



# “Arihant Superstructures Limited Q4 & Full Year FY16 Earnings Conference Call”

**May 03, 2016**



**MANAGEMENT: MR. ASHOK CHHAJER – CHAIRMAN & MANAGING  
DIRECTOR, ARIHANT SUPERSTRUCTURES LIMITED  
MR. AMAN VERMA – CHIEF FINANCIAL OFFICER,  
ARIHANT SUPERSTRUCTURES LIMITED  
MR. UMESH JHAWAR -- HEAD OF STRATEGY AND  
INVESTOR RELATIONS, ARIHANT SUPERSTRUCTURES  
LIMITED**

**Moderator:** Ladies and Gentlemen, Good Day and Welcome to the Arihant Superstructures Q4 and Full Year FY16 Earnings Conference Call hosted. 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. I now hand the conference over to Mr. Umesh Jhawar -- Head of Strategy and Investor Relations. Thank you and over to you, sir.

**Umesh Jhawar:** Thanks, Margreth. Welcome Everyone and Thank You for joining us for the Q4 FY16 Results ended on 31<sup>st</sup> March, 2016 Earnings 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 at [www.asl.net.in](http://www.asl.net.in). To take us through the results and to answer your questions today, we have our Chairman and Managing Director – Mr. Ashok Chhajer and Mr. Aman Verma -- Chief Financial Officer 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 for the future which can constitute as a forward-looking statement must be viewed in conjunction with uncertainties; any of the risk that we face that uncertainties and other risk are included but not limited to what we have mentioned in the prospects filed with SEBI and in subsequent Annual Reports, you can find on our website.

With that said, I can turn now the call over to Mr. Aman Verma to give a brief.

**Aman Verma:** Good Afternoon, friends, this is Aman Verma - CFO of Arihant Superstructures Limited. Thank you, Umesh for the introduction. While the overall market was showing a little signs of volume uptick our Q4 performance from the operational perspective was significant. We believe that we have tasted success with quite a few numbers and new launches this quarter.

I wish take you people to our numbers. Our year-on-year consolidated performance for revenue we clicked Rs. 123 crores as compared to Rs. 108 crores last year. This was approximately 13% up. PAT at consolidated level was Rs. 20 crores which was 85% compared to last year. EBITDA on absolute terms Rs. 36 crores compared to Rs. 26 crores last year which is a 34% jump significant. EPS on absolute terms was 4.87.

Also I wish to highlight on the sales front and we were able to crack a sale of 1,157 units during this fiscal in two geographies namely Jodhpur and Mumbai. We had four launches in last quarter and those all were successful launches wherein; we could approximately make a sale of Rs. 400 crores slightly less than that value of the sale. We made three launches in Jodhpur and one in Mumbai.

Further, we understand the meaning of having a brand and as a brand vision to create, we roped in Mr. Ranveer Singh, the Bollywood Actor our Brand Ambassador.

I would say that our CMD is here and he will take the things further.

**Ashok Chhajer:**

Hi, everybody. So continuing with Aman, this year though it was an rough weather in the first ten months, in the last months we observed how to change certain strategies and it came out to be more fruitful and to support it many things were taken in to aspect in one go and that resulted into good customers belief in the brand for the 22 years which is already being established.

Aman, please continue.

**Aman Verma:**

On the sale front, we have sold around 1,157 units in two geographies mainly Jodhpur and Mumbai. We had three launches in Jodhpur which was accumulated to 642 sales and a value of around Rs. 100 crores. Mumbai we have done around 550 units which had a value of around 260 crores.

Going forward, I would request questionnaire, Q&A from you guys. Thank you so much.

**Moderator:**

Thank you very much. We will now begin with a question and answer session. The first question is from the line of Amish Shah from Credit Suisse. Please go ahead.

**Diwakar:**

This is Diwakar here, let me just start up the proceedings kind of break the ice. I think two questions I have for the management here one is obviously as Mr. Chhajer said, I think the last two months - three months were kind of eventful in terms of the number of launches that we did notably being the huge response in the Jodhpur project and then we launch the Arihant Aalishan project in Mumbai too. So sir, my question to you is this Jodhpur project, how do we see that operationally building up and when we will see revenue start recognizing from those?

**Ashok Chhajer:**

The construction would commence something around 45 days to 60 days from now. And being not tall rises the seven storage buildings, I think the cycle of the total construction would be much smaller and shorter and we should have, we are keeping a target of two years for the completion first phase which we have launched and I think the way it is to be engineered, we would see up revenues at least in the fourth quarter of this financial year, revenue recognition.

**Diwakar:**

Revenue recognition. And other one is obviously the high profile launch of the Arihant Aalishan project, could you just give us some detail from the project as to what is the size of the project and how many years it is going to take to build, what is the kind of response you got from the customers in this area?

