



“Arihant Superstructures Limited Q2 FY-19 Results
Conference Call”

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**MANAGEMENT: MR. ASHOK CHHAJER – CHAIRMAN & MANAGING
DIRECTOR, ARIHANT SUPERSTRUCTURES LIMITED
MR. PRADEEP MEHTA – CHIEF FINANCIAL OFFICER,
ARIHANT SUPERSTRUCTURES LIMITED
MR. UMESH JHAWAR – VICE PRESIDENT (STRATEGY
& INVESTOR RELATIONS), ARIHANT
SUPERSTRUCTURES LIMITED**

Moderator: Good Day ladies and gentlemen, and welcome to the Q2 FY19 Earnings Conference Call of Arihant Superstructures Limited. 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 the 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 Jhavar – VP (Strategy and Investor Relations). Thank you and over to you, sir!

Umesh Jhavar: Thanks Margaret. Welcome everyone and thank you for joining us for the Q2 FY19 Results ended on 30th September 2018 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 uploaded on the exchanges and has been also uploaded on the website. 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 – Chief Financial Officer.

We will be starting this call with a brief presentation giving an Overview of the Companies 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 be 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 are not limited 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. Pradeep Mehta. Over to you, sir!

Pradeep Mehta: Thank you Umesh ji. Ladies and Gentlemen Good Afternoon.

A quick overview of the company as follows;

We are happy to share with you that in the September quarter ASL has entered into a new revenue stream for the business based on Asset Light Model. It executed the development management agreement for 3Anaika project and sold 130 units with new revenue line which is value addition to our company in the future. In this quarter our company has booked 249 flats in total at Navi Mumbai and Jodhpur which constituted around 2,14,649 sq ft and in terms of value Rs. 87.5 crores. So for this financial year total booking has reached to 354 units at Rs. 138 crores as on 30th September. If you look geographical then at Navi Mumbai total of 215 units were sold having booking value of Rs. 75.7 crores and at Jodhpur total 34 units sold in this quarter having book value of Rs. 11.8 crores.

On consolidated financial of ASL; if we compare Quarter 2 of 2019 performance with Quarter 2 of 2018 performance then the total income increased by 12% to Rs. 50 crores from Rs. 45 crores. EBITDA increased by 10% to Rs. 10 crores from Rs. 9.1 crores, EBITDA margin slightly reduced to 19.8% as against 20% on YOY basis. Net profit stood at 2.1 crores as compared to Rs. 3.2 crores. This reduction is due to interest on the increased loans. Further as we compare H1 of 2019 performance with H1 of 2018 then the total income decreased by 8.8% to Rs. 94 crores from Rs. 103 crores. The EBITDA increased by 26% to Rs. 25.3 crores from Rs. 20 crores. EBITDA margin has increased to 26.9% as against 19.4% on comparing half yearly results. Net profit stood at Rs. 5.3 crores as compared to Rs. 6.5 crores. This reduction is due to interest on increased borrowing.

Other initiatives taken by our company for this quarter are in spite of turmoil like situation in the financial market due to NBFC liquidity crunch we are able to avail disbursement of loans of 70 crores which took place on 10th and 19th October. We reviewed the status of home loans taken by the customers and adequate refinancing initiatives are taken, monitored, and look for possibility if there is any housing loan which needs to be addressed so it shall not impact cash flows to the company. We have done some financial structuring also to reduce interest burden on Arshiya project and saved 250 basis points during the quarter.

With these updates I request our CMD, Ashok ji to give more insight. Over to you Ashok sir.

Ashok Chhajer: Good afternoon everybody. Welcome to the conference call. All as told by the CFO in addition to it the Company has received an approval for one small project for Arihant Amber which would be an 80IB project within small size but that would add on to the total figures in the coming days. Even the market perspective July often happens to be more of the rainy season so the busy season has just started off and we see September saw a good spurt in sales. So with this the platform is open for Q&A and we welcome all the questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Ravi Purohit from Securities Limited. Please go ahead.

Ravi Purohit: How is the situation at the ground level, we are kind of hearing lot of things and reading lot of things in the newspaper that companies like India Bulls and DHFL have reduced their home loan sanctioning or stopped home loan sanctioning so can you just share your experience at your end whether your customers are able to get home loan financing from these people. You could always get it from PSU banks or HDFC or Life but just wanted to understand what is happening with the NBFC guys. And secondly is there a slowdown in clearances in Maharashtra, Mumbai particularly in terms of project differences?

