"Arvind SmartSpaces Limited Earnings Conference Call"

May 12, 2017

MANAGEMENT: **MR. KAMAL SINGAL – MANAGING DIRECTOR & CEO – ARVIND SMARTSPACES LIMITED**
MR. MEHUL SHAH - CHIEF FINANCIAL OFFICER – ARVIND SMARTSPACES LIMITED
MR. PRAKASH MAKWANA – COMPANY SECRETARY – ARVIND SMARTSPACES LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Q4 and full year results for FY 2016 – 2017 Conference Call of Arvind SmartSpaces Limited. As a reminder, all participant lines will be in the listen-only mode. 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. Kamal Singal, Managing Director and CEO. Thank you and over to you Sir!

Kamal Singal: Thank you and I welcome all of you friends to this conference call regarding financial results for Q4 2017 and also for the full year results of 2017 for Arvind SmartSpaces. Just to take you through the broad numbers. Our total income has increased this year for the full year by 30% odd and it now stands at Rs. 158.36 Crores. In terms of EBITDA, EBITDA has increased to a level of 46.35 Crores as against 36.57 Crores the previous year, which is a growth of around 27% and similarly, in terms of PAT, it has grown to the level of 21 Crores from 17.21 Crores last year, which also shows a growth of around 22% as compared to the previous year. This is as far as the year as a whole is concerned.

Similarly, for the quarter as a whole, although quarters get skewed because of the way project come into the recognition in books of account and as there is a reasonable of variability which comes both in terms of growth in top line and bottom line and hence yearly number makes more sense because they are consolidate for the entire quarter, which is fairly, reasonably long period but for the quarter per se we have booked revenue of around Rs. 99 Crores this quarter against Rs. 90.95 Crores last quarter and EBITDA is at 30.84 as against 29.82 and PAT is slightly down from the previous year to the extent of 17.09 Crores against 17.86 Crores last year. So that is how the overall situation or the results are; healthy growth in top line and bottom-line for the year as a whole.

Coming to the market side and business side, we have witnessed a decent amount of growth and positive signs coming out of economy in general and real estate market in particular in the last quarter, which is Q4. Q3 had not been great and we faced quite a bit of headwinds mainly because of demonetisation and our industry was generally expecting that it is going to take a little bit of a longish time to recover from the readjustment happening due to demonetisation and remonetisation but it is a matter of satisfaction that market seems to be bouncing back earlier than expected and hence there is a general feeling in the industry and across the markets that things are coming back to normal very fast and in fact, things have recovered quite a bit in Q4 as compared to how things were happening in Q3.

Along with that, there are quite a few positives for the industry, which are visible. Interest rates have further come down and they are expected to come down further in the coming quarters. There are other macro developments like government has announced some very specific incentives both from developers' point of view and buyers' point of view during the budget and subsequently which will augment or which will help the industry grow further. Some of the major incentives are on account of capital subsidiaries for affordable housing for the buyers, interest subvention for the buyers and for developers, within a framework, the products were to be developed in those categories of affordable housing, then you get decent amount of tax exemptions as well.

So, all in all, building blocks are falling in place and we see healthy sort of situation coming our way in next few quarters and the company seems to be quite well poised to exploit this positive environment and grow further. We have been growing to the extent of 30% - 40% on top line and 25% - 30% in terms of the bottom line for the last three to four years and we hope that with all these things happening and a healthy pipeline of projects that we have as of now, this growth rate should be maintained going forward. So maybe we can start with some questions and as we go further more details can be provided.

Moderator: Thank you. We will now begin the question and answer session. Anyone who wishes to ask a question may press "*" and "1" on your touchtone telephone. If you wish to remove yourself from the question queue, you may press "*" and "2". Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Manish Kumar, Individual Investor. Please go ahead.

Manish Kumar: Good afternoon. It was very good numbers this quarter as well as making full year, just wanted to have a quick question about a new project Arvind Skylands in terms of land cost as well as expected construction cost.