**Ashok Chhajer:**

From the profiling of the project, it is the tallest towers of Navi Mumbai region around 175 meter which is around 53 floors and it has an composition of Studio 1, Studio 2 and Studio 3, Studio 4

bedroom, hall kitchen. The total square footage is around 1.3 million, 13 lakh square feet, less than something 12.75 square feet and it is a very asset light model as we had taken our project in joint venture with an developer who was existing and wherein we did not have to rope in a lot of funds to put in to take the lands and the initial payment which we have made of Rs. 15 crores to the land owner and Rs. 5 crores for stamp duty is Rs. 20 crores, I think we would be able with the sales procedures which we have got of Rs. 200 crores and 20% of the cement. By June end, we should be almost getting through with all the investments which we had done this is a good example where it turned out be a good cycle. The customers trusted in the brand and around 190 sales to 200 sales were done which amounted to less than around Rs. 200 crores. so the seed capital is there, this project will not require any funding, external borrowings also and the target sales which we have to do to our kitty is around 700 units out of which 200 are already done and 500 for five years to go so since it is a pretty easy flow for the next five years so 100 units in one year. Thus, it is located at a best location of Kharghar that is near the Navi Mumbai Corporate Park which is proposed on 300 acres, 180 acres of Golf course which is existing and 240 acres of Central Park which also exists partly and the metro line just passing nearby on half a kilometer of distance. The design of the project is very uniquely done on Persian theme and it is being the design consists of each and every aspect of right from Spa to Theater to very upscale livings. It will be unique product which will be looked around and one of its own kinds you can label it across at the top 20 projects of Mumbai and Navi Mumbai both.

**Diwakar:** Thank you so much, I will come back in the queue.

**Moderator:** Thank you. The next question is from the line of Rohit Balakrishnan from Rare Enterprise. Please go ahead.

**Rohit Balakrishnan:** Mr. Ashok, I have just started to look at your company, so my question may be preliminary. So I was just looking at your balance sheet and our debt levels have increased almost doubled since last year whereas, if we look at our interest cost it has almost half. So will you help me understand what is leading to this?

**Ashok Chhajer:** Aman.

**Aman Verma:** Now, I will give you some background on it. The debt factor has two components, one is from institution and other is from director, promoters. So if you see the break-up of long-term and short-term around Rs. 120 crores is coming from directors and Rs. 90 crores is from banks and institutions. Now, most of the borrowings from banks and institutions are a recent one at quarter three, quarter four phenomena for the borrowing to tell you around Rs. 50 crores have been borrowed in last two quarters, quarter three and quarter four. So the interest component has accrued only for this quarter. Second is the interest on director...

- Ashok Chhajer:** He wants to know that though the debt was doubled up but if the interest component comes down. So the method of revenue recognition wherever there are projects which have been splitted in two phases, the interest is being capitalized to the land account and wherever the projects have started out it goes into P&L account. So that sees a difference and I think that is an effect of it one. Secondly, the debt was raised as Aman has told that the initial first nine months to ten months was a very rough weather and where we put our marketing team into together and I headed it get across to cover up the sales in the last month two months with the new launches so there was a deficit in terms of collection of funds in the first nine months to an extent of almost more than Rs. 51 crores from customer receivables from year-on-year basis where could that is why the additional debt was required to continue with the pace of the construction which is going on. On interest portion coming down Aman, I would like you to throw some light why this reflected in the books?
- Aman Verma:** Look as per the accounting policies we have shifted the financial cost to the land I mean it has been capitalized in the land cost now.
- Rohit Balakrishnan:** So that will get reflected on the...
- Aman Verma:** As and when we realize the land will be coming in the cogs and will realize the expense. So this interest cost will come in the land expense later on but in the direct financial cost.
- Rohit Balakrishnan:** Okay, got it. And right now, it will be may be inventories.
- Aman Verma:** Yes, it is part of current assets.
- Rohit Balakrishnan:** Got it. And sir, as per your presentation which was third quarter presentation, we have large projects in Jodhpur and I think we have applied on the PPV partnership with the government there for affordable housing. Can you just explain what is the business model and what are we expected to do here?
- Ashok Chhajer:** Well Jodhpur though, it has some good sizeable projects and in apartment dealing we have an position, the government project which was PPV project was started off in the year 2012 and is near in completion and in 80's that 1,350 houses were to be built and to be given free of cost to the government and it was built on the land owned by the government wherein in lieu of the construction that is out of 32 acres, on 7 acres you have to give construction to them and on 25 acres would be our sale component and the project which we launched in Arihant Aanchal where we backed up these high number of sales on budget housing of 20 lakhs and around that is land which we have got free of cost. So in all it turns out to be Rs. 125 square feet of an FSI we talk in terms of project cost for the construction which we have paid and in lieu which the land with FSI which you have got. So it works to be Rs. 125 square feet basic and plus the interest which would have occurred to the company for the construction the last three years.

