 2017. And the total unit sales this quarter from the events of sales are to the tune of 283 units with 275,000 square feet and having a value of Rs. 125 crores.

After implementation of the GST the second quarter, sales have started picking-up from the third quarter across real estate sector and more predominantly in the affordable housing space. The sector is back on track in this category and we could perform up with more launches. The company did the first launch of Arihant Aspire that is our project at Panvel, Palaspe spread across 3 million square feet. We touched upon total sale of 290 flats out of the 650 flat of two buildings which have been opened for sales. The contract was outsourced to Capacit'e Infraprojects Limited for Rs. 825 crores. This project classifies as an Affordable Housing Project with 100% tax exemption under 80IB act under the Income Tax Act and subject to fulfilling of the pre-conditions of the act.

We are progressing towards the acquisition of new lands and projects in MMR region as Navi Mumbai is today on the top charts even in this week as Prime Minister Mr. Modi is going to inaugurate the foundation laying of Airport on 18th of February, this is just three days from now. He is going to come to Navi Mumbai to the inauguration and that has already opened up avenues of development across and employment growth. While majority of the developers would be looking to have a position in the Navi Mumbai market, Arihant has a good position in this market since last two decades and have been able to maintain it as is seen by the successful megaevents being taken across project after project. Between the last budget to this budget around five megaevents have been taken across at the project Arihant Anaika, Arihant Arshiya, Arihant Aspire, Arihant Anchal, where we could record around 700 plus flat sales. So, we are riding high on the flavor of Affordable Housing at very low cost. We have been able to maintain the efficiency in terms of maintaining the construction cost and the time limits. The major ticket sizes have been between the bracket of Rs. 25 lakhs to Rs. 50 lakhs for per flat. So 80% contributed to this segment and 20% of the total sales of 700 contributed to ticket size of Rs. 75 lakhs. We have also lined up more sales events in Q4. At the start of the Q4 in January 2018, we did the new launch of Arihant Anaika Phase II in Taloja, Near Kharghar wherein 10 days we could get 175 flat sales. Currently as well sales events are going on at Khopoli. So though FY 2017 was a bad year in terms of sales realization but the sector has seen an attraction even in terms of funds being coming to the sector and this opens up the new avenues for further development. We have today on the shelf around 1,900 to 2,000 flats open for sale. So that would be the target for the next year to achieve on phase-by-phase when we would be opening up the new phases also.

The company is already eyeing new lands for new projects. The company has been able to reduce the secured debt that is financing from the bankers which was around Rs. 127 crores on 1st April 2017 and as on 30th January 2018 not quarter but a month later after Q3, it has been brought down to Rs. 99 crores, so the secured debt has reduced from Rs. 127 crores to Rs. 99 crores even after servicing the debt and repaying off the debt. So this enables the company to reduce its risk to some extent.Out of the 13 million square feet of projects in hand around 6 million square feet where the construction is going on where the concrete is being poured, we see very positive cash flows in the next financial years. So I put the forum open for Question-and-Answers.

Moderator: Thank you, sir. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. The first question is from the line of Abhishek Anand from JM Financial. Please go ahead.

Abhishek Anand: My first question will be on the reported income statement. If I am looking at the EBITDA margin of both second quarter and third quarter it has declined significantly over the last year. Any particular reason for it, it is just an accounting entry or we have seen margin shrink by almost 7 percentage points?

Ashok Chhajer: The effect to this is (a) in Q3 the revenues were contributed by project Arihant Anchal which is around Rs. 2,000 per square feet - Rs. 2,100 per square feet. So it was a low ticket size product where though the percentage of margins are same, but in value terms, it goes down and during the Q3 when the events of sales have been taken like Arihant Aspire where we spend around Rs 20 million for the promotion which gets accounted in the P&L and as it is an indirect expense. So (a) the revenue was contributed by low ticket size product line wherein value terms the figures are less and (b) the direction of the indirect expenditures leads to it.

