



“Arvind Infrastructure Limited Q2 FY-17 Earnings
Conference Call”

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Moderator: Ladies and gentlemen good day and welcome to the Arvind Infrastructure Limited Q2 FY17 Earnings Conference call. As a remainder, 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Kamal Singal, thank you and over to you sir.

Kamal Singal: Thank you and very good afternoon to all of you, its our pleasure to have you again in this call which is supposed to discuss the results of Q2 FY2017. Results have been announced today and we have uploaded the results on our company website also. I am joined with Mr. Mehul Shah, who is the company's CFO and Mr. Prakash Makwana, he is our company secretary and head of legal side of it.

Coming back to the business and the market and its outlook etc., last few months and couple of quarters have had shown some positives in the overall macro environment as far as real estate industry is concerned, of course, real estate industry has been going through tough time for the last 4 to 6 quarters, but then of late we see some positives coming out of various sort of variables, some of them that can be listed here are interest rates which are of late at least showing trends of softening, they might not be as fast as much as we wanted but then at least directionally there is reduction in interest rates.

The 7th Pay Commission has increased availability of money in the hands of people who are very relevant or are sort of customer in lot of our projects. GST is now looking like a possibility so at least in the medium to long term it should be positive for the industry, it will bring in more transparency which is very much required in our industry. RERA is becoming a reality I mean as such it is looking like that, it has delayed a little bit because states are yet to act on their part, central government having done their bit of passing the enabling sort of law, states are yet to act but sooner than later this has become a reality and which will further improve overall environment and transparency in the business which helps corporate players like us in this business which is still a mix of organized and less organized kind of players. So all these things we feel that there are reasons to believe that in coming quarters and overall business environment will improve further and obviously we are very well poised to take advantage of these positives.

On the demand side, market has been subdued for sure but then it is showing some signs of improvement already. We have been witnessing improvement in the responses that we are getting in some of our projects and we are very confident that with overall macro factors that we discussed along with in fact I missed mentioning one or two more macro variables like very contained kind of inflation environment coupled with the FDIs coming in a very consistent way into this country, both these things will also sort of improve or at least maintain the purchasing power in the hands of consumers and the citizens, so all these things make us believe that the situation from here on is only going to improve and we are very well poised to take advantage of that.

Now coming to the numbers of this quarter. We have posted a topline of Rs.22.64 crores for Q2 which is against Rs. 7.81 crores of corresponding quarter last year and Rs. 22.48 crores of last quarter in the sequential quarter, so as such on a smaller base comparatively we have grown 190% from the corresponding quarter and there is a small improvement in topline as far as sequential growth is concerned.

On EBITDA side, EBITDA is healthy at Rs. 6.74 crores against Rs. 1.61 crores of last year same quarter and it has gone down a little bit when it is compared with the sequential last quarter as against Rs. 7.57 crores it has come down to Rs. 6.74 crores. Similar is the story with PAT. We have a PAT of Rs. 2.26 crores against a negative PAT of around may be Rs. 30 lakhs odd same quarter last year but it is slightly lower as compared to the previous sequential quarter, it was Rs. 3.02 crores and now it is Rs. 2.26 crores. So overall if you are to compare quarter vis-à-vis same quarter last year, we have shown healthy growth in all the parameters which is topline, bottom line etc., and our anticipation of growing at the rate of 30% to 40% in most of the parameters year-on-year is looking like happening. Same is the case with the cumulative numbers for the first 6 months which is quarter 1 and quarter 2 put together and we are kind of showing similar trends in the numbers, so that is where we are. We can now open to questions and answers. I can throw some light on the projects for the time being. We have until now completed or executed or delivered 6 projects with a cumulative area of 2.27 million square feet and right now 4 mid to large size projects are under various stages of development; together these 4 projects have developable area of around 11.45 million square feet. We continue to operate in 2 cities, Ahmedabad and Bangalore, when we say Ahmedabad it is a combination of Ahmedabad and Gandhinagar, basically twin cities. Bangalore, there is a pipeline of 2 mid-sized projects. So this is how the overall situation on projects as it stands today and maybe we can start with the question and answers.

Moderator: Thank you. Ladies and gentleman, we will now begin the question and answer session. We will take the first question from the line of Gautam Bahal from Mauryana Capital. Please go ahead.