- Rohit Balakrishnan:** So sorry basically, you constructed 1350 house for free on seven acres of land, in lieu of which you got 25 acres of land for free which on which you can sell your project, is that correct?
- Ashok Chhajer:** Yes.
- Rohit Balakrishnan:** And the cost of building this 1350 was Rs. 125 per square feet all loaded cost, excluding land cost, right?
- Ashok Chhajer:** No, 125 is...
- Aman Verma:** Per feet sellable land cost for us.
- Ashok Chhajer:** I will explain like this simple, that a) we spend around Rs. 60 crores Rs. 65 crores for the construction of the houses which were to be done for the government and if we divide this Rs. 66 crores by the sale area which is to our kitty, it comes out to be Rs. 125 per square feet.
- Rohit Balakrishnan:** Okay. So the sellable area which is basically 25 acres if you divide that by Rs. 162 crores that comes out to be Rs. 125 per square feet.
- Ashok Chhajer:** Rs. 135 square feet, yeah.
- Rohit Balakrishnan:** Okay. And have we launched any projects here in the land that we got for free?
- Ashok Chhajer:** Yes, we launched the Arihant Aanchal that is where the numbers figured out in the month of February and we backed out I mean we could do up almost 425, 50 sales in sales in just three days and that to all budget housing and actual user the section which then came out is also in the in the budgets also of this financial year.
- Rohit Balakrishnan:** So we launched Arihant Aanchal which we assume that we have about 2,400 or 2,300 units?
- Ashok Chhajer:** Yes.
- Rohit Balakrishnan:** Of that this will be in phases right if I am?
- Ashok Chhajer:** In phases.
- Rohit Balakrishnan:** And we have launched the first phase of it?
- Ashok Chhajer:** Perfectly.
- Rohit Balakrishnan:** And how many units are launched here, sorry?
- Ashok Chhajer:** 500.

- Rohit Balakrishnan:** 900?
- Ashok Chhajer:** 500
- Rohit Balakrishnan:** 500. And how has been the response and how do you define good response or bad response?
- Ashok Chhajer:** Out of 500 we have already got customers for 451 units.
- Rohit Balakrishnan:** Okay, got it. And sir, just in terms of your revenue recognition can you just explain, how do you recognize revenue?
- Ashok Chhajer:** The first figure is of 25% of the total estimated cost of construction including land should have been occurred and the second filter or the second position is that around 20% of the total revenue should have been received from the client. After this two trigger the revenues are recognized that the percentage completion method whatever percentage of construction is completed is then the same percentage is accounted for the receipts of payments from the client and vis-à-vis the revenue is recognized.
- Rohit Balakrishnan:** So just to be clear so first, filter is 25% of expense has to be taken which includes land, right?
- Ashok Chhajer:** Yeah, example, if the land and construction cost is 100 till the expenditure is touched Rs. 25 or 25 till that time the revenue is not recognized. The time 25 crosses the whole 25 is recognized as revenue recognition and the same percentage is applied for the sales which is done and the receipts which we have been received.
- Rohit Balakrishnan:** Okay, got it. Okay, so when we launch a new project, if you can take one example that will be helpful. May be like for example this Arihant Aanchal that you have launched based on your revenue recognition how will that go so 500 units you have launched 451 you have got customers for. So you would have got some so in this case land cost I do not know because there is no land cost so to say but we have spent Rs. 65 crores so we will, we have already spend 25% of the land cost, right, so we will start accruing that revenue right away or how does that happened?
- Ashok Chhajer:** The Rs. 66 crores would not be taken into as the amount spent because it has been divided into phases as per AS-7 standards also and so for this case around Rs. 6 crores will be taken up as the component of land the total cost of product would range round say Rs. 100 crores and 25% means Rs. 25 crores till total we spent that means 25 minus 6, Rs. 19 crores of construction if it is done in this year or till the Rs. 19 crores of construction is done the revenue is not recognized. The time we crossed 19 crores of construction to be done the revenue recognition starts on each milestone basis.
- Rohit Balakrishnan:** So that means that the first filter to recognize revenues 25% expenses, if that happens then you go to the next filter is 20% of the total revenue whether we have got from the customer or not.

- Ashok Chhajer:** Yeah, now this 20% sometime defers with the cycle of the product also wherever there are high risers 20% is taken as a component whereas there were small risers, we have taken 15% also and accordingly it can be the revenue recognition is taken into account. So it is the company who decide firstly that what would be the percentage of amount received from a client which would be considered as an firm booking or which will be considered as an confirm booking. So it is not like we have taken Rs. 1 lakh and booking is done, so substantial payment according to MOFA it is 20% and with Rajasthan 15% also is accounted as because 85% you get loan. So self-contribution of an owner works out to be 15% so that is a benchmark which we take for Rajasthan that 15% they realized it goes into revenue recognition in Mumbai 20%.
- Rohit Balakrishnan:** Okay, got it. And what is the, our focus would be largely MMR in Jodhpur for the two years to three years or are we looking at other areas of development?
- Ashok Chhajer:** No, we are not looking at any other areas of development. We would be focused only in Rajasthan, Jodhpur City 1 and complete Mumbai MMR region where there is a lot of potential in this area and if you talk about Navi Mumbai MMR region in place to be watched with the development of infrastructure going on in terms of Airport the Central Park the Naina being coming up the government spending almost more than Rs. 1 lakh crores in terms of infrastructure, the government of Maharashtra is not spending in any other direction other than Panvel Raigarh district, we are not spending in Nagpur, Nasik direction, we not spending in Vasai, Virar direction, we did just spending only in Goa and Pune direction.
- Rohit Balakrishnan:** Got it. And sir, can you give me few numbers that just in terms of your data, so what is the typical realization per square feet that we have for FY16?
- Ashok Chhajer:** FY16, the realization has been Rs. 3,581 an average realization.
- Rohit Balakrishnan:** And what was it in FY15?
- Ashok Chhajer:** FY15 was 4,000.
- Rohit Balakrishnan:** Okay. So there is a drop on this.
- Ashok Chhajer:** Per square feet would not be a barometer because this year we introduced the budget housing also that is the Jodhpur which we launched up at Rs. 2,000 square feet that is why the per square feet rate has come down but because of the mix in infusion of new projects which were on the budget housing segment.
- Rohit Balakrishnan:** Okay. And what would be the square sold in the entire year?
- Ashok Chhajer:** Entire year, I think we sold around 10 lakh square feet.