Kamal Singal: Skylands is a project, which is very similar in many senses to the other one happening in Bangalore in a very similar vicinity called Arvind Sporcia. Essentially this is a 2, 2.5 and 3 BHK kind of a project where I think approximately 450 odd units are into construction. This project is spread across 5 odd acres and cost of construction and margins etc. are generally the way they have been. We are operating at a margin of between 25% and 30% of EBITDA. So this project is very well within this band. I am sorry, what was the other question that you asked?

Manish Kumar: I mean is it your own land or your purchased the land? If purchased, what is the cost of the land?

Kamal Singal: We purchase the land. I am also joined by Mr. Mehul Shah, who is our CFO and Mr. Prakash Makwana, who is Head of Corporate Affairs. So I will just pass over this question to Mehul to answer specifically about the cost of the land.

Mehul Shah: The cost of land is around Rs. 40 Crores.

Manish Kumar: Pardon.

Kamal Singal: The cost of land is around 40 Crores. I mean bought out land. This was not our own land historically. It has been bought specifically last year and the overall cost of the land is around Rs. 40 Crores.

Manish Kumar: Okay and my second question is, there is negative sales in Expansia project. So, can you please explain for that?

Mehul Shah: It is a cancellation.

Kamal Singal: See, Expansia project is heading…

Manish Kumar: It is a 100% completed project.

Kamal Singal: 100% completed project, some very little inventory is left and this negative could be one or two units getting cancelled or something. So it is something, which is already the project, is already delivered etc., maybe this one could be a specific cancellation of one or two units.

Manish Kumar: So, are we deducting any amount or we pay entire full amount back to them?

Kamal Singal: We generally deduct some little money from the buyers but then in case there could be some very genuine reasons to believe that the reasons of cancellations are quite reasonable or logical, and then we have the discretion to waive them off and in many cases we do that.

Manish Kumar: Okay, and finally I saw there is a lot of inventories there even in ready projects, so what are we doing? Are we selling that thing or…?

Kamal Singal: Ready projects as in which…?

Manish Kumar: In Alcove, Megatrade, Parishkaar.

Kamal Singal: These are left over inventories. In proportion, they are very small.

Manish Kumar: Even the Expansia and Citadel.

Mehul Shah: The total inventory is around Rs. 20 Crores only put together all these projects.

Kamal Singal: All these left over inventory across five to six projects is not more than Rs. 20 odd Crores.

Manish Kumar: So, it is taken as an asset or still in WIP?

Kamal Singal: It is an asset because the projects are completed. So it will be treated as assets.

Moderator: Thank you. The next question is from the line of Ankit Shah, Individual Investor. Please go ahead.

Ankit Shah: Hello, while we appreciate the growth, which has been going in the company, what are the new projects, which will be coming up?

Kamal Singal: We recently launched Skylands, this we had formally got launched some couple of months back and construction has just started. It is in full swing as of now and we are trying to come out of the ground, so that is one, we have just signed couple of days back, post these results actually our largest project with an investment of around Rs. 60 Crores in Bangalore. That deal just got concluded two days back, so that is another and we are having a pipeline of potential projects to the extent of two or three within this year, which we will be closing very soon. So, our general idea about achieving a growth rate anything between 30% and 40%, will need these kinds of projects and we are well on course to achieve and start these kinds of projects within the timeline that we need this one to be. So we are well on course on that.

Ankit Shah: Sir, Rs. 60 Crores, we are buying out the land, is it?

Kamal Singal: Yes, that is also a buyout.

Ankit Shah: So, how many acres this would be?

Kamal Singal: This will be around 3.5 acres in Bangalore but with a higher FSI of around three. So in terms of total built up area, including the services and other things, it will be in excess of 7 and 7.5 lakh square feet. So it is a good medium-size project in Bangalore on Tumkur Road.

Ankit Shah: Okay, and what could be the saleable in that, the price approximately?

Kamal Singal: Saleable could be in the region of, as of now we are now in the middle of planning, but as a thumb rule it should be around 5.5 to 6 lakh square feet saleable area.

Ankit Shah: Price I mean, what price?

Kamal Singal: Price then will be – those details are being worked be but…

Ankit Shah: Sure, approximately

Kamal Singal: Anything between, during the project life cycle it should be between 4000 and 5000.

Ankit Shah: That is an average we could achieve.

Kamal Singal: Yes.