Gautam Bahal: Sir, you mentioned, we should expect a growth of 30% to 40%, I think you have mentioned that in the past as well just looking at last year, FY16, the quarters were very lumpy, I think most of the growth came in through Q3 or Q4, is that something we should expect this year as well to most of the revenue growth to come in sort of Q3 or Q4.

Kamal Singal: See, as per the accounting standards that we follow, our sales booking in the books of account depends upon the percentage completion of the project and a threshold has to be achieved before project starts contributing towards top and bottom line and that is why it might be in any one single quarter there can be a lump but then we have planned the pipeline in a way and we have been executing and putting efforts in a way that year-on-year we achieve the kind of growth that we have set ourselves for. Now for the year as a whole the expectation is that growth in excess of 30% to 35% whether the thresholds of some of the projects get achieved in quarter 3 or quarter 4 will depend upon lot of progress related issues but at this point of time we are very confident that for the year as a whole we will be able to maintain the growth rate.

- Gautam Bahal:** And when you say year as a whole you mean financial year.
- Kamal Singal:** Financial year, that is right.
- Gautam Bahal:** Sir, if I remember correct, your FY16 top line was about Rs. 114 crores, sir just to know that we are on the same page, we expect the 30% to 35% growth on top of that number right for the full year FY17.
- Kamal Singal:** That is what it means.
- Gautam Bahal:** Okay and sir one more question along the same line one of the things that is concerning me is the new sales has not sort of shown traction of the last few quarters, when should we expect bit more traction on that front. This quarter was about Rs. 12 crores.
- Kamal Singal:** That is right. See the new series is a combination of the existing projects and some of the pipeline projects which are about to be launched in the coming days and months. Now having said that there are two existing projects one is Beyond 5 and other is Upland. Upland phase II has to be launched and it is ready to be launched in the next may be couple of weeks or so and that should give us very descent numbers that is how the plan is. At the same time Beyond 5 is also getting launched and these are two large potential contributors to the numbers and I am happy to share with you that out of the two projects which are in pipeline as of now, one of them where we have already concluded land deal, the land is coming in our name and most of the approvals are in place except for the last couple of things which are left out. We have soft launched the project on a one to one basis, and a formal launch is expected by maybe end of November or December or something like that. Then we have already got some very encouraging sales booking which is done post these quarterly numbers within this month and we are very confident that overall MIS sales number will be very healthy and we should be able to achieve on MIS sales.
- Gautam Bahal:** Right sir, just for me to understand some sort of accounting that goes into sales becoming revenue but should we expect the sort of MIS sales numbers annually to approximately at about Rs. 130 to Rs. 140 crores in FY17-18.
- Kamal Singal:** Please restate your question, you are saying that if our top line is X 140 and 150 whatever number, you are saying that the MIS sale will be similar number or not is that your question.
- Gautam Bahal:** Yes because I assume this number is a leading indicator of your top line number right. You have to sell this to recognize this revenue.
- Kamal Singal:** In fact, the number has to be like that I mean MIS sale for the year as a whole has to be rather slightly more than what the book sale number is going to be, so that your pipeline as much or at least into little bit from there onwards every year; to that extent yes we are very confident and we are in to do at least sales equivalent to or more than what books are absorbing.