- Rohit Balakrishnan:** And what was it last year?
- Ashok Chhajer:** Last year was 580,000 square feet.
- Rohit Balakrishnan:** Okay. And when you say sold, this would not necessarily reflect in revenue, right?
- Ashok Chhajer:** Yeah, this will not reflect in revenues.
- Rohit Balakrishnan:** Correct. And how much was constructed square feet constructed?
- Ashok Chhajer:** We gave possession to something around 700 units so around 7 square feet was given possession so we can earmark as constructed because rest are all into a different phases of construction as a cycle of takes something around three years and average cycle ranging from two to four.
- Rohit Balakrishnan:** Okay. And what was it last year, if you can give me?
- Ashok Chhajer:** Last year's what?
- Rohit Balakrishnan:** Square feet constructed.
- Ashok Chhajer:** 7 lakh square feet.
- Rohit Balakrishnan:** FY15, sorry.
- Ashok Chhajer:** FY15 also possession was given to some same similar square feet, we can get back to the exact numbers but it is something near in the same figures.
- Rohit Balakrishnan:** Okay. And we sold around 1,057 units, right?
- Ashok Chhajer:** 1,157 units this year.
- Rohit Balakrishnan:** Okay. And last year?
- Ashok Chhajer:** Last year it was 700 units.
- Moderator:** Thank you. The next question is from the line of Ritwik Sheth from Span Capital. Please go ahead.
- Ritwik Sheth:** Sir, first of all, can you split how much you have sold in MMR in Jodhpur in FY16 out of the 1 million square feet.

- Ashok Chhajer:** 640 units we have sold in Jodhpur and around 500 units are sold in Mumbai and in terms of value Rs. 260 crores units were sold in Mumbai and Rs. 100 crores of worth were sold in Jodhpur.
- Ritwik Sheth:** Okay. So secondly, on the debt front, you mentioned that 210 crores is our total debt out of which 120 is promoter debt so can you give us an idea of what is the interest cost of the promoter debt and the external funding which we have of Rs. 90 odd crores.
- Ashok Chhajer:** Both are at the same rate of 15% per annum. Effective rate of interest is 15% wherein the promoter interest is not paid and it is only accrued to the account. So cash outs are not their clients are being repaid on time as well as the closures of construction finances which we have taken earlier also like Arihant Amodini we have all in well in time.
- Ritwik Sheth:** Right, okay. So this promoter interest not paid because the projects are under construction or it is because of some other strategic reasons?
- Ashok Chhajer:** I think promoters do not require that is why these are... and the company requires it more also. The promoters are not trying for any other business parallel to Arihant Superstructures Limited so the funds whenever it is required by the company it is advisable as it is long-term unsecured loans and that is why good for the company in individuality.
- Ritwik Sheth:** Okay. So any plan like three years down the line sometime we will have to pay interest cost, so interest cost and the principle as well. So how will that like any timeline or anything just want to gauge what is the...
- Ashok Chhajer:** Right now with the promoter funds that is no agreement of time lines to be repaid back the promoters have given liberty to the management and the board that as and when it is capable and enable whenever it is they have cash flow reached they can repay it is back to the company to the individuals.
- Ritwik Sheth:** Even for the interest component?
- Ashok Chhajer:** Even for the interest component.
- Ritwik Sheth:** Okay. And debt levels are around 3x of equity so what levels are we comfortable at?
- Ashok Chhajer:** I personally feel that whenever there is an business if the business is coming at an inflection level to the company so we should not be afraid any debt until and unless the business cycles are in correct fashion so yeah, asset light models are always preferred and good but there always goes one says no business happens without capital and without capital if a business is done then it actually means that you are shelling out a good handsome amount of profits in the hands of the person who has put in capital.

