“Arvind SmartSpaces Limited Discussion on Financial Result for the Quarter and Half year Ended Conference Call”

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Moderator: Ladies and Gentlemen, Good Day and welcome to Arvind SmartSpaces Discussion on Financial Result for the Quarter and Half-Year Ended on 30th September 2019 conference Call. 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kamal Singal – Managing Director and CEO. Thank you and over to you, sir.

Kamal Singal: Thank you and a very good afternoon to all of you. We have just announced the Results for Q2 of Financial Year 2020. As you would have noticed our revenues for the quarter are 34.49 crores which is a dip of around 25% from 45.76 crores last year same quarter. However, margins have improved significantly. EBITDA has gone up from 9.13 crores to 12.31 crores this quarter which is approximately 25% higher than the last year same quarter and EBITDA margins are at healthy 37%. PBT similarly has gone up in terms of absolute value in percentages. PBT margins are at a healthy 16% and in terms of absolute values PBT stands at 5.31 crores against the 3.49 crores in the same quarter last year. PBT is also up by 50%-odd and in line with PBT, PAT also has shown decent growth of 38% in terms of last year and 8% as a margin to the sales. PBT stands at around 2.54 crores against 1.84 crores last year same quarter.

Now coming back to some other detail before we can really start our question and answer session.

We have currently nine projects going on at various stages of implementation comprising 13.33 millions square feet and these projects of around 13 million square feet are spread in the cities of Bangalore, Ahmadabad and Pune. One more update about the company is our partnership which has recently been announced with HDFC so the company is forming a special purpose vehicle private limited company called Arvind Homes Private Limited with an initial investment of around 250 crores out of these 250 crores, 200 crores will come from HDFC and 50 crore will be contributed by Arvind. Arvind being the developer partner will obviously have a decent and healthy sweat equity in the form of disproportionate return that we expect from this tie ups while the capital is in the ratio of 80-20 to obviously, our profits and net cash flows will be higher than this portion which essentially is aimed at increasing return on equity for us. So. this deal which is comprising of a very long-term capital with no short or medium-term kind of pressures on any of our balance sheets or cash flows, etc., is a very big boost through this very innovative kind of structuring we have ensured that we do not dilute at the same time there is a very long-term capital which is being made available to the business and business at the same time does not need to really worry about the cyclical nature of real estate industry which could see ups and down in the short and medium-term. So all in all this is a great partnership under these and if you were to call them a little stress days in the industry to have our deal of this kind of equity elements into it, etc., is something which puts us in a very different kind of orbit in terms of scale and price of the company and obviously apart from the financial benefit that we look towards from this kind of a deal, we also are happy that through this deal the number of projects in the presence in the market will significantly improve. Our visibility will significantly improve and of course this also brings in economy of scale for the business. So that is a brief about some of the important issues and projects and the numbers, etc., maybe we can take questions one by one now.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Shivam Agarwal from Compounding Capital Advisor. Please go ahead.

Shivam Agarwal: Like due to the environment people are right now buying more of completed projects so the cash flow is good towards the end of the projects, so I am asking you what kind of IRRs are we getting on a projects?

Kamal Singal: So all our projects yeah you are right that to a great extent there is a little bit of orientation happening there projects are either selling more in the beginning or towards the end certain amount of orientation does exist now. Although this orientation has tapered a little bit after reduction in GST rates. One major reason of this orientation was because people always thought that when you buy a ready property, they do not have to pay GST and the GST rates obviously were comparatively higher. With now inputs credit being taken off from the equation and consequent reduction in GST rates means that the delta is not perceived to be that high now. So, having said that yes it still has some impact, but impact has been greatly reduced due to reduction in rate of GST and hence this mental block if you were to call that has come down dramatically. Now coming back to the question of IRR, our company takes projects only and only if it qualifies a threshold of 25% IRR at the project level on equity basis and all our projects are delivering that and they are configured like that. Any projects we are taking right now cash flows the ways cash flows are anticipated to be coming in our taking into account this orientation also and hence obviously if a project is qualifying with a threshold of around 25% and then this 25% would have taken care of whatever orientation is there in our scheme of things. So, 25 remains the same number as we used to have always.