Ashok Chhajer: Yes Mr. Ravi truly the NBFCs three of them who are to get their CPs correct and exchanged in time have stopped the housing finance loans disbursement though at our end the total market

share by these NBFCs home loans was to an extent of 10% to 12% only and the leading banks have yet not stopped disbursement. The consolidation in NBFC may lead to the leading banks having great market share ahead and with respect to individual or the corporate loans total of the market had put up a pause note. In spite of that at Arihant we could get up disbursements as well as new loans sanctioned from ICICI ventures and Piramals where these funds are utilized to repay the old loans so that the interest rate could come down from 15.5% to 12% and we see the home loan market would hit to an extent with slowdown in the next two quarters and maybe it would be spring back from the first quarter of the next financial year. With respect to approvals the new DCR of Mumbai has been published. It would take up 1 to 3 months to get it smoothed up and that's why the majority projects in the Mumbai were either stalled, stopped and would requiring revaluation as well as new project reports. Our company had not been into it. We are on the Navi Mumbai side and we have received occupancy certificates also in the October for two of the projects partly and new projects approvals also. Navi Mumbai side the approvals are not totally stalled. Over and above yes maybe some offices are in the same old mode of 10 years back but majority of them are happening.

Ravi Purohit: That's a very Mumbai specific problem. There is no problem in Navi Mumbai per se.

Ashok Chhajer: Yes there is no problem in Navi Mumbai.

Ravi Purohit: You also confirm that some of these NBFCs have kind of stopped sanctioning loans?

Ashok Chhajer: Yes.

Ravi Purohit: Second question was on the Jodhpur market. I think the last couple of months there has been progress announced by HPCL on the Barmer Refinery so what is your sense on the ground? Has worked started there or is it still kind of paperwork that is going on because that I believe should be major driver for demand in your geography?

Ashok Chhajer: Yes our all the projects on the refinery road so it is the most nearest to any development of Jodhpur which is catering to the Hindustan Petroleum Refinery. The work has started on the ground. Around 400 crores have been already disbursed for the contracts which were started off and in addition to that also the Cairn Energy is already started with new exploration propositions where it is found that around 6 to 7 more are already located where they would drill the wells where the oil will be available. So it would boost up the total economy of the Jodhpur city as it would now become more cosmopolitan. There are institutions education etc which are coming which would see a complete mix of people from across the India.

Ravi Purohit: How do you say demand scenario there, competitive scenario post RERA implementation? RERA implementation has been done properly in Rajasthan, the regulator wise and in terms of approval wise as and all those things?

- Ashok Chhajer:** Yes they have done it up completely in their own fashion where they know that some of the small town planning officers are not adequate enough so they have formed a panel of architects; they are registered at the state level who can give an occupancy certificate also. With respect to the demand and supply there is a good demand for products which are below 25 lakhs largely and then fairly good demand between 25 to 50 lakhs. So the city is seeing a change. Undoubtedly the market is slow over there. It seems that after refinery it is picking up. In our project at Arihant Adita which is on the same line and catering to these people, around 350 people are residing out of 500 who have taken a possession and around 150 more are in the queue.
- Moderator:** The next question is from the line of Tirath Muchalla from Elusividya Advisory. Please go ahead.
- Tirath Muchalla:** One question on our talk of almost ready to move inventory like Arshia, Aarohi and Amisha. So we have a few units which are still lying with us, correct?
- Ashok Chhajer:** Yes.
- Tirath Muchalla:** Just in terms of cash flow does it make sense to accelerate sale so that the company's cash flow becomes better or do we plan to hold onto these flats?
- Ashok Chhajer:** No, for the ready inventory which is there in hand where today ready inventory sales are little better than under construction. Around 325 flats are with ready inventory across Mumbai and Jodhpur and Mumbai having 150 and Jodhpur having 175. The marketing plans have already been taken across to dispose of the complete ready inventory so that the cash flows versus the loans taken can be reduced to a large extent.
- Tirath Muchalla:** Do we have any kind of a tentative timeline like this is the plan like 18 months, 24 months to sell off by?
- Ashok Chhajer:** If everything goes in place I think it should be around 6 to 9 months and little extended by 12 months. But that would always as earlier also told that new projects will come into occupancy mode and the old and ready inventory will get sold out and the new ready inventory will always keep on popping up. So the ready inventory change would mean that the projects are getting into completion and the implementation of projects are taking place to the end of the mile stone.
- Tirath Muchalla:** One more question is on Aspire, in terms of the lifecycle of this project with the construction and the cash flows and all that I was wondering do we plan to open up more flats for sale or are we okay for now? So that is one. And the other is that we have a sanction from HDFC for 250 crores of construction finance if that's correct so do we plan to need more money to finance this project or will this be enough?