- Ritwik Sheth:** Okay, fair enough. And sir, if I look at the presentation, in some of the projects we have 60% economic interest and varying economic interest. So just wanted to know where we have 60% economic interest, do we spend the entire construction and the land owner has some kind of area share of profit share is that the way we...
- Ashok Chhajer:** No, in terms of joint venture the Arihant Aalishan and Arihant Aloki is a project which are in joint venture where there is area sharing whenever there is this is economic interest in subsidiaries it is the equity is being the 40% equity is being hold out by individual and 60% is held by the principal company that is Arihant Superstructures Limited.
- Ritwik Sheth:** Okay. So the balance is 40% is owned by the promoters group or...
- Aman Verma:** Right, promoter and the individual capacity.
- Ashok Chhajer:** As well as others also.
- Ritwik Sheth:** Okay. And the cost is shared by 60% by Arihant Superstructures and 40% by the other partner is that right?
- Ashok Chhajer:** Yeah, it is right and if you look into detail figure, if you talk about businesses and put up funds so ASL, Arihant Superstructures still enjoys and equity of 60% without contributing to the extent of 60% and if I see today I think it would be something around Rs. 55 crores to Rs. 60 crores of deficit to the ratio of equity holding and to the ratio of input of funds by Arihant to the subsidiaries. So the residual shortages have been inserted by the individuals themselves.
- Ritwik Sheth:** Okay. And sir, broadly if I look at the ongoing projects we have around 21 including all the phases as well so, out of that some are towards the end like 85%-odd more, some are 60%, some are 40% and more than 50% are like below 20% so what is the construction cost that we envisaging over the next three years because if I look at say around 5 million square feet to 6 million square feet if you want to develop over the next three years to five years because we have construction cost say 1,500 to 2,000 conservatively if we put then somewhere around 1,200-odd crores to 1,300-odd crores of construction, how do we plan to fund that and over the next three years to five years what is our strategy over construction and as well as sales?
- Aman Verma:** Well first would be the sales entirely because any revenue return received by sales is the best quality of revenue required or the best quality of funds required, a. The construction cost as you defined, will not be engineering is a little bit on higher side and it ranges on the size of the project like Clan Aalishan 52 storage will cost Rs. 3,500 square feet it is a budget for construction and Arihant Aanchal which is around 7-storage will cost something around Rs. 1,600 square feet Rs. 1,700 square feet. So an average construction cost of Rs. 2,200 square feet - Rs. 2,300 square feet would be the cost required for the next three years and with the sales done it appears that it would be self-funded by the receipts and advances from the customer themselves. So that would

be the plan majorly that to keep the rates lower and the sales also which has happened is not happened only the brand or because of the design, it has also happened because the rates were very correctly priced up like in Kharghar ready possession was 10,000 and we started up a range of Rs. 7,000 square feet at Kharghar that is why the people have taken participation in detail buying. So till the time we will sell cheap or nominal or we will sell in reasonable margins there will be a lot of investors who would be non-conditionally coming in and our strategy would be that it is better to not have structured finance or have committed financial to invest rather than better cater to actually and give them the product may be at 5% to 7% more cheaper.

**Ritwik Sheth:** Okay, fair enough. And we have seen that last two years to three years, real state has slow down and this year we have done pretty well 1 million square feet versus last 0.5 million square feet so going forward what kind of sales fun rate are you looking at on an annual basis?

**Ashok Chhajer:** Well I agree with you that the real estate sector is not seeing a good weather since last two years and it does not even seem that it will be seeing really good moments in the coming next two years more. Still it is always told that there is no market. So there is a market for specific product with a specific strategy and if we adopt that we can really get good sales. So the aim would be to have less administrative expenses, have better controls and efficacy on construction with cost as well as timeline and pass on the savings to the clients.

**Ritwik Sheth:** Okay. So any like what target are we looking at for FY17 and FY18 of more than 1.5 million square feet?

**Ashok Chhajer:** That is not going to be easy to take any numbers because markets are very volatile, we will try our level best to do up whatever we have done at least this year, we will try to do that. We have a launch on 11<sup>th</sup> of May at Jodhpur that is Arihant Akarshan, that is a 20-story little upscale living and we are targeting around 75 units to 80 units of sale out of 200 units which we will be opening. So if 75 to 80 happen that means 25% to 30% of the sales are done and that is what our philosophy is all these years that sell out at least 20% on the day one before the construction has started so that the working capital is in hand. The land payment still gets invested to it for a longer period and over a period of cycle of the project we keep on selling the whole product, we do not speculate and so working generally can be arranged up from the clients themselves but that I have seen and efficiency in the last year and that why we have to raise more debt.

**Ritwik Sheth:** Okay. So what kind of cash flows requirement will we want for FY17? From the customer advances only we will be funding whatever construction.

**Ashok Chhajer:** What I estimate there would be an across all over the year may be an additional fund requirement of may be Rs. 20 crores - Rs. 25 crores itself not more than that, that is all we would be able to manage with sales which you have done, that is clearly seen that with the sales which has happened up in February and March the cash flows would be really good throughout the year.

