"Arvind SmartSpaces Limited Post Results Discussion for Q4 and FY2017-2018"

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Moderator: Ladies and gentlemen, good day and welcome to the Conference Call for the Analysts and Investors for Post Results Discussion for Q4 and FY2017-2018 Arvind SmartSpaces Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kamal Singal, Managing Director & CEO. Thank you and over to you Sir!

Kamal Singal: Thank you. A very good afternoon to all of you. Extremely pleased to be with you and communicating with you on the quarterly results ending March 2018, which we have announced just recently. Just to put things into little bit of perspective 2017-2018 had been a year of transformation from general industry point of view, quite a few government policy related initiatives, which were quite transformative as I earlier said to confirm shape and it seems that after facing initial headwinds and pressures the industry is looking up and it seems that all these changes are apparently getting absorbed and market is coming back to some sort of steady state. Generally speaking if you were to just read this entire year, then it has seen quite a bit of turbulence in general sense launches have been significantly down and sales have been sluggish, demand has been sluggish, but at the end of all this, it seems that after absorbing all these short-term shocks if we may say so, there is some amount of sanity, which is coming back, in fact the last quarter has been very encouraging from the point of view of actual sales happening and coming back to some sort of normalcy and even better than the normal levels, which is a good news and we hope that this news sustains and the trend continues.

There are signs that some of the initiatives, which were taken in the last 12 to 18 months, are now bearing some sort of fruits. Affordable housing is one such segment, which has been under constant focus of the government. There are some very specific initiatives been announced not only for the developers, but also for the customers, customers get better deals in terms of subsidies on interest, etc., at the same time developers are encouraged in a very logical way to take up more affordable housing projects by giving very, very definitive concessions on the income tax side for the profits coming out of affordable housing segment.

So these kind of initiatives are now starting to bear fruits in what we very firmly believe and the green shoots that we have seen in the last quarter we are hoping in that, that we have to stay, this is not a one quarter, which has shown significant improvement, but we hope that even if there could be some bit of it, which is sounding a little too good, but nevertheless directionally it is showing us a trend and maybe we have left past the worst behind us and market should mingle from here on.

Coming back to Arvind, we have just announced the results. We have been very better side from what the company has achieved for the year as a whole. Our numbers on a smaller balance sheet size keep fluctuating from quarter-to-quarter because that sometimes reflect the realities of when one or two projects start coming into books of account the way accounting standard works, but ignoring those fluctuations, which might or might not happen sometimes and of course these peak centers will become less and less as we keep adding more and more projects into our portfolio, but treating the whole year as one block we are very satisfied with the numbers.

We have just announced a topline of around 202 Crores for the year against 159 Crores for the previous year same period, which is around 27% of growth on year-on-year basis. Profitability index parameters have been very strong even better and most of the parameters showing an excess of 40% growth in terms of EBITDA, PBT and PAT. EBITDA has gone up to 65 Crores from 44 Crores and PAT has gone up to around 30 Crores from 20 odd Crores, so all-in-all it has been a very satisfying year, but having said that we are looking forward towards the new financial year in a very hopeful way and we think that all the building blocks are in place on the macro side and also at the micro level as far as we as a organization are concerned and we have a very strong pipeline in place already, which should sustain the kind of growth that we have shown in the last three, four years. We are very hopeful that with this pipeline and the way the company is structured / geared on capital side and from management bandwidth point of view this way critical blocks are in place and we should be able to continue with a similar kind of growth trajectory that we have shown in the recent past. So over to you guys, we can start questions and we can explain more about the numbers, industry, etc., so maybe we can just start of that part of the call.

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 Sunil Kothari from Unique Investments. Please go ahead.

Sunil Kothari: Thank you very much sir and hearty congratulations for such a very good performance in this very challenging environment. Sir my question is basically I am talking to you since last two, two-and-a-half years and I was always asking that why on a low base you are not talking about big jump in size and all that, now you have already on press release talks about we are becoming a 1000 Crore revenue in next four years, so will you just explain or try to just what it shows why we are talking now big from this 200 Crores, 2000 Crores and what has changed and something qualitatively?