- Gautam Bahal:** Right and it sounds like that traction should come in the December quarter itself if Upland and Beyond 5 is starting to sort of.
- Kamal Singal:** That is how the plans are but generally in real estate you don't plan quarter wise because of the way accounting standard is in the way you know these lumps are coming as you very well said. So while we are trying to prepone the whole thing as much as we can but we are very confident at this point of time that within a span of 12 months of financial year we should be able to achieve these numbers.
- Gautam Bahal:** Got it, and sir final question on the EBITDA margin, you have mentioned in the past 30% to 32% are we still on track for that.
- Kamal Singal:** Yes, we are on track. Therefore, with couple of percentage here and there quarter-on-quarter, I mean that is fine but yes (+30%) is what we are looking at and we are right to on course on that.
- Moderator:** The next question is from the line of Manoj Dua an individual investor. Please go ahead.
- Manoj Dua:** When do we expect the revenue recognition from Upland and can you give some detail about your next project when you will launch in Bangalore.
- Kamal Singal:** Upland the idea is to start booking this financial year only and as of now it seems that we are on course, on track and I am sorry what was your next question?
- Manoj Dua:** Regarding your Bangalore project.
- Kamal Singal:** Yes, Bangalore you are talking about what Sporca or the next one.
- Manoj Dua:** No, I think Skyland which you are going to launch when did you launch it?
- Kamal Singal:** We soft launched it, so on a one-to-one basis to existing customers and to Arvind family, employees and all that. I mean that one-to-one sale has started happening and there are already some very encouraging trends coming from there and formal launch should happen in this Q3.
- Manoj Dua:** Okay and the Beyond 5 will be also launched in Q3.
- Kamal Singal:** That is right.
- Manoj Dua:** Okay, can you share some quantity figure how much you were able to sell in soft launch if possible?
- Kamal Singal:** Soft launch per se is a number which is a slightly premature number, we will rather wait for a month or so but I can assure you that these are good numbers.
- Manoj Dua:** Okay, you have added one more project I think which you have named is Arvind Bangalore 4, can you get some more detail about what is the size of the project.

Kamal Singal: Yes, Bangalore 4 is one of the two pipelines that we have shown, of course, Skyland has already matured in the sense of land having being come in our books, etc. Bangalore 4 is a land deal which is as such done. We paid little token money kind of a thing to the land owners but then there is a process of due diligence and all which normally takes 2 to 3 months' time, so we have just entered into that stage there. As of now the commercials are agreed and we are convinced about the project, etc., to that extent the pipeline is quite firm but having said that due diligence is also one of the major hurdles that one need to cross before we can say okay this project from pipeline has got converted into a current project. In terms of size this project if and when it happens will be 20 to 25% bigger than the Skyland size.

Manoj Dua: Okay, can you tell us more about the Upland project, that is one villa selling in this quarter, these villas kind of project which are outside the city little bit, so when we see the sale number coming faster at which stage of the construction, generally at the time of possession or how well you can see when the major sale happening in Upland.

Kamal Singal: Yes Upland you are very right, the number does not show to the point of, the kind of things happening there but Upland second phase launch as we call it which is releasing further set of villas and which is coming up with the new campaign and other things and having developed quite a bit of amenities now is being relaunched or launched as second phase or something in the next may be couple of weeks. Now this is a leftover inventory from the ones where we had actually started work that we have sold so far but we are hopeful that we will now get a fillip once we launch Phase 2 of Upland, which is happening in the next couple of weeks and we are very confident about that project. The project is doing great and it is coming out very nice. We have got all the positive feedbacks that we expect from a project like this and we are sure that the numbers will get ramped up once we launch Phase-2 in the right earnest in the next couple of weeks.

Moderator: We will take the next question from the line of Aarti Gokhle from Silver Wood Capital. Please go ahead.

Aarti Gokhale: This question is related to the borrowings. Our long-term borrowing has gone up from Rs. 43 crores to about Rs. 53 crores since the last financial year end. So, can you just give us a sense about how much is going to be in the coming 2 quarters.

Mehul Shah: Yes see we have acquired a new project "Skyland" where we have borrowed some Rs. 20-odd crores for that and that is why Rs. 10 crore has been increased in long term borrowing. And in a long-term plan we want to keep our debt-equity ratio on the range that is currently it is there, we have kept ourselves a target for a 1:1 debt-equity ratio.

Kamal Singal: See here we have been very conscious about debt-equity ratio not crossing 1:1 and right now it has been maintained consistently at around 0.66 or 0.67 and there is little bit of an additional borrowing is obviously going towards capital expenditure. Expenditure obviously is bigger than what this increase is but then this is the bridge funding which has been done beyond the internal accruals and other owned funds that we have deployed for the next sort of project acquisition.