- Moderator:** Thank you. The next question is from the line of Rahul Jain from Systematix Shares. Please go ahead.
- Rahul Jain:** Yeah, congratulation on good set of numbers and good set of financial 2016 given the market condition it is definitely a very strong performance. My first question is we roughly gave a number of around Rs. 330 crores - Rs. 340 crores as the sales recognized for the year and there is a 1 million square feet data also which we have shared so, does that mean this 1 million include share of the partner sales as well.
- Ashok Chhajer:** No, the arrangement with the land owner for the project Arihant Clan Aalishan, the Clan is the partner of the land owner. The agreement stipulates and binding on them not to sell before 31st December, 2018. So the company has three flat years to sell their whole product so that will not see any competition or price wars between two people.
- Rahul Jain:** No, so I mean say that fiscal 2016, 1 million square feet data which we have given does that include partner sales also or this is the sales which we have achieved on entirely for the economic interest of Arihant Superstructures?
- Ashok Chhajer:** This is completely of Arihant Superstructures and its subsidiaries for this. It does include any partner sales.
- Rahul Jain:** Okay. So wherever we have this 60% economic interest and the 40% is of the land owner this 1 million is not included for those on the 40% bracket.
- Ashok Chhajer:** The economic interests are in the form of equity and it is not in the form of square footages. So I think Rahul Ji what we would like to tell that the square footage completely belongs to the subsidiaries and the companies and the economic interest is in terms of equity. So the 40% people do not have hold on 40% of the area of the project they only have a hold on the equity which they enjoy.
- Rahul Jain:** Okay. So it moves out as a minority interest to these partners.
- Ashok Chhajer:** Yes.
- Aman Verma:** Yes.
- Rahul Jain:** But we do not share that data in the consol number of minority interest?
- Ashok Chhajer:** Can you throw some light on which page it is?
- Aman Verma:** In the consolidate P&L after our profit before minatory interest, I have a share of minority interest.

- Rahul Jain:** So this 20 you are saying is after the MI interest?
- Aman Verma:** Before MI.
- Rahul Jain:** Okay. And after MI this would stand at?
- Aman Verma:** 18 crores.
- Rahul Jain:** 18 crores, okay. And what was the cash collection for fiscal 2016?
- Aman Verma:** It was around Rs. 160 crores.
- Rahul Jain:** And this number was Rs. 100 crores last year?
- Aman Verma:** No, it was same.
- Rahul Jain:** Around Rs. 160 crores. So why the cash collection is low, is it because most of the sales are towards the fag-end of the year?
- Ashok Chhajer:** Yes.
- Rahul Jain:** Okay. So does that mean we would see a much better inflow in the first-half?
- Aman Verma:** Yes, it will see better cash flows on Q-on-Q comparison.
- Rahul Jain:** Okay. And given that we have this the sales value of roughly 3,500 and now we are moving to project like Aalishan where the recognition level are much-much higher (+7,000). So how we see the portfolio moving in FY17 and FY18, in terms of the average realization?
- Ashok Chhajer:** Well would all depend on what infusion or new phases we are going to bring in and if we are in second phase of product line of Arihant Aanchal is brought then per square feet basis realization would again be at a lower level and if a product range of Arihant Akanksha or Arihant Aalishan which is a 6,000 to 7,000 is bottom then it will be on the higher side. But irrespective of as a management I would say per square feet basis of realization is not that important as we have a mix portfolio right from Rs. 7.5 lakh of a flat till Rs. 2 crores of flat. So what would be more important is that how fast the construction is done, still to answer you it would be around (+4,000).
- Rahul Jain:** And compare to roughly 3,500 this year.
- Ashok Chhajer:** This year, yes.

- Rahul Jain:** Okay. So based up on the forthcoming loans there could be some 10% increase plus the nominal rise in the evaluation of the projects?
- Ashok Chhajer:** True.
- Rahul Jain:** Okay. And this data which we have shared in terms of the net worth re-clarification, can you more insight into it, how it works?
- Ashok Chhajer:** As per AS-7 standard the interest paid by subsidiaries to Arihant Superstructures Limited is deducted from the net worth of Arihant Superstructures Limited so what happens that in consolidated the net worth shows to be something Rs. 75 crores - Rs. 76 crores whereas on individual levels right from all subsidiary companies individually as well as ASL individually it boils down to Rs. 104 crores. So this Rs. 23 crores - Rs. 25 crores of deduction in net worth due to the interest which is paid by subsidiaries to Arihant Superstructures Limited would see up in positive note once the subsidy project gets into revenue recognition mode.
- Rahul Jain:** Okay, sir, these are the interest which the subsidiaries are paying for the phase wherein they are yet to be profitable or recognizing these loans are given for the working capital requirement.
- Ashok Chhajer:** Okay. So the earlier thing which we were saying that interest from the promoter group are accumulated but are not taken out so it would the interest during the year becomes principle for the coming period, right.
- Aman Verma:** Yeah, of course it has to be. Banking does in every month....
- Rahul Jain:** Yeah, that is very obvious, the only thing...
- Ashok Chhajer:** Here I will have to put Rahul one more light on it that the promoters' funds interests are not paid on interest on interest on monthly or quarterly basis, it is on flat annual, it is on 365 days' basis so interest on interest is not given to the promoters on monthly or quarterly basis. So the banks as per their arrangements whatever is we pay out from monthly basis has been done.
- Rahul Jain:** Right. So that is very good that the promoters are pretty sound otherwise cash requirement in this kind of cost of the capital is much higher given the kind of leverage business...
- Ashok Chhajer:** Sure. So when we talk about 15% per annum. It is really 15% per annum and not on any monthly basis. So interest, why interest is not paid to promoter?
- Rahul Jain:** Exact, appreciated that. Just last one thing, when we said that we intent to sell at least 20%-25% the project upfront at the launch stage itself. So just to understand the pricing mentality that how because we see as the project progress there is price rise in the project so how we price our project in term of strategy given the fact we want 25% of our sales to be up front in nature so is

it that the profitability in the initial phase is much lower and it is much higher for the balance inventory?