Kamal Singal: It is a very good question and I know that we have been sort of addressing this question for the last few calls. Your first part of the question is why we are not taking a quantum leads for and why we have not done so in the recent past and what changes going forward. The answer is that nothing changes, we will continue to do what we have been doing on a more consistent basis and when you are small as a real estate company obviously the revenue growth takes some little time before the critical mark is achieved and this has also to do with what amount of conservatism that we come with on the capital side. We are a company who does not believe and does not want to believe in land banking where we end up speculating on land and try to build a too faster portfolio. We believe that our real estate business if it is on a firm footing in terms of the way capital is structured, the way equity and debts are balanced that is a much better way to grow rather than leveraging the balance sheet too fast and too much, of course you can bring in faster results, of course it can bring the kind of numbers that one would have liked in the short term, but we have been very consistent in communicating and adhering to our own set of strategy that we will not leverage the balance sheet beyond a very, very nominal level.

As we speak we have ended the quarter with debt equity of around 0.55 we ourselves thought could be to the strength of one, so we are almost like half the level what is normally supposed to be in acceptable level of debt on the balance sheet. Now this is good and bad I can understand, but we will rather focus on the good side, which means that all our projects so far, have been very well funded. We had no stress or distress in any of our assets. We are executing projects and because of funds, there is no project which would fall even a day behind schedule in fact as we speak we just delivered one major project in Bengaluru five days ahead of the committed delivery including getting the BU permission, etc. So we think that this is fair, this is how we should go about it a little conservative, but a very strong capital base, a very strong capital structuring.

Now the second part of the question is how will the life change, now if we are at this critical mark of around Rs. 200 Crores level a 30% growth mean something very different going forward and if we were to mathematically start looking at it with the averages of growth that we have shown in the past and we are mind you putting all the blocks the way they should be put to achieve the kind of numbers around Rs. 1000 Crores in four years from now. They look like very much possible, it needs pipeline and the pipeline as I just said in the beginning of the conversation, is in place and we have already added two major projects of around 2 million square feet in recent months, one of the project is a major project in Bengaluru, which has just hit the market- a day before and the other a very attractive good profitable project is about to hit the market in Ahmedabad, which is spreading at around 1.2 million square feet, about to hit the market in next maybe couple of weeks, three weeks maximum four weeks time. So now all approvals are in place, we are just waiting for RERA registrations to come.

So along with the current pipeline and the current project portfolio and the pipeline, which is almost hitting the market as we speak plus couple of other things, which are expected to materialize very soon brings us the required diversity and the number of buckets that one would expect a need to grow to the level that we are talking on Rs.1000 Crores kind of a number and that is looking very much possible as of now, so nothing dramatic, but this is the dramatic part of the same strategy that we have been following for the last three, four months that things are changing in the next three to four years is what we are saying, otherwise we are not doing any adventure in terms of capital or debt or anything like that. We will keep exploring newer and newer ways and we are doing that as we speak again. How to fund ourselves more through equity and capital, avoiding in other words to say to avoid leveraging in one way or the other it could be in the form of the way we structured our SPVs or the way we structured our projects, the way we conclude joint development deals, outright deals, so that on one hand there is enough pipeline and on the other hand we do not leverage balance sheet too much. So within all these parameters and surface we are very hopeful that there are already enough in building blocks to reach to this number of Rs.1000 Crores as we talk.

Sunil Kothari: Really great sir and this Rs. 1000 Crores revenue we are talking about is maybe after four, five years is annual number right?

Kamal Singal: Of course annual numbers. We will reach quarterly numbers also, but let us not talk about it. These are annual numbers we are talking for sure.

Sunil Kothari: The current net worth and current equity is sufficient to reach up to what level and then you will have to raise further equity?

Kamal Singal: See in last one-and-a-half years we have promoters who have infused around Rs.100 Crores, Rs. 50 Crores in two tranches. Last year we infused Rs.50 odd Crores and this year again we have come up with a preferential equity of around Rs.53 Crores out of which Rs.48 Crores have already come into the books and entire money has been used appropriately, the size and about which we just talked. So what we are doing is that any addition in equity in whatever form it comes along with the internal accruals giving us in proportion some sort of headroom about taking more funds on the debt side. So while we remain conservative to maintain it at 0.55, 0.6, 0.7 or those kind of levels below 1, etc., so as we keep adding, our results, as we keeping adding to our equity base to preferential, etc., it keep giving us headroom to borrow simultaneously and on the current base we are very confident that this growth that we are projecting in four years from now is doable and for that if you have to infuse more capital, more equity in one or the other form along with the proportionate debt required for this growth we are in a position to do that and we hope that we should be able to do that.

