"Arihant Superstructures Limited
Q1 FY2019 Earnings Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to the Arihant Superstructures Q1 FY2019 Earnings Conference Call hosted by Centrum Broking 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 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. Purvesh Shelatkar. Thank you and over to you Sir!

Purvesh Shelatkar: Thank you very much. Welcome everyone and thank you for joining us for the Q1 FY2019 results ended on June 30, 2018 Earning Call of Arihant Superstructures. On behalf of Arihant Superstructures I welcome you all for the call. Please note that the results and presentations have already been uploaded on the exchanges and you can view this on the website of Arihant at www.asl.net.in.

To take us to the results and to answer your questions today we have Mr. Ashok Chhajer, the Chairman and Managing Director of Arihant Superstructures and Mr. Pradeep Mehta, CFO for Arihant Superstructures.

We will be starting this call with brief presentation giving an overview on the company's performance followed by question and answer 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 not limited to what we have mentioned in a prospectus filed with SEBI and in subsequent annual reports, which you can find on our website.

With that said, I would now turn over to Mr. Pradeep Mehta to take over the proceedings. Over to you, Sir!

Pradeep Mehta: Good morning ladies and gentlemen. Let me run through the highlights of this quarter. This quarter, we sold total 120 units, 94 at Mumbai, and 26 at Jodhpur.

Occupancy certificate received of Arihant Aarohi project during this quarter and we have handed over 221 units, total of this revenue extended Rs. 439 million, which is almost close to the last quarter for FY2018.

EBITDA increased by 67%. The rise is due to impact in changes in revenue mix on account of Ind-AS 115 and PAT margins is up by 7% to Rs.40 million on year-on-year basis. During the quarter, interest has gone up due to availing a loan facility from HDFC for Aspire project mainly and interest on Arshiya and Anaika II projects which is first time charged to P&L.

Ind-AS 115 is implemented with effect from April 1, 2018, which replaces existing revenue recognition requirement and in accordance with the new standards and basis of the company's contract with the customer, its performance obligations are satisfied overtime. So the company has opted to apply the modified retrospective approach and in the respect of contract not completed as on April 1, 2018. So being the transition date, so hence made adjustment to the retained earnings.

On standalone basis due to application of Ind-AS 115 a sum of Rs.604.5 Lakhs has been debited to the opening retained earnings and reversal of sales of Rs. 1521.24 lakhs as well as effect on course of reversal is Rs.916.72 lakhs. Net result is Rs.604 lakhs on retained earnings.

On consolidated basis, the company has made adjustments to the retained earnings as on April 1, 2018 in accordance with the new standard. Due to this a sum of Rs.692.53 lakhs has been debited to the opening retained earnings. This is the first quarterly result after implementation of Ind-AS and previous quarterly results are kept unchanged therefore not comparable.

Going forward we feel that application of this new standard will provide us consistency in number and comparability. Before requesting to Ashok Ji for further insight on the business, I would like to add about today's newspaper headlines that Navi Mumbai has ranked in top 3 for ease of living on account of governance, health and education, which seems more promising and quotation of housing demand in ensuing quarter. Over to you Ashok Ji!

Ashok Chhajer: Welcome to the conference call of the Q1 and here onwards on the Ind-AS 115 accounting method, the data could be analysed at par with most of the companies. So now we open up the floor for Q&A.

Moderator: Thank you very much. Ladies and gentleman, we will now begin the question and answer session.

Ashok Chhajer: We will start with some of the numbers as told by Mr. Pradeep Ji. The revenue recognition method, which has been adopted after the guidelines of or the corrections of Ind-AS earlier what the company was adopting was the ICA guidelines that 25% of the project cost or phase cost had to be occurred and the second threshold was about 25% of the total sales to be done and 10% minimum to be received from the sales done.

The new method, which has been adopted by our company, is not on project completion method, but is on percentage completion method. The tweaking or the new method, which we have adopted, is where the instituted guidelines already withdrawn and the sector has not seen any institution guidelines of revenue recognition. The internal management had decided that we would go on percentage completion and accordance with the RERA guidelines and thresholds beside that while the RERA, which is the double letter for the housing sector. As per the RERA guidelines, 10% minimum amount has to be received for entering into agreement and on the same lines we have adopted the method of 10:10 and the first 10 happens to be the project cost has to be occurred to the extent of 10% instead of 25% earlier which was there in the last year and there is no threshold on number of sales so even out of 500 flats 5 flats had been sold out, the 5 flats revenue would be taken into consideration and the threshold for the 5 flats to be getting into recognition would be as per RERA guidelines that is 10% of the payment should be minimum received. So the method of recognition would be in short 10% of the project cost should be completed and 10% of the minimum receipt should be received from the flat buyers whereon there is a compulsion to enter into an agreement with the flat buyer and that consolidates the sales.