Shivam Agarwal: I had one more question so right now as you talked of the improvement in margins so what actually led to this improvement? It was because we were able to increase the prices or it was something related to the raw material?

Kamal Singal: There is certain amount of inbuilt fluctuations which keep coming in the books of account on margin side mainly due to some inherent variation in profitability from project-to-project. Now in this quarter there is nothing significant to really tell in terms of higher price realization or reduction in cost. It is actually representing a basic kind of difference just because the quantum of sales coming from Uplands is a little higher and Uplands as a specific project gives us significantly better IRR, so the margins are looking better. So, let us not credit higher realization or lower cost, etc., it is just a mathematical this thing because of one project which is significantly better performing in terms of margins is contributing more with a number in this particular quarter.

Shivam Agarwal: So last one more question the figure of unit available for sale in the presentation that we have does this includes the incomplete units also or these are the complete and available for sale on spot?

Kamal Singal: See completed units in this inventory list is only 40 out of some 2,600-odd units that we have shown mostly I mean 99% or 98% kind of a number pertains to units under construction and out of total 2600 odd units only 40 units are ready, but they are lying in inventory otherwise you will sold everything.

Shivam Agarwal: The inventory valuation figure that we have in our balance sheet some 650 odd crores how do we arrive at that figure if you could throw some color on that?

Kamal Singal: I am also joined by a CFO – Mr. Mehul Shah, Company Secretary – Mr. Prakash Makwana and CEO for Western Region – Mr. Sourav Hazra. Mehul we will just throw light on this.

Mehul Shah: So, you are talking about the inventory value of 730 crores.

Shivam Agarwal: Yes.

Mehul Shah: That is basically the investment that is we have done so far in all our projects and which are pending to be recognized in the books of accounts.

Kamal Singal: So, this is basically land investment plus working capital plus whatever other expenses we have incurred so far cumulative on this inventory this is the representation of that.

Moderator: Thank you. The next question is from the line of Rithvik Sheth from One-Up Financial. Please go ahead.

Rithvik Sheth: Sir, firstly if you can throw some light on this commercial project that we have launched in Bangalore Arvind Edge whether it is for leasing or for outright sale.

Kamal Singal: This project is not for leasing we are selling this project. So, there are small, medium and large size available in this project and the project is being sold it is not the leased out.

Rithvik Sheth: Have we soft launches project or we just how do we look into?

Kamal Singal: Yes, so what we have done so far is that we have adopted an EOA model where people can on a tentative rate basis within a range, they can express their interest and of course some little check to be underwriting on that so that there is a commitment in this. So within very few days we are very enthused about the response. We have sold almost like 25% of the total area and maybe almost 30% to 33% of the total commercial area. There is a little bit of retail also on the ground floor and first floor. So office space which we started offering as an expression of interest we have almost sold like more than 30% of that total area.

Rithvik Sheth: Can you help me with the matrix project area total area in commercial and retail and the call that we acquired this land parcel for?

Kamal Singal: So total area is around one and half lakhs square feet. It is not a big project, but it is a very located project. Total area is just about 1.5 like square feet and the cost of land is very small. We got this land as I do not do our existing residential project which was anyway happening adjacent to it. So, land price is also extremely manageable means very, very reasonable. The entire land parcels. I think within this costing around Rs. 12, Rs. 13 minute cost of FSI here so that is very small of course the margins are great and response is great and we are also getting this full response because of the costing the way it is today we can also give a decent kind of margin to investors here and that is why possibly this is one of the reason apart from the design, etc., and the location, etc., we are also able to price it very reasonably and how is this traction is being seen that is how it is.

Rithvik Sheth: And what is the going rate for commercial in that area?

Kamal Singal: All-inclusive between Rs. 6,000 to Rs. 6,500 odd. This is what we are selling at. Now this is a little outskirts and this is little on the outer side of this very important road per se. The next available property will be maybe couple of kilometers 3 kilometers before we are located for this kind of a quality building and hence maybe we are giving an option of around 30%, 35% cheaper price as compared to the next competition and still maintaining a very healthy kind of IRR in this.