Ankit Shah: I want to know, while the Citadel project I suppose was land of Arvind Mills and there was still other land alongside with it. Are we also going to develop that?

Kamal Singal: That depends upon Arvind. We had a limited agenda to develop on a limited area of around 3,500 square yards. That project has been completed and Arvind has many land parcels spread in the vicinity of Ahmedabad and that depends upon what call they want to take as to when they want to monetise and when they want to come to the developer, whether it is us or somebody else. So that decision is supposed to be an arm's length deal. But, as of now this phase of around 3,500 square yard has been completed and we have handed over the project to the buyers.

Ankit Shah: Okay, and I have one more question, regarding the Uplands, this I think is a joint venture between three partners, right?

Kamal Singal: Yes, there is one landlord partner and we other developers, so to say in the real sense.

Ankit Shah: Okay, so this is like on our asset light model, right?

Kamal Singal: That is right.

Ankit Shah: Correct sir, what is the stage of that project, how much have we completed and …?

Kamal Singal: Phase I of…this is a very large project. It has been developed in phases. It comprises of some very high-end villas, golf course, etc. Phase I is expected to be delivered by end of next year, which is December of 2018. Right now, the construction is in full swing, you can in fact view some of the photographs on the website to see what is the actual status etc. but quite a few amenities and other things are completed like golf course is ready, one of the club houses is ready, road works are happening at a very fast pace. So, it is at a fairly advanced stage of execution and phase I, we are very confident that we will be able to deliver within the timeline that we have committed.

Ankit Shah: So in this, as I see on the presentation, the average price is Rs. 1338, so are we including the golf course and everything, does it even cover up the construction cost?

Kamal Singal: No, that number is a bit of a confusion number because this number is an average of land plus construction and hence the average goes down. The land, for example, currently we were selling land at around Rs. 1100 – Rs. 1200 per square foot there, which turns out to be something like Rs. 11000 to Rs. 12000 per square yard and on that construction amount is not very much, normally we are achieving an FSI of around 0.5 on that and construction is sold in the region of Rs.22000 – Rs. 25000 per square yard. So, all in all it is a very healthy and a very decent recovery that we are getting but yes, when we are converting both land and this together into per square foot, it is looking on the lower side. Just to put things into perspective, the villa cost of around 500 square yards here, with a built up area of 2500 etc. per square feet to the bigger ones, the cost starts from Rs. 1.5 Crores to almost Rs. 8Crores to Rs. 9 Crores.

Ankit Shah: In this, how is the revenue sharing, do we get to share…we have to share in the land as well as the construction with the owner?

Mehul Shah: Land sharing with the land owner, land sharing at 50 – 50 and construction is 100% to Arivnd SmartSpaces.

Ankit Shah: Okay, just land, whatever you sell the land at that is 50-50?

Kamal Singal: Yes.

Ankit Shah: Okay, what could be the cost, what EBITDA do you expect in this project because of this such a big golf course you are building?

Kamal Singal: Firstly, it is not a very big golf course; it is supposed to be something called as a executive course. A normal course is supposed to be spread around 70 – 80 acres and above but we have created a golf course which is called executive course which involves only 12 – 15 acres of total land including the club, which is supposed to be a big club as such. We are not selling the clubhouse. Club will remain a commercial development belonging to us as in the company and the residents around who are buying the villa there will get a complimentary membership. But as such the clubhouse is supposed to be an independent entity or asset to be retained by us. So, that way it is giving us good margins. If you see on the sheet on the investors' presentation, it will give you some good numbers about how the margins are and how the revenues are in this project. Around 32% is the gross margin on sales.

Ankit Shah: Okay, which is very good. Do you see movement over there, because I mean if you see that is the size of the villas and post demonetisation is there movement on those sizes?

Kamal Singal: Post demonetisation, yes, this segment has got comparatively slightly more affected but things are bouncing back. We have sold few units post demonetization and as you very rightly said, these are expensive properties but we are very hopeful, we have done well so far and we are very hopeful that we should be able to achieve our numbers which are projected for this project.

Ankit Shah: And the new projects like, earlier in a previous few calls our idea was to go on more like the Godrej Properties like, cost-like model where our brand could be of Arvind can be capitalized but with buying of this Rs. 60 Crore land and Rs. 40 Crores in Arvind Skylands, what do you think? Are we changing our strategy?