In this method what we see is that there would not be long gestation period which was there in 25:25, whereas in 10:10 method there would be consistency on quarter-to-quarter as 10% would be something that they would have completed with plinth of the project or with the foundation of the building. So coming days, there would be good consistency and due to the restating of the accounting and we call it as restating right from the day #1 when the project started for the previous years the numbers have been changed where we have to do a reverse of sale entry on April 1, and then had been add on to it. So the turnover, which appears to be Rs.439 million, but in reality Rs.150 million is the reversal of earlier revenue. So the actual quarter revenue would be 439 minus 150, that is 289. So vis-à-vis if we are comparing the numbers it would be 289 versus whatever the margins we have been received though Q1 to Q1 and year-on-year would not be comparable due to the change in the Ind-AS system. The Q2 would be the year from where onwards the results could be compared from Q2 to Q3, Q2 to Q4 across the sector in the industry because that is where after all the restating of accounts would find out the real numbers, which would be affecting. Over to the floor! Questions are welcome.

Moderator: The next question from the line of Ravi Purohit from Securities Investment Private Limited. Please go ahead.

Ravi Purohit: Good morning Mr. Ashok. Just wanted to get some sense of how do you see demand on the ground post, what has happened in the industry in terms of RERA, GST and lot of things, so particularly micro markets like Jodhpur and some of micro markets in Navi Mumbai so are you seeing any demand coming back and we are hearing that a lot of sales that are taking place are mostly secondary sales in the sense resale value and primary sales are actually still struggling to kind of take off so if you could share your thoughts on that?

Ashok Chhajer: Very true Mr. Ravi that due to the GST it apparently appears that there is a burden of large GST amount of 12% to the sale price, which is pushing back the customers to wait for the ready for possession property to come across so the secondary market including the ready possession property wherever the projects have received occupancy completion certificate and ready for use are seeing a good traction and registered to the market rate it appears what we have sensed and tested by putting up Navi Mumbai pricing right from April, May, June on each month we increase the prices by Rs. 25 to 30 per square feet in and around of 2% to the sales price of an average sales price. We have found that rate is not being rejected and Rs.30 per square feet on monthly basis that means around Rs. 100 is absorbed and welcomed. That tells that the market very clear knows that there is nothing more to the bottom than this and with the available deals and new marketing strategy there are good sales. Yes real estate here onwards after the three things coming up it would not be the real, real estate sales which used to happen when it was only an asset class, but now it has to be looked more like a FMCG good, where the marketing strategies and policies would have to be very innovative, very welcoming, we have already launched a the new program of ***Dil Dhadakne Wale*** sales where events have been carried out. The planner for the sales already has around two to three events in a month across the peers, taking that into different projects, so demand is there for the ready possession property which is more in our Arihant sales because we are into affordable housing. The applicable GST is dropped down due to the regulation after January 20, 2018 from 12% to 8%. Leaving apart one project that is Arihant Alishan the rest all projects we charge the customer 8% so that is a benefit to the customer to buying up in the affordable housing segment where 4% of GST is lesser than the normal flats.

Ravi Purohit: How is that defined as what flats will attract lower GST?

Ashok Chhajer: Lower GST is for projects, which are 60 square metres, and below, and it falls into the category of infrastructure policy, which was notified earlier.

Ravi Purohit: So this under PMAY scheme is it?

Ashok Chhajer: It is not necessary to be a PMAY scheme. PMAY scheme is not for the developer, but is for the end users more and it is very simple that the flat size has to be 60 square metres and below, there is no certification required and the project has to cater 90% of the design is below 60 square metres and FSI 50% has to be consumed below 60 square metres so that forms into the infra status.

Ravi Purohit: So 60 square metres would be what 600 square feet carpet?

Ashok Chhajer: 600 square feet with carpet area so that includes the wall also.

Ravi Purohit: So are there any schemes which the Government of India is running for developers per se because there are certain areas where the government is saying that the project will be tax free for the developer or there any additional benefits like for example in CLSS it is the buyer which gets Rs. 2.5 Lakhs per annum for the first time buyer. Are there schemes, which are there for developers?

Ashok Chhajer: Yes it is already in the air where under section 80-IB of direct taxes the project, which has received approval after June 2016 and before March 30, 2019, would be eligible to it with some different criteria. 80IB scheme where there is no tax, there is complete tax exemption on all the earnings except the MAT which would be a part of the cash flow.