Sunil Kothari: Sure about that, but sir by when you feel the infusion of equity another two years or next year also we should think about those things?

Kamal Singal: The first round of Rs.100 Crores, which was required to create the strong pipeline has meant that Rs.100 Crores of equity and almost Rs.70- 80 Crores of debt addition, we could take out of which obviously we have not taken the entire debt as yet to take the headroom to reach up to at least 0.75 debt equity, so we can add maybe one or two more projects in any case. So in the very short term say next 12 months we are sufficiently funded to take couple of more projects any which way and going forward depending upon the market and how things behave and what are the level of internal accrual, etc., every three months, six months we keep reviewing about a capital adequacy and this is ongoing process. So as and when we feel that we have exhausted our maximum debt on a conservative side of course we will obviously be working on further equity. An equity could come in various ways as I told you and we are very confident about raising further equity through various sources even the track record, which now the Company has and we have delivered few projects already and in the current pipeline and the brand that we carry along with us. So equity should not be a problem in any case.

Sunil Kothari: Sir last question is we have changed this revenue recognition on realization from 15% to 10% from the current quarter, which is showing our revenue higher by some numbers, which already you mentioned in the notes Rs.48 Crores in consolidated and Rs.33 Crores in standalone revenue, so what is the base practices normally industry follows and where we are and what is the logic and reason behind this change?

Kamal Singal: It is a very good question. Industry practice generally speaking and the law mandates to be 10%. We had been more conservative in the past and that is how we have been doing on most of the fronts. The only material change, which has now come in, into the market, which necessitates us to do this process at 10%, which is required from legal point of view also, is that under RERA one cannot execute agreement to sell and take further payments before CC is received i.e. commencement certificate is received in to a project. So what you can maximum do is to take 10% money from the buyers and then the way CC comes in cities like Bengaluru is that it takes some seven to eight months before CC comes because it needs you to complete the entire groundwork right from lower basement to upper basement, etc., and then only CCs are coming. So if we were not to change the threshold of 15% to 10% it would have meant that there would have been a huge gap in revenue recognition, which was earlier not the case. So realizing 10% or 15% was not a very big difference in earlier scenario, but now because of RERA and the registration requirements of RERA are, the time get between when we realize 10% and when we realize 15%, has gone up to the extent of seven, eight months and if we had not changed this practice now it would have resulted into a very sharp decline, which would not have actually reflected the true level of business activity to that extent. So I think now developers know this legal requirement coupled with RERA payment terms, which is a maximum that we can do, 10% is the only way forward and this has to remain now for all developers and market in general and we would operate this practice.

Sunil Kothari: Thank you very much and congratulations for a good set of numbers.

Moderator: Thank you. The next question is from the line of Sweety Shah from Wama International. Please go ahead.

Sweety Shah: I would like to know what is the land cost of Arvind Oasis and the sales price of Oasis?

Kamal Singal: Land cost in absolute sense is around Rs. 60 Crores on a per square feet basis on the salable area it will be around Rs. 1200 would be per square feet or so and during the launch price we are realizing something like Rs.4800- Rs.4900 per square feet that is a launch price and as we move ahead realization should be better than that, but Rs. 1200 on Rs. 4800- 4900 as far as realization is concerned in our sales.

Sweety Shah: So what is the cost of construction of Arvind Oasis?

Kamal Singal: See we work on a gross margin of around 28% to 30% in most of our projects and Sporcia in general we will be in that category only it might be little better than most of our projects, but broadly speaking it will be splitting within 28% to 30% gross margin category in the sideways.

Sweety Shah: Alright sir that is something around 30% include the cost of approvals and marketing cost?

Kamal Singal: Gross margin is all cost except for interest and depreciation, etc., includes all the costs.

Sweety Shah: So what is the expected date of completion for this project?

Kamal Singal: See on a realistic side it is supposed to be 42 months from start of construction, but under RERA we have declared 60 months as a completion target while we are very confident and more about completing it in 42 months, which we have been doing, we have delivered projects of this scale within these kind of timelines and under RERA we have declared 60 months timeline.

Sweety Shah: So affordable housing project what is the land cost for that?

Kamal Singal: Affordable housing project it is a land, which is very low priced, it is in the middle of the city in the old part of the city and FSI cost there on a salable area basis will not be more than Rs.350 to Rs.400 or something like that per square feet and the land in aggregate sense is Rs.40 odd Crores.