Kamal Singal: No, we are not changing our strategy at all at this point of time. If you analyse it in a slightly different context, we have invested may be a Rs. 100 Crores in the last one, one-and-a-half years in acquiring the lands for sure but at the same time, if you see the current year's numbers, almost 60% - 70% numbers for the current year are coming from JD models only. So, while there could be skew happening in terms of acquisition from year to year, but broadly we want to maintain a healthy rate of revenues coming from JD model which will keep our average sort of asset-light model intact and that is how you want to continue doing it.

The other side of this is that achieving…asset-light model is not only based on whether we buy or we do not buy the project, we can even diverse projects subsequent to buying it upfront. So for example, there could be a project called X, we buy it out and then bring in strategic investor into the project where we leverage our brand and everything, so we do not share in the ratio of capital but we keep some operations and management fees, development fees etc. so that our IRRs improve. So asset-light model could still be carried out within the projects that we have acquired on an outright basis.

Ankit Shah: Okay, just last question. I just want to know, this Megapark and Skylands, when would the revenue recognition happen, would that happen in the first quarter now?

Kamal Singal: Maybe they will hit the level of construction by Q3 or Q4.

Ankit Shah: Okay, that is Skylands, is it?

Kamal Singal: Yes, Skylands.

Ankit Shah: And Megapark? That is just an industrial…

Kamal Singal: Industrial small one may be Q3 or something.

Ankit Shah: Okay fine, I will join the queue later.

Moderator: Thank you. The next question is from the line of Gautam Bahal from Mauryan Capital. Please go ahead.

Gautam Bahal: Hi, thanks for taking my question. Lot of the good questions I had already been answered but I will try a couple more. Sir, I know in previous calls you have said that your top line target is around 30% – 35%, I noticed now you are talking about 30% - 40%, has anything changed in terms of your thinking in that, or is that in the same ballpark?

Kamal Singal: No, we are in the same ballpark, what I said was that we have been growing in the last four years between 30% and 40%. This year we have grown by 38% odd and the idea is to keep growing within the same band but the actual growth in the last four years if you were to see one-to-one they were hovering between 32% and 40% odd, this year is 38% and we are quite hopeful that the coming year should also be in the same band.

Gautam Bahal: Understood and then sir, do you have visibility in the next three, four years in terms of revenue recognition that this should be continuing for a few years, not just next year?

Kamal Singal: Yes, see, acquisition of project and bringing it to a level of launch and then the revenue is coming to books of account is a process of anything between one year to one-and-a-half years. To that extent one has to preplan the acquisition etc. That is what we are doing. We mapped ourselves in terms of what we need to do achieve these growth targets, and sales targets for the next two, three years and we are acting on that project acquisition timeline and as of now we are pretty much on target in terms of acquiring project in time so that this growth rage year-on-year can be achieved, so we are doing that, yes.

Gautam Bahal: Okay, great and EBITDA margin should we be able to sort of, keep at 30% - 32% range?

Kamal Singal: More like 30%, yes plus or minus 1% or 2% can always be there because EBITDA margin is a weighted average of various kinds of projects per se, in certain JD deals while the IRRs could be great but EBITDA margin, in terms of percentage to sale, because you are not investing in land per se, could be lower but having said that a judicious mix of all these all these things put together, we should be hovering around 29% - 30%. As of now 32% looks difficult.

Gautam Bahal: And sir, last two years you had your sort of revenue recognition very lumpy in Q4, is that just a coincidence or do we expect that going forward as well?

Kamal Singal: Yes, considering the age of the company etc. we are at a stage of lifecycle where one or two large projects are getting recognized in a particular quarter and coincidentally in the last two quarters, it has so happened that we could achieve the targeted spend of around 25% of the total project cost only in Q3 or Q4 and that is why it becomes lumpy and that is why I keep saying that quarterly numbers for real estate might not be a great indicator of where we have reached from where we were in any corresponding year but it is important to look at the numbers on a four-quarter basis, which is yearly basis and one can expect little bit of lump happening in Q3 and Q4 this year as well but all in all for the year as a whole, we should be able to maintain our growth rate within the band we just discussed.