Abhishek Anand: So in Arihant Aspire what kind of margins do you expect?

Ashok Chhajer: Arihant Aspire there would be an approximate margin of around 30% - 35% of PAT margins.

Abhishek Anand: PAT margin?

Ashok Chhajer: Yes, PAT margin.

Abhishek Anand: EBITDA will be much higher?

Ashok Chhajer: This project qualifies into no tax on the earnings being 60 square meter and below into Affordable Housing.

Abhishek Anand: So my next question is on Arihant Aspire. So now that you are clear about 80IB benefit what was the process of actually getting the benefit? Did we require any approval from local authorities regarding the project or it is finally when you go to Income Tax then only it is going to be qualified as 80IB?

Ashok Chhajer: When we will go to finally to the Income Tax that is the point of time when it would qualify for no tax on the earnings and that is subjected to fulfilling of the pre-conditions of the act.

Abhishek Anand: So nothing right now is required. No, municipal approvals or anything is required right now for this particular benefit as Affordable Housing.

Ashok Chhajer: The municipal approvals have no contacts with direct taxes hence, it only certifies the area which is required for availing this benefit. It does not certified anything, it does not certify.

Abhishek Anand: Okay. It does not certify. And the rules are being followed as unique buyers basically no two flats being sold to a single buyer. Those things will be followed throughout the project.

Ashok Chhajer: Throughout the project.

Abhishek Anand: So the whole 3 million square feet is part of one single phase or it will be divided into many phases?

Ashok Chhajer: It is divided into three phases. So the RERA registration today has been done for one phase which is around three buildings and that would be to a tune of 1,000 flats out of which 650 flats are opened for sales and the construction has started off in full swing. Humungous size of construction has taken place in last two months, we would like anybody to visit the site and we can escort you to the viewing of the project.

Moderator: Thank you. The next question is from the line of Pratik Lambe from ARM Research. Please go ahead.

Pratik Lambe: The question actually was on the same lines as the previous question. Taking into account a period of nine months of this year and the corresponding period of FY 2017, it can be seen our EBITDA margins are lower by 500 basis points and even the gross margins are around down by similar around 400 basis points. So exactly, I wanted to know the reason or the thing that you explained about the Aanchal project and why are our margins actually lower and how do we plan to improve the margins because definitely understood that sales promotion and events that you have underserved have provided you the volumes but how do we intend to improve the margins going ahead FY 2019 or FY 2020?

Ashok Chhajer: The margins in terms of quarter-to-quarter will increase due to the contribution by product line which is of bigger ticket size that is something around 50 lakhs and around and with higher margins. So Aanchal was around Rs. 2,100 square feet and our other projects at Navi Mumbai are something around Rs. 4,000 square feet and Rs. 5,000 square feet. So in per square feet basis, it is generally 15% to 20% as our margins on. So on Rs. 2,000 you earn around Rs. 300 per square feet. On Rs. 4,000 product line you earn around Rs. 600 per square feet to Rs. 700 per square feet. So at the time, the other projects will start contributing relatively more when compared to very low or the lowest ticket size product automatically this would change.

Pratik Lambe: Okay, all right. And even you have said in your Presentation that you have much more events or sales line events line up in the Q4 of this fiscal. So I want to know whether this sales would be targeting, the events would be targeting in Navi Mumbai market or the Rajasthan market, sir?

Ashok Chhajer: Both.

Pratik Lambe: Both markets.

Ashok Chhajer: Yes, both.

Pratik Lambe: And how many numbers or how much would be the volumes expectation from these sales events as we have done around 700 in previous five of them?

Ashok Chhajer: This quarter till now so it is half of the quarter gone and we have touched around 250 flat sales. In the half of the Q4 is still balance and around an average of maybe something around 100 - 150 more is achievable.

Pratik Lambe: 100 to 150.

Ashok Chhajer: Additional to the 250 which is done in half of the Q4. So Q4 may see a total of 400 flats.