Ravi Purohit: But there is no scheme which says that every flat that you develop and handover to LIG or MIG as a developer you will get like Rs. 2 lakhs per flat or 2.5 lakhs that is only for the CLSS for the buyer not for the developer. Developer has only one scheme which this 80 IB only if you make affordable housing?

Ashok Chhajer: Yes.

Ravi Purohit: Okay. Any colour on the Jodhpur micromarket how is that and we had one premium project which we were not kind of liquidate in the past so any traction there, any pricing changes that we have made there?

Ashok Chhajer: For pricing, we have kept the pricing same. The velocity is in for that premium project is at a defined pace where around one to two flats go on for every month and now we have around 30 to 35 units in hand. So I think we should have some event running otherwise it would take us 12 months more to complete the sales of Arihant Ayati Jodhpur Project. Jodhpur we can call it as a two tier city but it has a good population of 20 Lakhs plus that is equivalent or somewhere lower than Navi Mumbai. So it is an educational hub, it is an industrial hub, there is good velocity yet the time taken by the buyer is good enough so we see it is a potential market.

Ravi Purohit: So in the presentation we mentioned about new land acquired so can you just throw some light as to what exactly do we have in mind. What is this micro market we are looking at?

Ashok Chhajer: We acquired...

Ravi Purohit: Palaspe, Panvel I think.

Ashok Chhajer: So that is a premium area where we have the flagship project of 3 million square feet Arihant Aspire and which is 42 storey building it is something around 4.5 to 5 km from the airport so adjoining to it not contiguous s line but we have taken up the 7-acre of land and it has come up with a very good price of Rs. 20 Crores for 7 acres around, less than Rs. 3 Crores an acre, which means the total topline maybe something around Rs.300 Crores and it could fetch an EBITDA of 30 to 35%.

Ravi Purohit: So this will give about 7 lakhs square feet?

Ashok Chhajer: It should be around 6 lakhs square feet.

Ravi Purohit: Okay, great, thanks, all the best, I will get back in the queue.

Moderator: Thank you. The next question is from the line of Sahil Shah, individual investor Please go ahead.

Sahil Shah: Good morning. Actually I wanted to ask going by one of the slides you have put up on presentation, there seems to be lot of developments internally so could you explain me in detail the rationale behind this?

Ashok Chhajer: In the presentation?

Shahil Shah: Yes, business development highlights.

Ashok Chhajer: Can you guide me to the page number. Development, we have already put up our efforts in terms of internal development where CXO level people have been recruited for the management and implementation of the projects, so good there are experienced people right from the whole real estate sector core. So CSO Sarabjeet Kukreja was India had top for retail flat sales, Chief Project Officer, Sameet Dar, again a stalwart big name in engineering across Mumbai for that state builders etc., and an experience of almost 50 years plus and Jitendra Mehta, Chartered Accountant as well as LLB looking after operations. So there is big, big level of recruitment happening and which would result in to strengthening the organisation and would also give up a dedicated view to the company.

In terms of corporate governance, we have appointed KPMG as our internal auditor from April 1, 2018 and we have shifted up to a large office space of about 24000 square feet and this can enable us for expansion of work spaces, which were not there earlier. So borrowings also, the company had been able to get a facility of Rs.250 Crores from HDFC Limited for five years for construction finance and end user restriction with a cost of 10.7% per annum. Though this line of credit would help up the flagship project to go smoothly across the lifecycle of the project.

Sahil Shah: I like to ask another question, see it is very difficult for the real estate industry so in general can you please share your thoughts how you been tackling this and sales growth, there is lot of projects at various stages, hence it is very evened out, right?

Ashok Chhajer: Real estate per se with the earlier method had a longer gestation period due to 25:25 which think would get reduced to a larger extent with the 10:10 method, which we have adopted. Yes real estate cannot be viewed and judged on quarterly basis. I would say the best thing would be an average of last two years should be looked at, which should be taken forward. Keep an eye on the engineering spent as well as the new unit sales. So that can tell up how on quarter to quarter basis goes through, though it is a seasonal business. So the first quarter always in Mumbai where people are out of station for vacation, etc., is not a season where we would see large sales. We would be able to cope in the next festive seasons, coming Q2, Q3 and with the new team building up and recruitment almost 30 to 35 in addition to the 50 available and total force of 75 to 80 people in Mumbai and around 20 to 25 in Jodhpur, good numbers in terms of new sales.