Rithvik Sheth: And our construction cost for this would be around what level?

Kamal Singal: No, we just started construction, so I mean right now excavation is happening.

Rithvik Sheth: Suddenly we would have estimated like forecasted?

Kamal Singal: You are saying the numbers the cost side of it.

Rithvik Sheth: Yeah.

Kamal Singal: This will be around Rs. 2,200, 2,300 of a square foot direct construction cost. This building will almost like 4 or 5 basement if I am able to recollect correctly, I think four basements are there in this. So it is otherwise technically a very challenging and good project per say according to the cost obviously will vary towards elections but on an average you can say on a buildup area basis it is around Rs. 2,200, 2300 per square feet.

Rithvik Sheth: Secondly, if you could throw some light on the HDFC partnership you mentioned that we will be putting in 50 crores, but our shares could be higher because we will be the once developing the land parcel. So, if you could throw some light and in this 250 crores what is the kind of area that we could look to add on to say next one year?

Kamal Singal: So firstly, the timeline might be shorter than one year the idea is to close this investment in next five to six months' time. If we do the way we do things in Bangalore this should add around 4 to 5 million square feet of mid-priced and affordable housing then obviously it depends upon I mean there can be a variation of 20%-odd depended on what exit price points that we find projects on but on a very thumb rule basis it should be adding 4 to 5 million square feet to our portfolio. Now, we are very flexible on products on this within a ticket size that we have agreed for Bangalore and it is mostly like 60 lakhs to 1 crore kind of a ticket. We can even do small plotting schemes kind of projects there. These are kind of equity money we have a patient capital so a little long-term projects which can add significant value in terms of IRR or return-on-equity, etc. We have little more leeway in this kind of structure because the entire major investment is kind of non-cash flow commitment basis, etc. But generally speaking, if everything was to be vanilla that we do in Bangalore affordable segment then it is going to add 4 to 5 million square feet that is one. Coming back to the margins there are two components to the margins – one is obviously the pari-passu thing that we get. The other incremental thing is going to be coming in two forms one is the PMC on a development management fee that we will be charging to the joint venture. This is for our overheads head-office expenses, etc., with the brain that we will be using as a backend management team and from direct expenses, etc., and the other is obviously I mean differential kind of returns subject to achieving milestone on cash flow basis. There is a waterfall which has been agreed and once we keep achieving those thresholds, we keep getting disproportionate money and that money obviously will give us disproportionate return on equity in the structure that based on waterfall of IRRs.

Rithvik Sheth: So basically this 250 crores we will put in the 50 crores so 20% and plus the development management fee and higher return on various milestone achieves project wise?

Kamal Singal: Yes.

Rithvik Sheth: And also, in the press release you have mentioned that the company is trying to launch four new projects with the total developable area of 4 million square feet. So, this will include the partnership you know this is excluding?

Kamal Singal: No, it is absolutely excluding. So, including partnership we are clearly seeing a pipeline of around 7 to 8 million square feet. The 4 million in press release that we have communicated is almost kind of a found a pipeline already which we are seeing as getting launched in next two, three, four months' time and definitely within this financial and that is a pipeline which is already firmed up.

Rithvik Sheth: And any color on this 4 million square feet how will it be 100% owned by Arvind Smart or will be in a JV, JDA any color on this?

Kamal Singal: This will also be a mix of everything there will be outright buy I think we declare it already that we got a very nice parcel in Yelahanka in Bangalore that is outright purchase. The second is a new project being launched under Uplands as a township. As Uplands as you know is 135 acre township. We have kind of developed the phase one of that and a new project is being launched with tweaking in product and kind of things that we are supposed to be doing there. So that is one incremental project we are launching within Upland as a township.

Rithvik Sheth: So there is a new phase of Uplands?