- Ashok Chhajer:** We will add the two buildings which are already launched and which are under construction are having 680 flats out of which almost 47%-48% of the inventory is sold. And infrastructure work as well as the MMRDA rental housing project component is also under construction. The HDFC construction finance facility of 250 crs is quite sufficient enough to roll over from phase to phase and we don't see that anymore line of credit would be taken up and we will moderate our business plan accordingly such that the cycle of sales versus cash flow in and the construction finance getting back to the lenders would be in a synchronized manner.
- Tirath Muchalla:** Just for the number of flights I think you mentioned 650 flats but as the Aspire 1 is 1080 flats, so is there something wrong in my understanding?
- Ashok Chhajer:** Totals the buildings have been registered at RERA, out of which two buildings have been opened for sale. Each building is something around 325 flats so you find out one building Carmen which is not open for sale where construction is not happening.
- Tirath Muchalla:** In the MMR region for construction do we have any form of delays because I think in the quarter there was a week of delay because of complete ban on construction but is that a problem at all now?
- Ashok Chhajer:** That is always there. Today also there is a shortage of sand so it's a normal phenomenon across the year that there would be such events happening and we will have to cope up with the time which turn in hand to scale up the construction.
- Tirath Muchalla:** This Arihant 3 Anaika project and Arihand Ambar, could you share some more details in terms of how much a capital is required to fund these projects, how did we get these projects?
- Ashok Chhajer:** Arihant Amber is in 2500 sq. meters of land which is fully paid up by the company and the approvals are in place and others to the 80 IB specifications and a small size of project we will be able to take off that is 66 flats on sale. 3 Anaika is around 266 flats where we have entered into development management model which is an asset light model where the company is not liable for contracts, also is not liable for RERA and end consumer, is not liable for cash flows, is not liable for land payments etc. on the development management project where the leading developers also do on the same line we have started it off and till today as on date out of 266 flats we have sold around 195 flats.
- Tirath Muchalla:** Do we have 100% economic interest in 3 Anaika or are we sharing it with somebody else?
- Ashok Chhajer:** It's a development management model, maybe any company doing Godrej or anybody else also. It is a fee based model with no risk towards profit and loss and that is how the revenues are secured. And for Arihant Ambar it is in the subsidiary Arihant Vatika where economic interest of the holding company is 60%.

Tirath Muchalla: And in the MMR region because two quarters ago we did a 7 acre land purchase near Aspire so are we seeing more opportunities for growth coming up?

Ashok Chhajer: The whole of the developer sections are propelling into this zone of Panvel and around which is the hot-spot of property today also and given the registration records we see that the Panvel itself is around 60,000 flats registration in this calendar year. So we see more opportunities, yes and the growth is going to be here for many reasons of infrastructure as well as employment as earlier also narrated to the investor sector. We see that it's going to be a smooth run for the next one decade and more.

Tirath Muchalla: In case we do take a project do you think financing will be a problem for us at all or it's okay?

Ashok Chhajer: Our main aim would be from internal accruals or going into an asset light model. But given all the three portions that is joint venture, development management and outright sale we will give less preference to joint ventures, we are more for development management or for outright purchases. And I think given the financials in an outright model with good cash-flows, we will stick to that. We will not raise debt for the sake of taking up new projects. Yes there are proposals at the land stage where the parties are coming for contributing in the equity form and the real equity form and not in a structured form at the company. So we see a window over there also.

Moderator: The next question is a follow up from the line of Tirath Muchalla from Elusividya Advisory. Please go ahead.

Tirath Muchalla: In terms of our annual planned for cash flows I find it a little confusing which is why I'm asking. In internal projections for internal plans for the company do you have any target number of these many flats need to be sold or this is the amount of cash flows we need from past sales and for future sales, any particular number in crores?

Ashok Chhajer: Yes all the MIS as well as the targets and the planner for the whole year is already made at the first of the month of every calendar year and presented to the board also. So there is a planner. Yes it is subject to many actions, factors as well as internal factors. The targets which we have this year around seeing change the scenario right from here if we have some revision of plans. We would be able to touch across the last year's number also in terms of flats sales and the total sale value.

Tirath Muchalla: And in terms of our safety for the business model even if we touch last year's number we should be okay? We don't need to be aggressive or anything?

Ashok Chhajer: We are already aggressive but the response from the market has to be on the same acceptance levels. If we talk about the last year's number would be okay in terms of new sales and the

value of sales and the answer is no. We will need to have at least 10% to 15% or 20% up in the last numbers and that would be more healthy numbers for the company.

Tirath Muchalla: In last quarter you shared a lot of details about how our management team is increasing. It would be nice if you could share some more details on how the company is changing and what kind of things that we are acquiring in order to grow.

Ashok Chhajer: New recruits are already in process and the HR is fully occupied for the new recruits. And the good training programs are being conducted as well as scholarship programs. Given the size of the total projects in hand we need to have an increase in the employment also to a CAGR of 20%. The space required or the infrastructure required or the office space required for them already exists and we have around 22,000 sq ft of office space which can attract talent and there can be an environment to work across.