Sahil Shah: Thank you, I will come back again.

Moderator: Thank you. We will take followup question from the line of Ravi Purohit from Securities Investment Private Limited. Please go ahead.

Ravi Purohit: Thanks for taking my question again. This regarding couple of days back DLF had reported their numbers and in the quarterly presentation they made an interesting remark saying hereafter they will actually sell flats only once they have completed them. They will not sell under-construction flats. It is like manufacturing company who build raw material into finished product and then actually goes out and sells the finished product. Your thoughts on that?

Ashok Chhajer: It is an outcome of the environment wherein if you take a cost and product, which is Rs.10,000 per square feet and 12% to, it makes Rs.1200 per square feet of GST. The customers are not willing to pay Rs.1200 which is substantial so automatically people have to go for higher range of product on the part of completion of the project and with RERA also coming in to force and utilisation of funds have been restricted. Each individual project will require a funding for the project to be completed either by internal resources or external resources. For the products which are around Rs.4000 per square feet where 8% GST makes Rs.320 here is where the customer does not look into it that GST is going to be a very major impact as this much is price rise which he also pays during the ready possession. So if we talk about India's Build and Sell method because that would see there is less cash flow in there and with the market interest rates as well as the finance cost across in the country continues to be high and till the finance cost for the real estate sector does not goes to one digit, I do not think the build and sell method practices would be workable leaving apart some of the biggest one of DLFC, respect them in that case, we acknowledge it, but majorly it is always sell and build.

Ravi Purohit: Thank you. That is useful.

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

Kalpesh Parekh: Good afternoon Sir. A couple of questions, one on GST, basically are you although able to pass on the complete GST rate or how is the scene for the industry and for yourself?

Ashok Chhajer: We have given up the input credit to the earlier clients were booked at the older regime before GST where they paid up a price which was inclusive of input credit and for the new launches we do not have a method parking of our GST as we come with a correct price where there is no old regiment in force so working is done for the new project with a straight calculation of 8% GST and for the older sales which had happened in the earlier projects the input credit was already given.

Kalpesh Parekh: So then if that is factored into your price then there should not be any big impact right in terms of volumes and all the things because we reduce prices accordingly?

Ashok Chhajer: Yes.

Kalpesh Parekh: All the factor in our prices accordingly then there should not be any such impact because of GST because you had mentioned in the earlier sense?

Ashok Chhajer: No it is not connected subject when we talked about input credits being given or not and sales being happening around, both are separate subjects which come into the businesses. In operations both are different subject, if the sales happen or not it is completely different.

Kalpesh Parekh: My question is more on the pricing front due you factor in, like in your pricing?

Ashok Chhajer: Either we have given up input credit in the business as rebate or else we are factored into pricing.

Kalpesh Parekh: Because we see lot of advertisements on that front only that price includes GST so is that like even we follow that way, whatever price we say.

Ashok Chhajer: We have different projects, 16 projects, so all projects have different behaviour. We run different schemes where there are many times offerings of either in the method of standard key registration, sometimes GST, different offerings.

Kalpesh Parekh: Last year slightly we had tone down targets as such of something like 10000 homes whatever we had said for so like what is the target we are setting for this year and how we are planning to go about?

Ashok Chhajer: We did not set our 10000 homes as a target for the one-year. It is the total size of the homes where the companies is constructing across the 16 projects spread for the next 6 years planned out which may spread out for a year or two over and above with that marketing strategies being adopted due to sales and demand and supply or the external environment so in terms of year-on-year, I think the last year we did up number of sales with good growth of 925 flats vis-à-vis year end 2017, and year end at 2019 we have plans to cross the 925 target.

Kalpesh Parekh: If I am seeing project by project how has been the progress as such, any project which is coming at very final stage and where we will start seeing revenue recognition?

Ashok Chhajer: As you see that we have always been telling that across the projects, we have a pipeline where from end to end we have consistency that throughout company there is some projects which is either at the completion stage or something which is nearing completion, some of the projects at structure phase completed, some had just started, some were designed and some at land stages. So today also that consistently can be viewed by a) new buying of land, b) new project base launched, c) this quarter also Arihant Aarohi project getting into OC being received on completion where possession has been granted. So I think on year-on-year basis we would not find at Arihant that there is no projects, which have not reached completion, there would not be any year where there would be no new project launched, there would not be any year where there would be no business development in terms of acquisition of lands or new projects being taken across in JV or BM model. As business development stands today, I segregate it into three portions, a) Land purchased projects, b) joint development that is JV projects, c) development fee-based projects or BM Model. We would be able to give good announcements in this financial year once we entered up into agreements, which we have zeroed down on all the projects, which we have identified.