Gautam Bahal: Okay and sir, two big things happening in the sector, obviously RERA and the government push towards affordable housing incentive in terms of financing as well, do we have any plans to go into affordable housing or does that not make sense for us in terms of margins and stuff?

Kamal Singal: We are actively scoring, it is not out of our radar. So we are not discarding it, affordable housing within maybe up to Rs. 25 lakhs category, there is quite a few incentives in this, both for developers and for the buyers and we have a couple of projects under evaluation in that category. Having said that, despite all these incentives, it is not a very easy walk one has to do the numbers right and execution strategies right to achieve the kind of return that one expects from projects, but yes, this is still a very attractive growing segment. We cannot ignore it, we should not ignore it and we are working around our numbers to see where and when we can invest in this segment as well but as such we are broadly into segment 2, one step higher than this category, any which way we have been doing quite a few slightly above typical affordable segment of only Rs. 25 lakhs but we persist significantly in the segment of Rs. 35 lakhs to Rs. 65 lakhs, Rs. 70 lakhs category which is also equally good and there also, there are quite a few incentives or indirect and direct sort of positives which are created in the last couple of quarters by the government.

Gautam Bahal: Okay and if we were to go into affordable housing as you say you are already thinking about it, when would be the first year where we would see it actually happening on the ground, just approximately?

Kamal Singal: From, just giving example point of view, the last project that we have signed in Bangalore, that land is suitable for either affordable or for the mid-priced segment. So in that sense, affordable will mean we bring the unit size down so that qualifies for those kinds of incentives. Those are market dynamics that we are trying to resolve and this project itself could be an affordable housing project or at least a part of it and of course, there could be land parcel which we could buy purely for affordable housing and we are actively looking at both the options, for the existing lands that we have and also for the land which could be specifically bought for affordable housing only.

Gautam Bahal: Okay, and is it fair to say that the margin usually in affordable housing would be a bit lower or would you have this similar margins for that also?

Kamal Singal: See, margins have to be the same or better. We do not want to do anything just for the sake of doing is because everybody else is doing it. For us when we say we want to do affordable housing, obviously it has to make sense to us in the financial terms. So to say that they will be less profitable then there is no point in doing that. We will be purely focusing on profitability. So if affordable housing makes sense from financial point of view, we do it. If it does not we do not do it, that is the only criteria we have, otherwise there is no liking or disliking for a segment between mid-size and affordable. So, we are looking at it purely from a financial profitability and sustainability point of view.

Gautam Bahal: Okay perfect. Thank you Mr. Singal, last question I had, I know someone who was at the AGM last year and you had said something about a Pune project in the AGM I believe, anything you want to share on that?

Kamal Singal: Yes, Pune we have been actively looking at that market but as it has happened in the last two or three quarters, what is happening is, by the time we are close to zeroing in on Pune, we find a better project in Bangalore, so it is a fight between two cities and so far Bangalore has been winning but then Pune is coming strong. There will be a day then possibly when Pune can beat Bangalore, so it is competition happening but we are actively looking at Pune continuously. It so happens that till now the project pipeline that we needed to create or we wanted to create is to (inaudible) 27:49 that we projected. Bangalore has been able to provide us good projects so far, or better projects so far, but yes, we are actively looking at Pune still.

Gautam Bahal: Perfect. Thank you Sir.

Kamal Singal: Thank you.

Moderator: Thank you. The next question is from the line of Kunal Shah from Allegiance Advisors. Please go ahead.

Kunal Shah: Congratulations team in the first place for good set of numbers and continuing the growth momentum what we have seen in the last few years. I have got questions pertaining to the consolidated balance sheet Sir. Just to understand we have got debt payables of approximately Rs. 86 Crores and other current liabilities of Rs. 52 Crores. So, just trying to understand these two figures I mean these are the figures which are basically collected from prospective customers but still not been booked into sales because of revenue recognition criteria not been met?

Mehul shah: Yes, other current liabilities are advance from customers and money that we have collected from customers and the revenue has to be booked.

Kunal Shah: And trade payable is basically, the liabilities to be paid to the vendors, right?