Kamal Singal: The new phase of Uplands which will be priced very differently which will be configured very differently it will be promoted very differently. So, it is kind of project within a large area so that is the second. We are also coming up very soon with a DM project that includes this maybe will come out with more details in the website about this. This is going to be a large project on a DM model basis development-manager model. So we are not investing anything on land at all not even on giving any deposits for the land and also there will be no working capital involvement as far as Arvind SmartSpaces is concerned and we will work on a fixed fee as a development manager and fourth is actually basically this Edge project which is about to be formally launched now in very small amount of time.

Rithvik Sheth: And sir beyond BI5 any update on that?

Kamal Singal: So B15 there is a good progress. We are on the verge of saying that everything is solved as we speak most of the things are ironed out and we are hopeful as within this quarter we should be able to announce this launch.

Rithvik Sheth: So we are looking to launch it in the next couple of months?

Kamal Singal: Yes, right within this quarter itself current quarter.

Rithvik Sheth: And so what will be our construction outflow for FY20 and how much we would have spent in first half?

Kamal Singal: Just to be more precise and accurate on this Mehul will separately send you the data. We will send you in specific details very soon.

Moderator: Thank you. The next question is from the line of Yash Gupta from Prince Poly Plast. Please go ahead.

Yash Gupta: Sir, how you are looking the overall market condition at this point in time is there any improvement from last quarter?

Kamal Singal: I would rather say that the quarters were almost the same, but maybe there are some improvement I mean here and there. What it tells us importantly is that it seems that markets have bottomed out. We should now only look up from here onwards even it is very small, but there has been some improvement in the quarter, but we are now very hopeful and the signals on the ground that things should start looking better and we are hoping that the last quarter of this financial should be significantly improved.

Yash Gupta: And sir are you focusing on adding any property in the Tier 2 cities as what we are looking at a different companies that now they are focusing on Tier 2 and different types of cities?

Kamal Singal: We have already kind of done an experiment in Pune and we are very encouraged with that. There is a very decent amount of brand recollection there and people know what Arvind is etcetera so to that extent it helps us. So we want to consolidate in Pune. In the joint venture with HDFC we have announced Hyderabad also to be a priority market. Although, as a company we have been extremely conservative on horizontal expansion we think that each market should be exploited to the extend can be from penetration in that point of view before we add more geographies, but having said that within those conservative parameters we also feel that there is a scope to add at least one more geography, but will remain a little conservative on that and Hyderabad is definitely on our radar.

Yash Gupta: Last question on the beyond 5 as you already told that we will launch in Q3 FY20, so what are the expected realization can you please throw some lights on it?

Kamal Singal: So beyond 5 is a large township plotting project with amenities and everything. So obviously this will be developed in couple of phases. If you wanted to know more data about it in terms of realization etcetera maybe, we can will this be part of investor presentation or something specifically beyond 5 and realization that is not there. So we can share that number with you, but on an average if I want to tell you this is going to be around 275 bigha of land bigha is around 3,000 square yard so you can multiply that and the gross turnover is normally supposed to be anything between maybe Rs. 7,000 odd per square yards of land is a selling price to start with and we obviously are the development partner and the sharing ratio is such that we should be getting around 45% to 48% of the gross collections as developers from which we will have our own profits and development cost.

Moderator: Thank you. The next question is from the line of Sunil Kothari from Unique Investment. Please go ahead.

Sunil Kothari: Two questions one is last year we have done IRR of roughly 250-260 crores do you expect to grow on those numbers during this year any growth target if you would like to fixed with us for this year and over next two, three years there was a 1,000 revenue ambition or expected very delay or what is your thought?

Kamal Singal: So I think we are broadly on track we have been expanding at I mean we have been growing at around 25% to 30% rate or most of the important parameters like top line EBITDA bottom line etcetera and we are very hopeful that the same kind of momentum by the end of this year we should be able to show for this financial year as well of course we have to work hard towards these targets and achieve milestone that are required to be achieved for this, but we are very hopeful that we should be able to show and repeat the track record that we have in terms of growth which ranges between 25%, 30% for last few years.

Sunil Kothari: Sir secondly if this on HDFC this theory so what I understand is this both the quarter we will be contributing money as an equity not as a debt or no financial cost will be borne by those JV right?