Moderator: Thank you. The next question is from the line of Kalpesh Parekh from Prabhudas Lilladher. Please go ahead.

Kalpesh Parekh: So basically my question was on your full year target what you had said, we were targeting somewhere around 1800 flat sales for the year. But I think in in first nine months if I am saying we are way below our target as such and for four quarter when you are saying 400 type of numbers what we are visualizing, do you think we will miss our target by nearly about good margin?

Ashok Chhajer: Yes, we will miss out the target.

Kalpesh Parekh: So then what would be the revised target, sir?

Ashok Chhajer: And it looks like something around 1,100 - 1,200 because in Q1 the impact of GST and RERA both could not be measured up and it was across the sector to a larger extent. So the RERA and GST really pulled down or stopped sales for almost four months. RERA started on 1st of May 2017 and up to GST registration till 31st of July 2017. So three months to four months were completely again washed out. So the sector when we see across in the last short history has seen the three major natural events and you have to that the sector has survived and still is the preferable sector and pulls the largest funding from the banking as well as private equity sector. It tells the potential of the sector and the favorism by the Government to push Affordable Housing and Housing for All agenda till 2022. It has a substance into it.

Kalpesh Parekh: Okay. But when we are talking of fourth quarter of 400 flats also then there also we are talking more of sales coming from basically Anchal or we are looking at somewhere others also starting to contribute?

Ashok Chhajer: This time 175 flats sales have come from Arihant Anaika II where the construction had just started off. So normally, it takes nowadays six months to nine months for a sales to get converted into a full mode of cash flows. Hence, the sales which we have done in the year 2016 - 2017, the cash flows would be less in the year 2017 - 2018 due to less sales in the previous year. So this year whatever sales come across the company would fund up and lead to larger cash flows in the next year.

Kalpesh Parekh: Okay. So probably next year we should see some more sales coming from this higher-end properties.

Ashok Chhajer: The sales have already come from the higher end as Arihant Aspire was with a per square feet basis of around Rs. 6,000 per square feet. Arihant Anaika is around Rs. 4,000 square feet. So the revenue recognition contribution from these projects would come in the fiscal year 2018 - 2019.

Kalpesh Parekh: So if I can ask a couple of more questions particularly. So this fourth quarter we should see margin expansion or there will be more pressure on margin, in that scenario.

Ashok Chhajer: The current sales are not going to contribute to a larger extent to the margins. If the ready possession properties get a larger amount of sale the numbers would see a change because all the ready possession properties where occupancy certificates are received, the expenditure is already done. And hence, the revenues and the cash flows both would contribute to a larger extent. So generally with our company as well as in real estate in a full flow where there are many numbers of projects are going on the revenues that is the percentage completion method revenues for the balance sheet are contributed by (a) the 100% completed ready possession flats; (b) by projects which have crossed 25% of construction expenditure which is the revenue recognition method as per institution standards. So the revenues majorly would be contributing two to three streams of different flow.

Kalpesh Parekh: Perfect. So probably we might see improvement but it might take one quarter or two more quarters as such to really percolate into it.

Ashok Chhajer: Yes, we should see up something around second to third quarter of the fiscal year 2019 and substantial change.

Kalpesh Parekh: And for this Aspire thing like where we have taken the service of Capacite they have started billing to us and we have started making payment to them?

Ashok Chhajer: We have made up the mobilization advance of Rs. 5 crores to them and their first billing cycle will start from the month of February so the bill would come up in the month of March.

Kalpesh Parekh: Okay. And for us to recognize will take some more time.

Ashok Chhajer: For us to recognize will be Q3, Q4.

Kalpesh Parekh: Q3, Q4, perfect.

Ashok Chhajer: It is a 42 storied building, we have engaged up with construction finance which is at the concluding stage of agreements being signed. It is to the tune of Rs. 200 crores of construction finance at a cost of 10.40% per annum.

Moderator: Thank you. We have a follow-on question from the line of Pratik Lambe from ARM Research. Please go ahead.