**Ashok Chhajer:** Yes, it is like this only and it has to be because gone are the days where there was speculation and every next day used to be a bigger price. Now-a-days if you talk which is real state our ready possession will always fetch up in better price than an under construction because as a user one would say I am entering into under construction please give me a good price or the price which is lower than the ready possession or else why would I buy an under construction, I would buy a ready possession product line. So it has to be 20%-25% cheaper than the ready possession product line. If any developer who has an aim to launch and start and finish project he has to go (-20%) (-25%) so that is what is the GPE is all about. So when the gross profits for the projects are something around 30-35% so we have to pitch up the initial product at (-25%) that is almost at very nominal margin but then that gives the liquidity and that gives the confidence that the project can be taken off.

**Rahul Jain:** But at the EBITDA level for the entire project we would expect profitability of 25% to 30%.

**Ashok Chhajer:** EBITDA yes, EBITDA at the end it works out to be around 28%-29%-30%.

**Rahul Jain:** Okay. For the entire course of the project?

**Ashok Chhajer:** Yes.

**Moderator:** Thank you. The next question is follow-up from the line of Rohit Balakrishnan from Rare Enterprise. Please go ahead.

**Rohit Balakrishnan:** So just wanted to understand typically I mean in terms of the unit economics, can you help us understand what is the typical unit economics that you typically look at so what is your benchmark for land as a percentage of total cost or your construction cost. So if you can just help us understand that?

**Ashok Chhajer:** Yeah, till now whatever project we have taken for whatever is there in hand, we have a benchmark of around 10% to 15% as the in land cost of the total sale price more on the bigger segment of product line which is ranging from Rs. 2,500 square feet to Rs. 6,000 square feet, Rs. 7,000 square feet. The major component is the interest cost which is the construction cost so that boils down to the almost 60% to 65% of the sale price around 60%.

**Rohit Balakrishnan:** Okay, got it. And sir, if I look at your debt so it has almost gone from Rs. 45 crores in 2011 now Rs. 200 odd crores more than Rs. 200 crores so what has led to this increase in debt? So have we invested in a lot of land over this time or what has been the reason for this a lot of debt? I am again sorry I am very new to the company.



**Ashok Chhajer:** No, issues welcome first and 2011 when the debt was around the figures, we only had three projects in hand that was Arihant Arham which is completed, Arihant Abhilasha which is completed and Arihant Amodini which is completed. From 2011 onwards till today the total square footage of businesses in hand has increased from around 15 to 20 lakh square feet to 1.25 crores lakh square feet. So that means almost six fold and more than six fold of increase in businesses have been accumulated and that is what we would be showing up numbers in the years to come. And as told without capital debt cannot be any businesses does not happen and the lands were all bought under the name of the entities and the company directly rather than lands being bought at the promoters and then being inserted within valuation to the company. So the figure, the format is that the company is getting the lands at the inception level and if you see all our projects in hand the majority of the are within an average FSI cost of Rs. 250 per square feet average so there may be something at 125 something like 200, something like 500 also.

**Rohit Balakrishnan:** So average cost is about 250?

**Ashok Chhajer:** Rs. 250 square feet and that is what is the thing which would be beneficial for our company as with the sole lowest land cost and even if there is a stagnancy which we saw it up in the first nine months in the year that cash flows as well as the interest cost does not bothers or burden to such an extent that the projects are ungeared to non-viability factor but they still have a lot of sustainability.

**Rohit Balakrishnan:** Got it. And just as you move ahead now, so I mean so two questions. One is the amount that you need to finish these projects which would be largely working capital and then the other is investing in new sellable area. So can you give your thought process between the two what kind of fund requirements are you looking at for that first which is working capital and then how much are you looking to invest in further increasing your sellable area?

**Ashok Chhajer:** Right now this financial year I think around Rs. 25 crores may be required as an additional fund throughout the year-on-year basis as in deficiency if any required because the aim is to take out construction at mass space and speed as we see that the ready possession units always better price and that is what is being more desired by a client also. So getting it all sold out at the first phases is not going to be a day in future. Secondly, would we be investing in more lands, the answer right now is no, because we have substantial projects on hand wherein we have to put our engineering and sales into first gear and I myself personally I am monitoring it from the first bench and so aim is not to take up any more new projects. May be there is good opportunity which gives a great EBITDA as well as which is an asset-light model we are welcome for it. But primarily we are not focusing on that and we do not intent to put up even 5% of our working hours in land acquisition for the next 12 months.