Kamal Singal: Yeah I mean see it is a capital which is coming in the form of from HDFC it is coming in the form of convertible instruments which can be converted etcetera, but as far as business is concerned, business is under no obligation to pay any interest kind of a fixed coupon or something for a very long time and there are I mean all the elements of this being treated as an equity in that real sense, but having said that these are convertible instruments and we made sure that the business cycles will not affect cash flows in a way that there are no fixed obligations to be paid in terms of principal and interest for any kind of coupon etcetera for a very, very long time and in effect this has all the kind of characters that is required for a business to work without really worrying about repayments etcetera.

Sunil Kothari: Sir, very rough or broad numbers in terms of some benefits of this JV they are contributing 80%, we are contributing 20% financial support. So everything is combined collectively development this fees and every management fees and all these things because we will be managing projects, we will be finding out projects, we will be implementing and selling, so what type of ratio of the benefits we should consider?

Kamal Singal: So I mean it is very difficult possible I am not sure whether we can be very specific about this year, but I think we will be getting sweat and increase returns on our capital in a significant way and it will be as per the industry norms and practices when a financial investor comes and will stretch the financial investor without obviously taking the operations and know how etcetera into consideration vis-à-vis developer who comes in with all that and invest also along with it. So we will be little better than even industry norms when it comes to how much in the form of development profits and in the form of management fee etcetera that we will be acquiring, but you know on a very broad side it is more in terms of IRRs and this should be if normally our projects are in the range of 25% IRR. So, improvement over this 25% is what we should be talking about it. In that sense we should be fairly getting compensated on this account.

Sunil Kothari: But sir will just be a financial assistance or support from the HDFC, or we will be able to utilize their prestige and goodwill once we launched the project?

Kamal Singal: So this is not a debt kind of a thing where a bank is giving. This is typical venture where both the companies have come together and obviously this is not a banking loan transaction where we cannot use their brand etcetera. So we are developing the brand guidelines between the two companies right now. Although, as per the definitive agreements have been signed and deal is parse closed and sealed off we are just in the process of finalizing the brand guidelines from both of our companies point of view and then we will come up with what kind of communication we should be making, but definitely this will be projects which will have both the names in one or the other way.

Sunil Kothari: So that will help us little bit maybe?

Kamal Singal: That is a great thing to have credible name and this kind of patient capital coming from a brand as reliable as GST in the financial market and even otherwise. We are very excited about all the direct and indirect benefits of this you know I mean when we talk about direct benefits yes financially it is a great deal for us that is what we believe then visibility in the market improves dramatically three it adds one plus one becoming 11 kind of a thing for us when it comes to creditability of the overall things. So yeah, all the three fields we are very excited after this three.

Sunil Kothari: Sir and just for the sake of knowledge do they have this HDFC capitalization, any this type of JV with anybody else?

Kamal Singal: If at all this will be one or two that is it I mean of course most of the industry works on fixed coupons or structured debts etcetera so those are very different kind of structure, but here we have got a very unique deal where we without diluting and getting patient capital. So it is about not diluting and still not putting business under pressure of cash flows. So these are the two contradictory kind of requirements from capital markets point of view I think we have achieved both and we find ourselves in a different orbit of and mind you this is a good starting point and every partnership should scale up if things were to be done properly so we are also hopeful of that.

Sunil Kothari: Sir, my last question which is a larger picture since last two, three years I was asking also again this same question, have you now getting any benefit of this shift from unorganized player to organized, unbranded to branded I think it is visible now nobody want to go with any unorganized, unbranded proper developers, so is it that is visible and clearly reflect able maybe in a near or medium term future in our size and business?