Tirath Muchalla: I had another question, apart from these projects do we hold any other planned in the company?

Ashok Chhajer: Yes there are lands; there are redevelopment projects which are crossing some of the levels of approvals also. If we see the total projects which are not started off so there is quite good handsome number of around 15%-20% of the total size of construction which is going on which would add on to the size as new projects.

Moderator: The next question is from the line of Abhishek Lodhiya from Systematix Group. Please go ahead.

Abhishek Lodhiya: My question is more towards debt how we see that it going ahead and how will repay it or what would be the level as debt to equity stands maybe the highest level in the industry?

Pradeep Mehta: The debt last financial year we were able to reduce the secured debt though the total debt remains same and this year the debt would increase till the end of the year. But that is what is required to get the projects into motion. Good thing is that we are getting projects to the end stage like Arihant Anshula, Arihant Anaika have got occupancy certificates in the month of October and similarly 2 or 3 projects coming up. So new projects launching and the old projects getting completed will require finance maybe in any form and today in the form of debt it is possible which we are already going ahead.

Abhishek Lodhiya: Which means you would be comfortable to this kind of debt levels because upwards of 2 is too high?

Ashok Chhajer: The management has a particular ratio of limiting the debt so it won't be debt to such an extent that the projects in hand, the cash flows the ready inventory there is a mismatch. Yes we have been successful in getting the rate of interest reduced in the first five months which little

propped up in the third quarter so there is a change in the rate of interest from the NBFCs as well as the lenders and bankers where around 1% to 1.5% there has been increase seeing the market scenario, still we have been able to keep down net of net. We have been able to get the rate of interest reduced starting from the financial year 18-19.

Moderator: The next question is from the line of Rushikesh Kantamani, an individual investor. Please go ahead.

Rushikesh Kantamani: Can you please comment on the level of EBITDA margins? Can we sustain these current margins and if you can give any guidance for the revenue growth going ahead for next 2 to 3 years?

Ashok Chhajer: Long-term yes I'm really happy to see that we are looking for about 2 to 3 years and it looks very much promising. The day ratios will change. It again depends upon how fast we are able to get the re-inventory off or how we are able to increase the total sales and the collections. So yes, when we compare it to any other developer we are in a very good sweet spot and relatively the sales as well as the positioning of the company is at a first level position in Navi Mumbai and Jodhpur also which can be witnessed whenever there are common sales platform like Square Yards etc. just finishing up their event the last night.

Rushikesh Kantamani: The only problem I am fearful is debt levels which the company's debt to equity ratio is about 2. So the only problem I'm seeing it is currently the debt level only, rest I'm comfortable.

Ashok Chhajer: Something to put light on it; the secured debt today stands at around 50% of the total debt which you see and the unsecured debt is at an 50% level. So cash level to the company is relatively very less as the secured debt is almost 50% of the total debt where it is answerable to be paid interest on the every month basis etc. So comfortable position but if we do good action plans in terms of implementation of the project the company can take up nice position in the MMR region, more to better than whatever we are today.

Moderator: The next question is a follow-up from the line of Tirath Muchalla from Elusividya Advisory. Please go ahead.

Tirath Muchalla: I think a few quarters ago you had mentioned that we might raise some external capital or some partnership to grow the business, is that plans still in the work, are you talking to anybody?

Ashok Chhajer: We are not talking to anybody. We are open to it as we told that at the land stage level also there are proposals to come and invest as a real equity not as a structured role. But we are waiting for the right opportunity.

- Tirath Muchalla:** So the correct opportunity would be in terms of projects being available or what do you mean by that?
- Ashok Chhajer:** Project, correct location of the project, the feasibility of the projects where we can see that the cycle can be completed fast.
- Tirath Muchalla:** Speaking on that topic the new construction technologies that are being used, are we seeing an increase in the speed as such we finish construction nowadays compared to 4-5 years ago?
- Ashok Chhajer:** Any new technology and any speed of construction means that there needs to be enough cash flow or capital and even the capital or the cash flows are not there then the new technology is an extra burden to the project. And we still adopt to all which is called Mivan to Tabla as well as conventional and innovation in value engineering as well as human safety. So what we talk about that on the technology can lead to a successful project where the margins are higher, it is not true and depends upon case to case.
- Tirath Muchalla:** On these kind of 80 IB project are you still guiding for the same margins that you said earlier, at 25% to 30% EBITDA?
- Ashok Chhajer:** Yes margins would be to and extent of 25% EBITDA.
- Moderator:** Thank you. As there are no further questions from the participants, I now hand the conference over to Mr. Umesh Jhawar for closing comments.
- Umesh Jhawar:** Thanks Margaret. I thank everybody to be on the con call for the Q2 Earnings Presentation. Thank you so much. Please keep us connected for the next con-call.
- 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.