Pratik Lambe: I have one more question for you; presently we have the composition of 80-20 as the low ticket sizes and maybe the higher ticket size. So what could be the composition of the project in FY 2019 and FY 2020? Because as a result of a higher share of the very low ticket the margins were lower in the present fiscal. So what could be the composition in the coming period?

Ashok Chhajer: We can expect something around 40%-60%.

Pratik Lambe: So means you would be much focusing on higher ticket project?

Ashok Chhajer: No, the projects have already kick started off. So the projects Arihant Aalishan as Arihant Aspire which are half a ticket size of Rs. 75 lakhs to Rs. 1 crores the sales event will be are already targeted. Hence, we will find that change would happen.

Moderator: Thank you. The next question is from the line of Hemang Kotadia from Anvil Shares & Stock Broking. Please go ahead.

Hemang Kotadia: What is the level of inventory we are having right now like readily available flats? Last time around 200 units you have running like readily available flats as an inventory?

Ashok Chhajer: Ready inventories almost 175 flats, a little less only.

Hemang Kotadia: Okay. That is mainly into MMR or into Jodhpur?

Ashok Chhajer: Both. We have today ready possession at Arihant Arshiya, Khopoli something around 75 flats - 80 flats and now recently we have received an occupancy certificate for Phase-I of Arihant Amisha where possession has started off. So that would be added on that would be something around 70 flats - 80 flats - 90 flats more as ready possession. And in addition to its balance is in Jodhpur.

Hemang Kotadia: Right. And how is the environment in Jodhpur like how is the demand shaping up there?

Ashok Chhajer: Demand has been slow since quarter three as well as Q2. Q1 was very good in Jodhpur. Q2, Q3 have slowed down . We did a sales event in Jodhpur in the first week of February this year 2018 and we found out 250 families visits to the location. That tells that demand is there. Matching of the aspiration of the client as well as the pricing or the company's price tag has to be there. If it goes well then there is good sales. In Jodhpur, we have witnessed that all other developers have stopped their constructions and we are the only one whose constructions are still going on and possessions are also going on. We enjoy today almost 35% of the market share and in coming days also it would be a non-compete zone for Arihant as major of the players will be leaving the field.

Hemang Kotadia: Okay that is because of the demand not being there?

Ashok Chhajer: Yes, the real estate was not as a core business for the other builders, they had come across as a part of the favor of the segment of real estate in the year 2011 - 2012 and 2013 and when tested waters they found out that it is not everybody's ball game. The good ones will always remain, so Aashiyana and Arihant will be there, who are still doing good and we have a larger market share. Though Jodhpur is not on the top charts of real estate across when compared to the metro cities but strategically it is good as we would enjoy a larger market share and being into the non-compete zone.

Moderator: Thank you. We have a follow-on question from the line of Kalpesh Parekh from Prabhudas Lilladher. Please go ahead.

Kalpesh Parekh: Sir, basically just wanted to get a feel what is the secured debt as on today? We repaid something, I just missed on the numbers.

Ashok Chhajer: It is Rs. 99 crores as on 30th of January 2018.

Kalpesh Parekh: Rs. 99 crores?

Ashok Chhajer: Yes.

Kalpesh Parekh: And this is coming down, right from last two quarters - three quarters?

Ashok Chhajer: It was on 1st of April 2017 Rs. 127 crore. At a time when everyone has raised money , the company had targeted to first let bring it down and then again as required we will pull it up for the health of the projects and the speed of the projects. We are not afraid of debt. But as required we have strategies to test ourselves that are we capable of repaying it back or not in time. So we have proved it right.

Kalpesh Parekh: And last quarter if I am not wrong it was somewhere the net debt was Rs. 255 crores, what will be the net debt figure now?

Ashok Chhajer: It is same. The secured as well as unsecured debt totally must be to the tune of Rs. 270 crores.

Kalpesh Parekh: But sir then when I seeing finance cost it is moving up even sequentially. So what is the reason the cost of funding is very high and also it is moving up?