Kamal Singal: That is clearly there so it is manifesting itself in more than one ways we are not hoping a lot of it is already hitting the ground or it has already hit the ground. The first and the foremost is availability of land deal itself so obviously landlords and buyers and sellers are more inclined to buy and sell with the organized players that is one. In any case the funds being available from formal channels for various purposes are significantly better for organized channel in fact mom and pops are not able to get money or from any of the banking channels I mean I know it is a little statement but directionally it is like there is a complete paucity of formal money coming into non organized sector there we have a clear edge and obviously customer today are significantly more aware and they will give a preference. So a brand which is credible can expect at least 5% to 7% of extra pricing over and non-branded local players. Now 5% to 7% of brand premium is huge in terms of profitability, scalability and repeatability if I were to call it and I clearly see that this is what is happening on ground and I mean consolidation might not be happening in the form of one company merger with another etcetera, but consolidating in the sense of active developers in the market possible as already not only hit the ground it has already consolidated itself parse so it is clearly visible. I mean I think today developers operating at a scale are less than 30%, 40% less by 30%, 40% and what they used to be before RERA, and this organized efforts that government has put it.

Moderator: Thank you. The next question is from the line of Kashish Chambawani, is an individual investor. Please go ahead.

Kashish Chambawani: I wanted to know out of these 661 sold inventory which is unrecognized how much of it will be recognized in the second half of FY20 and how many years does this get absorbed completely?

Kamal Singal: So it is difficult to predict quarter-to-quarter I mean this is one number which gives you an idea about the firm pipeline of sale which is already happened which in totality is 650 crores etcetera, but to really pinpoint at this point of time in terms of exactly how much will come this financial year is one not the right way of taking it and this obviously is not also consistent with the regulatory point of view, but nevertheless this entire pipeline should be coming into books of account between two and three years. So, this is already which is already cooked, and we keep selling and creating more inventory as we go ahead, but this inventory should be coming in my books in next two to three years' time.

Moderator: Thank you. The next question is from the line of Ruchak Mehta from Sanyam Capital. Please go ahead.

Ruchak Mehta: Sir, my question is about the affordable housing project in Ahmadabad Avishkar so I just wanted to understand that when we started in the December quarter last year we had a huge bookings, number of bookings and then we suddenly seems to have lost tractions, so just wanted to understand am I reading it right or how is the project moving ahead over there?

Kamal Singal: Sure so you are right we got very decent traction in the project and as we have been seeing in most of our projects I think this is the first question we discussed in the conference call that there is a little bit of orientation happening between the sales velocities in the beginning and in the end and that is how most of the projects are now getting configured even from cash flows and returns point of view. So definitely there is a difference in velocity between the quarter that when we started and now. But you know I mean there comes a time somewhere also in the middle that you need to give a second thrust as a second launch kind of a thing in every project and that typically should come once you sold around 40% of the inventory. So logically speaking in one year you sell 40% in 6 months' time after you completed you sell from 25% to 30% and the rest has to be sold in between and from the rest around 30 odd percent are inventory and 35% odd inventory. The second launch should take away 15% to 20% of inventory. So that is one effort which comes in the middle of life scale or the life span which we should be hitting somewhere in the middle of next quarter. So the idea is that you know we give one more kind of fillip to this deal in the last quarter and then consistently keep happening every month normally it happens and then the last burst will happen at the completion stage.

Ruchak Mehta: And my next question is about skyline just wanted to know what would be the percentage of construction completed in this project?

Kamal Singal: At this point of time I guess 90%.

Moderator: Thank you. Ladies and Gentlemen as there are no further questions from the participant, I would now like to hand the conference over to the management for their closing comments. Thank you and over to you.

Management: So thank you very much all of us for being with us in this call. It has been great talking to you all. The company is progressing well, business environment is a little tough as we all know, but there are definite green shoots which are now becoming visible and we clearly see a good positioning for organized players with formal channels of funds being available etcetera. Governance is one requirement from all the stakeholders point of view be it shareholders or the other financial institutions or even customers and organized company with good governance track record obviously is icing on the cakes. So we are very enthused and excited about the future. The company's pipelines are growing very fast and we are on track to achieve our growth target that we have been communicating from time to time and we are very confident that we should be able to progress and show growth that we have been showing in the past and that is about it. Thanks a lot once again to all of you.

Moderator: Thank you very much. Ladies and Gentlemen on behalf of Arvind SmartSpaces that concludes this conference. Thank you for joining us and you may now disconnect your lines.