Kamal Singal: Yes, that is right.

Kunal Shah: So, it is only the other current liabilities?

Kamal Singal: Yes.

Kunal Shah: And the inventories at Rs. 246 Crores, just trying to understand, we are sitting on a huge amount of inventory, so just to understand, are we finding it difficult to sell the inventory in the sense that we are having like Rs. 246 Crores of inventory as against Rs. 52 Crores been received from customers against debt inventory. So are we finding it tough to sell all the inventories because if I go through the presentation, this Uplands project which we are having, in that project, we have recognized revenue to the tune of some Rs. 90 Crores odd as against we have received some Rs. 52 Crores odd against that projects. So basically we have recognized revenue to a greater extent is against what money we have received, just correct me if I am wrong in understanding Sir.

Kamal Singal: See, this is absolutely normal from the accounting standard point of view. These two things move in sort of an unrelated manner. Revenue get recognized the moment you achieve 25% and more expenditure on the development side irrespective whether the equal amount or more amount or less amount is due from the customers are not based on the payment terms you have. So generally in the first recognition that will be a fact that you will recognize more because it will be quite a few things where you spend more than 25% and hence that entire sale is to be recognized for those specific units and those specific phases etc. but at the same time the total due amount is less than that recognition. So that is absolutely normal and this is how it should be and it is. What is the other side of the question you asked?

Kunal Shah: The other thing sir, just wanting to understand, the projects that we have been doing have been very healthy on the margins because they are at the higher end class of projects. So again just trying to understand would this affordability thing coming in with incentives, both for the buyer as well as the seller like our company, because it will be classified as an infrastructure status, so again, the cost of funds and everything will be coming down. So are we comfortable again going into luxurious kind of projects, in the sense that not in the budget also but not very high end also, in between or we would more comfortable or it would be making more economical sense to go in for a budget kind of a product wherein we can have, probably we might sacrifice a little bit on margins but the return on equity would be much higher because there will be a good amount of rotation that would happen in case of budgeting, I am just looking at the whole capital scenario that we have and also the class mix of the projects we have.

Kamal Singal: Just to take you through what we have been doing in the last two years, we had three major luxury projects; one in Bangalore and two in Ahmedabad. Bangalore one was expensive, which is already delivered, we are out of project and some very little inventory is left to be sold, so that is closed. Then second premium project that we had was Arvind Citadel, which was in Ahmedabad that project is also delivered and in fact everything is sold there by now as we speak. So that luxury is also gone. Now the only luxury project in true sense that we have is a long term value creation project like in Uplands and that is the project which is very stable because we have not spent a lot of money on the land, it is on a joint basis, so land investments are supposed to be very low here. That is the only high-end luxury project in our portfolio as of now, big but the only one, but If you really analyse the rest of the projects, like Sporcia or Skylands or even the new project at Tumkur Road, they are all belonging to mid and lower-mid segments. So we have realized this trend very early.

This is how last year itself from January of 2016 itself we are acquiring projects which are priced right and that is what is actually paying off at this point of time and even the latest investment that we have had, we concluded two days back is belonging to the same category. So we are very comfortable, we have hit the right sort of button a year back and today we are finding ourselves very comfortably placed as far as segmentation is concerned and most of our projects are, even in Bangalore, ranging between Rs. 50 lakhs to Rs. 60 lakhs for a 2 BHK which is very much affordable by the definition and standards of Bangalore and similarly is the case with the other cities that we intend to do.

Kunal Shah: Okay, sir one last question is on the front of the debt and the equity dilution. So in the previous quarter we have converted the warrants which were issued in the promoters' family and we are pretty comfortable as far as the debt-equity ratio goes in the last financial year, so I think we are pretty much comfortable for this financial year but then as the growth strategy pickup again, the cash flows which you would be generating in this financial year, with all the projects we have and the kind of revenue visibility we would want to have, considering that you had just put in Rs. 60 Crores again back invested in purchasing a land at Bangalore, any thoughts on the cash flows to complete this projects and also to add on projects, how would we stand as far as the debt goes and how comfortable or what planning are we doing on the cash flow basis?