Ashok Chhajer: No, cost of fund is not going up. We repaid **Capri** which was at 17%, we have repaid it back.

Kalpesh Parekh: But still it is 13.5%, 13.76%, right?

Ashok Chhajer: Yes, because all the engagements which we have done with earlier construction financers are to the tune of 13.5% and where the banks have not revised it, the new engagement with the same bank had come out 10.40%

Kalpesh Parekh: Okay. But then logically when we are repaying the debt I think the finance cost should logically come down, right? So is there any bank charges?

Ashok Chhajer: After new engagements, no. For the earlier engagements on the part payment, they do not reduce their cost. For the new engagement, it has come down.

Kalpesh Parekh: Sure. But I am talking of Q2 to Q3 because of last quarter…

Ashok Chhajer: We did not engage into any new engagements of finance for any new projects since February 2016. So it is almost two years the first engagement will happen for the project Arihant Aspire now. So new engagement did not happen. Till the time the new engagement does not happen, the old engagement goes on which is at a particular specific rate of interest.

Kalpesh Parekh: Okay. So when is this likely to get over this old engagement?

Ashok Chhajer: Old engagements would phase out within out within 1 year - 1.5 year

Kalpesh Parekh: So one more year for this high cost of funding as such?

Ashok Chhajer: Yes, one year perfectly you can do in that way.

Moderator: Thank you. The next question is from the line of Satish Bhatt from Anvil Shares & Stock Broking. Please go ahead.

Satish Bhatt: Ashok sir, just a question on that. We have the big execution to be done in the next three years to four years, in terms of Arihant Aspire and 3 million to 4 million sq ft has to be delivered over a period of next three years to five years or maybe 7 million to 8 million over the next five year - six years. So what type of working capital requirement may be required and whether we will be doing entire funding of the requirement through debt or you may even dilute at a later stage?

Ashok Chhajer: Working capital from the existing total capital in the form of capital as well as debt will not increase substantially as we will be into a business model of doing the projects from sales proceeds. A few amount would be required to bridge the gap between the customer's payment and the vendor's payment to act a catalyst to speed up the work. For doing up the next Rs. 5,500 crores - Rs. 6,00 crores of top-line, an addition of Rs. 200 crores could be more than sufficient to go ahead.

Satish Bhatt: So maybe at a later date you may have to take a debt or will be equity financing at a later debt?

Ashok Chhajer: We are open to both and majorly for the existing projects it would be in the form of construction finance and we keep the doors open for all quality of money and accordingly we can structure it.

Satish Bhatt: There are a lot of nowadays PE funding invested in putting in project-based money. So such type of equity maybe in your Arihant Aspire or something like that?

Ashok Chhajer: Given that the configuration and the utilization of funds avenue is good, we are open for private equity firms also. And there have been talks for private equity firms at lands stages to our company. It looks like for the expansion, we are open for the engagements.

Satish Bhatt: And sir, any strategy on purchasing of further land and how much money we have ear marked? I think the era of may be said consolidation in the sector in terms of the smaller builder is getting out. So a lot of lands and projects may be available at the current level. So are you thinking on those lines to buy extra land for future but you are currently full with the existing mix.

Ashok Chhajer: We are into a moment of infusing Rs. 300 crores more towards the land funding and which could be to the tune of the almost equivalent size of construction which is there in hand. So Rs. 300 crores of funding will be targeted to be infused for the land purchases and that would enable the company’s total size from 13 million to around 25 million sq. ft.

Satish Bhatt: Then I think you will definitely need some money from outside investors.

Ashok Chhajer: We are open for it.

Moderator: Thank you. Mr. Chhajer, there are no further questions in the queue, sir. Would you like to provide any closing comments?

Ashok Chhajer: Yes. So I would like to thank all the participants for participating in this concall and you can write to us for any other further queries. Thank you so much. With this, I would like to say the session ends. Thank you so much.

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