**Rohit Balakrishnan:** Got it. And you were mentioning out of your entire offering, you try and sell at least 20% so that helps us manage the working capital. Can you explain that a bit more?

**Ashok Chhajer:** See the project any real estate projects works out when you have an EBITDA of 30% that means 70% of the funds are required to construct the project for a breakeven mode that means that at least you need to sell out to an extent of 80%-85% so that on the construction-linked plan you get the 70% payment which is cash out for construction and lands. So the initial 20% has to be sold so that gives out a cushion, confidence to move ahead with the project.

**Rohit Balakrishnan:** Okay. And this you said that in the last year that was not the case because the demand was very low.

**Ashok Chhajer:** Very low.

**Rohit Balakrishnan:** And in the past have we faced any issue where our sales have not really picked-up and as a result we have taken working capital financing. Yes, we have faced up this earlier days also though I mean an developer myself since 22 years I have seen almost three cycles to four cycles of ups and downs right 1988 so down to 1996 and 2005 and now this 2013 time very well aware of it that what works and what does not works in such situations and that is the experience which has helped the company a lot till today and the discipline which you have kept in terms of finance payouts as well as finance to be taken or else disciplines in terms of good practices. Arihant Superstructures Limited is the only company probably which I have heard of that we put up very boldly in our all sales material as well as in our sales cabin that there will no transfer charges, there are no lock-in period to any sales done given at the initial stages, no escalations to the purchases which are being done by clients and this goes with the RERA requirements or what the RERA intends to, RERA intends to safe guard a consumer and if you see our schedule of payment also like from Aalishan there is 21% left after the slab of the structure is completed. 21% means 1,700 square feet for finishing and that is what really is the fund required to finish up the product and vis-à-vis if you compare to any of the developers and their payment schedule you find that 95% to 97% of the payment is extracted from the buyer sales up to the structure or the last slab is constructed. So within this 3% you will never be able to do the finishing of the balance work. At that time, if you have adopted those practices then you are completely dependent on the balance stock to be sold and if you have sold the complete stock that means you need to arrange it out from other projects or from other finances. So that is what has helped us out to keep the debt also as low as possible and may be initial days it finds out that you struggle in terms of not extra cash flows but at least the required cash flows are being given by the per square feet which is sold.

**Rohit Balakrishnan:** Got it. And sir, in terms of the current debt level, so I mean what is the thinking so you said that we are not going to invest in land assuming demand picks up. Do you see debt levels going down from here will you repay those debts?

- Ashok Chhajer:** I do not see for the next two years, debt level going down with Arihant Superstructures Limited. Yes, with the first cycle of major projects getting completed and the smaller project getting completed to the complete cycle, the company would be able to pay all the debts if they do not want to do any additional acquisition of lands or additional businesses without an asset-light model then they can easily repay these all loans back, all debt back at least from second year to third year or say 25 months to 36 months.
- Rohit Balakrishnan:** Okay. As my first question was so you have not been taking the interests on the loans that you have given, is that correct?
- Ashok Chhajer:** True.
- Rohit Balakrishnan:** So that has been capitalized?
- Ashok Chhajer:** That is capitalized because promoters are not doing any businesses parallel to Arihant Superstructures Limited and there is no projects either in real estate or in other sector that the promoters are handling it in different platform or in different entity or individuality.
- Rohit Balakrishnan:** So as a company, the loan has to be repaid with interest at some point of time. When do you see that happening like you were saying that the debt levels will not really come down over the next one year to two years, the interest will keep on adding so at what levels are you comfortable and at what levels you think that there will be some level of deleveraging that will happen?
- Ashok Chhajer:** I am not afraid of debt in the company the businesses require capital so either it is in debt from promoters or from banks or you go into asset-light model. So in asset-light model you end up paying up the largest chunk of your profitable margins to the land owners so, it is better to have good businesses with larger margin so that the company would in longer-term have good model, would have very strong number in the network and that is where in the coming years the companies would be identified not on asset-light models but would be identified on their net worth. So it will happen, debt is not an issue, I do not think that because the time the promoters take out their debt they will have to get it invested into in different field of businesses or avenues. So if there is an avenue and if the company is really ready to pay today also we as promoters do not mind taking it away.
- Moderator:** Thank you. Ladies and gentlemen that was our last question. I would now like to hand the floor over to Mr. Ashok Chhajer for closing comments.
- Ashok Chhajer:** Thank you very much, everybody to join us on the Q4 FY16 Con-Call and it was really nice to have all the questions which were really concentrating on the business aspects and the models, etc. We as management and the position in the area for operations we see good days ahead. Aman.

*Arihant Superstructures Limited  
May 03, 2016*

**Aman Verma:** I once again thank all of you for taking your valuable time and attending the conference. May you have any further questions I would entertain on and off line you can always mail it to Umesh and Diwakar and it will be pleasure to reply those questions. Thank you very much.

**Ashok Chhajer:** Thank you so much.

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