Kalpesh Parekh: In terms of project wise, like can we expect more recognition coming in from Arshiya, Adita, Ayati and Arihant Amisha as such?

Ashok Chhajer: Because all these three projects have completed and there is less expenditure being balanced to do so the larger the amount of sales we do there would be larger revenue recognition.

Kalpesh Parekh: Hence from the forthcoming quarters with the new Ind-AS we will be able to make a comparison between quarter wise, but Sir will it not be possible for you to give the last year comparable based on the new Ind-As?

Ashok Chhajer: It should not now be done with any of the real estate companies with respect to Ind-As 115 coming in because after the restating of the accounts right from retrospective effect the comparisons would not be relevant so Q1 also is already a restated account for across all the companies of real estate hence Q2 onwards which would be comparable, so Q2 should be compared with Q3 and further thereon.

Kalpesh Parekh: Q2 should be compared with Q3 or Q2?

Ashok Chhajer: As in this quarter everything has become restated.

Kalpesh Parekh: Right then Q2 we will compare with Q1 right?

Ashok Chhajer: Already Q1 is restated.

Kalpesh Parekh: Restated?

Ashok Chhajer: It would not be that much relevant in terms of comparison. But revenue what is coming that is right. PAT and PBT margins, which are coming, that has to be reversed for the retrospective effect as per Ind-AS then only after Q2 and Q3 you can make a comparison. That is the right way.

Kalpesh Parekh: For a quarter-on-quarter if I am comparing should I compare sequential basis as well or how it will be?

Ashok Chhajer: It should be after Q2 you can compared it with Q3 and thereon with Q3 to Q4 and there on, but Q1 to Q1 of the previous year or Q2 to Q2 of previous year, differs because the last year of Q1 was 25:25 and this is 10:10 method.

Kalpesh Parekh: Wish you all the best.

Moderator: Thank you. We have a follow up question from the line of Sahil Shah Individual Investor. Please go ahead.

Sahil Shah: Sir in your experience over a year has there been any changes that you need to do in your marketing or sales strategies to attract customers and boost sales?

Ashok Chhajer: Largely, our bargaining strategies many times always on a monthly basis on project to project. We have adapted and we are doing innovative marketing events, which help us gain the traction. As told that it should not be now enhancing forward viewed as real, real estate sale, it is not like property sale now, it will be a sale like consumer good. We will find a different, different world in the coming years and sea change in approach by the buyer as well as offerings. Before now when there is good sales in real estate, and if you are reducing it means is there is something wrong, but now it is not like this, now it is like that it is according to the product, if there is sale written then the person will go and purchase the product.

Sahil Shah: Can you elaborate this in detail?

Ashok Chhajer: People will come with attraction towards offerings because there are many different schemes ready possession also, forward subventions are there, that people do not pay interest for the, so financial modelling has become a big thought in terms of real estate sales which was not earlier, earlier it was on cash method, like if you should pay in cash then we will give you housing loan, now it is not like that now it is like right if you have this much money then I can do a particular financial modelling and give you a housing loan product or I can do type of banking where I can give you forward subvention scheme or I can give you backward subvention scheme or rentals scheme. So financial modelling is becoming more important in the coming days to define and project product sale of that particular event or the quarter, but it has been good as you would have heard that Wadhwa did up a nice sale in Panvel to an extent of 600 flats, there are numbers in the air, but 600 is what I found it was right, 600 flats all going off in two months across Panvel that tells that it is the top hot resident destination going forward and we have the major stake all in and around Panvel.

Sahil Shah: Okay, meaning we are planning to do this in future right or it has already happened?

Ashok Chhajer: We are already there, our Dil Dhadakane Wala scheme is already in air, you can visit the exhibition, which is ongoing.

Sahil Shah: Okay, it is a small event?

Ashok Chhajer: It is not going to give you numbers like 600 because it is a 10-day event and smaller event with a lesser expenditure but I think we would be able to get vis-à-vis good numbers.

Sahil Shah: Okay, no problem Sir. Thank you.

Moderator: Thank you. Ladies and gentleman, as there are no further questions from the participants I now hand the conference over to Centrum Broking team for closing comments. Thank you and over to you!

Purvesh Shelatkar: On behalf of Centrum Broking Limited that concludes this conference call. Thank you all for joining us, you may now disconnect your lines.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Centrum Broking Limited that concludes this conference. Thank you all for joining us. You may now disconnect your lines.