Kamal Singal: See, on a macro side, we have kept a very clear target that the debt-equity in no circumstance should go beyond one. That generally is supposed to be a very healthy and reasonable debt-equity ratio. So we are well on course to not achieve, we are already below that and maintain it. Yes it can go up from .48 which is very low but we are very confident that the kind of projects and the way we are acquiring projects, and our project acquisition plan for the kind of growth again which is 30% - 40% etc., we will not be crossing the threshold of one debt-equity ratio. In terms of funding there will be three sources of funding, one obviously is (inaudible) 36:04 projects are giving positive cash as of now, second is the remaining part of monetization of preferential shares that we issued last year and Rs. 20 Crores would come from the that and we are getting that money very soon and the third, obviously is the last resort of increasing debt in absolute sense but whatever we do in absolute sense, and even comparative sense, we will not allow debt-equity to go beyond one.

Kunal Shah: So just to summarize this statement of yours, to achieve this 35% - 40% growth which your are having right now, we are very comfortable with maintaining the debt-equity ratio that we have considering the cash flows that are going to come from internal accruals and preferential warrants, that we might further not require to go in for equity dilution at the cost of the growth because we are at any cost not going to go beyond 0.5 for 1 debt-equity ratio.

Kamal Singal: Yes, we have just kept a target, a maximum upper side target of one debt-equity ratio and that is what we will maintain going forward for sure.

Kunal Shah: Okay, all fine, thank you sir.

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

Sunil Kothari: Yes Sir, congratulation for award for 2016. Sir, what I observe is, we are getting every now and then so many awards. We are now successfully completing so many projects with a scale and experience. So, I am not denying this 30%, 40% growth is really very appreciable and very high but why we are not aiming to become some sizeable developer. Which are the reasons or which are the constraints which stops us from reaching first Rs.500 Crores or top line revenue company within very near-term, just to understand?

Kamal Singal: It is a very good question. If you go through our investors presentation, there one page is dedicated to what are the principles that we are operating on and how we want to take this company forward and what is the kind of approach and risk profile that we wanted to carry. So we have very clearly defined few things for ourselves one is, a healthy rate which is 30% - 40% obviously that should be achieved and we are all geared to do that.

The second is, we do not want to leverage the balance sheet, and we do not want to get into a debt trap the way it happens in many companies, especially the development companies or the construction-oriented businesses. That is why we put a very put rigid constraint on ourselves to keep debt-equity at a very, very manageable levels.

Three, we do not want to expand too fast across geographies. We understand that real estate is a very local business, so if an X company succeeds dramatically in Delhi or NCR, they might not succeed to that extent or they might even fail in Chennai environment or a Bangalore environment. So that is how we are saying that we will remain slightly more conservative comparatively from industry's point of view on debt-equity and we will also keep balancing ourselves on self-acquired projects and JD models to keep ourselves asset-light to the extent possible and even operationally we do not want to leverage ourselves too fast to the extent that if one bad cycle comes in the industry and company comes under some sort of financial stress. Within these two three constraints and the targets of organically growing to the extent of 30% - 40% every year I do not think…that is how we are approaching this business.

So, we have been trying to be very steady and that is what the numbers are showing for the last four years. Yes, this is a small base, yes, we are not very big but then we are very steady and if this steadiness can be maintained in next couple of years, three years, we will certainly start looking at, looking like a very, very decent medium-sized company going forward. So that is what it is. May be you can refer a detailed presentation on that.

Sunil Kothari: No I have gone through Sir. I totally accept and appreciate this thing, but looking at the opportunity available, if we can - looking at from unorganized to organized player this RERA and all what we are hearing there will be very few people who can add us to all the compliance and regulations and all, so to just understand from you, is this opening up a bigger opportunity for a player like you compared to so many builders in Ahmedabad or Bangalore or any city?

Kamal Singal: Definitely, it opens up bigger opportunities and definitely it is advantage organized sector so to say I think this is what you are trying to say that definitely is the case, we are ceased of the opportunity, at the same time we want to key our heads steady and cool, not to say that we will not be exploiting any genuine and dependable opportunity. We are geared for that. The company is in a good financial health. We have good descent internal accruals. We also have lower debt levels as of now. So the fact that we can go up from 0.48:1 debt equity that is the kind of play we have as of now to invest as and when opportunities come, so I think we have good gunpowder. We have descent gunpowder and in short-term we do not see capital becoming a constraint in acquiring the kind of projects that we want to acquire and medium term we will obviously keep reviewing our situation in terms of overall financial health, economy, industry, etc., and we will keep eyes open on the opportunities.