- Aarti Gokhle:** My one more question regarding the receivables. Our receivables have gone substantially up towards Rs. 50 crores so can you just give us update on whether it is going to increase further from here?
- Mehul Shah:** You are talking about consolidated numbers. Receivables have gone up from Rs.38 crores to Rs.50 crores. It is a mechanism of a revenue recognition; once you recognize the revenue it will keep on increasing.
- Kamal Singal:** I am sure you are aware that in real estate again resting to the foundation that the way MIS sale is converted into the sale in books of account those sales which are getting recognized in books the entire outstanding of those sales will get converted into accounts receivables and as the company is growing you will see that number keep increasing. It does not mean that it is outstanding it basically means that subject to the completion and all that which are the conditions to demand payment this is the quantum of money which has come and this is the quantum of money which has not come for example if a sale done to Mr. X was worth Rs 100 and based on his payment and our expenditure plan that sale is getting recognized to the extent of Rs 100 but the construction status is saying that 60% is completed, we are booking 60% recognizing 60% and 40% is shown as outstanding so this is a number which is directly corresponding to the recognition of sales and consequently the payment which are outstanding based on the structural status of that particular sales so it is not an abnormal number so to say.
- Moderator:** We will take the next question from the line of Manoj Dua, an individual investor. Please go ahead.
- Manoj Dua:** Can we have that breakup of the inventory in consolidated number which is around Rs.250 crores.
- Kamal Singal:** Just a minute, yes see which are numbers that our expenditure which we have already incurred on various projects and revenue against the same that has not been recognized. So that has been put up in this inventory. Mainly Upland along with land cost which is around Rs. 68 crores and other is the Skyland where we have invested in land which is around Rs.50 crores, Sporcica is around Rs.24 crores and Beyond 5 is around Rs.40 crore and rest is for the other projects, so it is coming like Rs.255 crores and mainly it is Skyland, Sporcica, Beyond 5 and Uplands Projects.
- Manoj Dua:** Beyond 5 is also a similar project like Upland and do you think the launching Beyond 5 will increase some competition to our own project like Upland.
- Kamal Singal:** No in terms of size, Beyond 5 looks like a very similar project but in terms of offering to the customer it is absolutely different project so Upland there is nothing less than Rs. 1.5 crore fully built-up villa, while Beyond 5 it has similar kind of amenities per se. For the buyers it is basically a weekend plotting scheme, where the investment horizon starts from Rs.30 Lakh onwards. Beyond 5 and Uplands, so they are absolutely different product and segments and hence there is no conflict.

- Manoj Dua:** Okay we will have a similar kind of margin around 30% Beyond 5 also.
- Kamal Singal:** Oh! yes, because it is a JD deal per se so the proportionate funds deployed, etc., will be more efficient and we should be able to have the kind of margins that we have for any other project in this case as well.
- Manoj Dua:** What is your expectations from the Beyond 5 that there will be good response from the launch phase also or in these type of projects it goes on till you complete the project?
- Kamal Singal:** No it has to be both ways I mean you cannot wait for completion of project before you get a good response and we are confident that the kind of tying up which is doable in our case. It is loaded with lot of amenities like it also has a golf, it helps SMAAASH as an offering which is promoted by Sachin Tendulkar and all that so quite a few good attributes and good specifications are there so we are very confident that at the time of launch also it will get a decent traction.
- Manoj Dua:** When you will be converting warrants into equity?
- Mehul Shah:** 25% is already been received out of the total issue size and remaining amount we can take in 2 tranches. One tranches we can take up to March '17 and second tranche can be of a September '17, before 18 months.
- Moderator:** Thank you, we will take the next question from the line of Hetal Sangahavi, an individual investor. Please go ahead.
- Hetal Sangahavi:** I just wanted to ask about the Changodar Industrial projects that you are putting named Mega Park, so what will be the top line and by what time do you think that it will be get completed and all the revenue recognize on the books?
- Kamal Singal:** You are talking about Mega Park right. It has a top line of Rs.70-odd crores and it is supposed to be completed by next year end and I think the investor presentation will have a very specific details about how much EBITDA margins and EBITDAs are projected from this project.
- Moderator:** Thank you, as there are no further questions I would now like to hand the conference to over to the Management for their closing comments.
- Kamal Singal:** Thank you very much all of you for joining this conference call. As we stated in the beginning after quite a prolonged stressed sort of period in real estate, we definitely see some green shoots coming and coupled with those green shoots and macro environment which is generally improving, things should be better and we are very confident that in the medium-term company is going to show the impact of all these positive which are being felt around us and is getting reflected in our books of account and we should be able to continue to show the kind of growth we have been showing in the last few quarters. Thank you very much again.
- Moderator:** Thank you, ladies and gentlemen with that we conclude today's conference thank you for joining us and you may now disconnect your lines.