Sunil Kothari: Sir this new regulation is making us a little bit in a better position compared to previous years, this is making some players going out from the industry or maybe not able to compete you with equally?

Kamal Singal: That is definitely the case RERA you are talking about, you are talking about RERA?

Sunil Kothari: Right.

Kamal Singal: Definitely I mean organized players that is what I call it as advantage organized players, so anybody who is better organized, formally organized, corporatized, no cash kind of situations things happening post approval, etc., so yes there are a quite few things, which gives us advantages and we hope that we will be able to exploit those advantages over the small time operators in various markets.

Sunil Kothari: Sir previous person has also asked about this high inventory of Rs.246 Crores, so it is just to (inaudible) 43.10 I would like to understand is that because we were not able to sell it or it is a process of this is the way it works?

Kamal Singal: No, it is the process. It is not that this is an inventory ready and we are not able to sell etc., it is a question of two things, one unsold, second is sold, but it is not coming in the books of accounts because the accounting senate is not allowing, the latter is a significant component where sale would have happened, MIS sale meaning the booking and everything would have happened, but it cannot come in the book of accounts before it closes a threshold, so the books of accounts to that extent will keep on showing them as inventory.

Sunil Kothari: Can I have comparable numbers for this unrecognized revenue of sold flats, which is Rs.288 Crores at March 31?

Kamal Singal: It was Rs.380 Crores, about 380, so it is around 290 now.

Sunil Kothari: Okay 380 gone down to 290.

Kamal Singal: That is right yes.

Sunil Kothari: Sir we have – the way you are growing is really commendable, so we have enough projects or planning available for next three years this growth pattern?

Kamal Singal: Yes this is a continuous process, but yes we have a good pipeline and we always keep working on this pipeline to ensure that year-on-year we can keep achieving this targets and that is how the whole plan and execution is and we are very confident about creating and maintaining a healthy pipeline to achieve these numbers.

Sunil Kothari: Last question is how was the year-on-year improvement in booking compared to last 2015-2016, 2016-2017 how much it has improved in terms of just booking?

Kamal Singal: Bookings were not great in the last year because of demonetisation, though entire industry lost quite a bit of sales in the middle of Q3, last year was pretty healthy and now we have come back to those healthy levels. Q3 was bad, early Q4 was bad for industry in general and for us also, but things started improving from February onwards, February and March had been good, April was quite descent, so now things are expected to improve in terms of booking and that is what we are also witnessing and generally industries witnessing the same way, in fact overall average is for the nine cities for all the developers put together it shows some 15% to 20% dip in Q3 and in the later part of Q4 things have improved to the extent of same 18% to 20% so they are just coming back to the level of Q2 of 2016-2017, so yes there was a headwind, those headwinds are now looking like sorted out and this year should be a significantly better year.

Sunil Kothari: Right Sir. Wish you a good luck. Congratulations.

Moderator: Thank you. Due to time constraints that was the last question of the conference. I would like to hand over the conference to Mr. Kamal Singal for closing comments.

Kamal Singal: Thanks. It was a very nice interaction. Very so to say even we got some very good quality questions. As discussed during the call the company is very strongly positioned. It is in a very steady state of health in terms of its finances, its market recognition, its projects, the pipeline of projects, etc. As I just said Q4 has started showing some recovery signs after demonetization impact for the industry. We are very hopeful that this positive sign will become bigger and not only that the industry will bounce back to normal levels, but one can expect that from Q2 onwards of 2017-2018 generally industry is expecting and hoping for a very strong recovery and strong growth. We are preparing ourselves for that growth and we are acquiring projects accordingly and we are very hopeful of maintaining the growth rates both in terms of topline and bottomline going forward. Thank you.

Moderator: Thank you. On behalf of Arvind Smart Spaces Limited we conclude this conference. Thank you for joining us and you may now disconnect your lines.