Sweety Shah: What is the sale price for affordable housing project?

Kamal Singal: We are just working out those details because this is yet to be launched, but a very initial understanding of pricing will be that will be little less than Rs.3000 realizing to start with and depending upon the kind of response and how things are consolidated I will increase it further, but at around sub 3000 levels this project also gives us a reasonable margin of more than 25%

to 30% and mind you the gross margins are also tax free in this case, so our gross margins are pretty much equivalent to that and hence IRR sense it will be a good project.

Sweety Shah: What is the cost of construction?

Kamal Singal: Very similar to what other projects are, but maybe around 10% to 15% lower because the specifications will be little less than what normal midsize housing is maybe 10% to 15% less than a normal housing, otherwise things are by and large the same.

Sweety Shah: So what is the expected date of completion for this affordable housing project?

Kamal Singal: Not yet decided, we will just come out with these details very soon, but frankly speaking from the past experience again five years should be a good time to assume and work out details and it also depend upon how the launches, which are come out because we will be launching in two phases in this range, but generally speaking the trend is at this point of time should be a maximum five years.

Sweety Shah: That is it sir. Thank you.

Moderator: Thank you. The next question is from the line of Anand Dubey as an Individual Investor. Please go ahead.

Anand Dubey: Congratulations for good set of numbers. Just I have two questions, in Uplands 70% area booked when will be the balance area sold and how much the price you have expected?

Kamal Singal: Thank you Anand. I could not understand your question exactly can you repeat the question please?

Anand Dubey: In Uplands 70% area booked when will be the balance area sold and how much price you expect such in Uplands project?

Kamal Singal: Uplands is a kind of a flagship project for us. This is a very high-end, very rewarding and it is kind of a flagship project for us in Ahmedabad. We have sold very well, last year sale numbers have been very strong for Uplands and it is a big township. We will be opening various phases, etc. This phase is selling very fast and we are hoping that very significant portion of this phase will be sold within this year and at an appropriate time we will be launching the next phase as well and when it comes to price we are selling land at around Rs.12000 to Rs.16000 per square yards on a salable area basis and the construction is sold separately at around Rs.25000 per square yard, a combination of these two basically means that a 4 BHK villa sells at around starting around Rs.2/ 2.5 Crores and it goes up all the way to around Rs.5, 6 and 7 Crores per unit.

Anand Dubey: Sir my second question when will be the sale of Beyond Five starts and how much sale we expect in FY2019?

Kamal Singal: Beyond Five is a beautiful project, mainly it is a plotting project around golf course, we have been very successful in executing a project around golf course under appliance, so it is a very similar project, but we will not be doing villa construction, there will be basically a plotting scheme. Most of the things are in place for launch, site offices, and other basic infrastructure is looking like good enough for a launch. There are couple of land title related issues, which are getting sorted out, hopefully by middle of this financial year we should be that is what the target is that we should be able to launch this project. Market actually is looking forward to this project so we believe that it is a very strong product in terms of what customers want and hopefully we should be able to launch this project in next three to six months time middle of this financial year.

Anand Dubey: Sir my third question does revenue from operations includes GST also sir?

Kamal Singal: No GST.

Anand Dubey: GST is not included sir?

Kamal Singal: GST is not included in the topline as we have declared yes.

Anand Dubey: My fourth question sir, just how much balance amount spent in Uplands?

Kamal Singal: Balance amount we spent in Uplands. Uplands is a huge project so there will be multiple phases. Again coming back to the margins and all that we are operating at more than 30%, 35% margins at Uplands also in fact it is more profitable than many of our other projects and whatever sales, etc., we are recognizing you can safely assume that the margin will be in excess of 35%. How much will really depend upon what is the kind of area we are developing in various phases, which are 135 acres of township out of which what is the registered under RERA and what we are selling under RERA today is maybe less than 35% of the overall area so that is how it is.

Anand Dubey: Sir my last question is that why the Beyond Five booking cancellation has happened sir?

Kamal Singal: This is because of the delay in start of the project because of certain legal issues in the land, which are getting resolved very fast and as a very responsible developer we had given two options to each and every buyers who book very early into the project and we have paid very small amount so far; to either cancel the unit at any point of time or that they want it along with interest we can say that. These are very small amounts that we collected for the initial booking projects, etc., and maybe some 30 odd customers has chosen for that option, but the product is so strong that despite very long delay they are still holding onto this thing, but they have been given this option of cancelling, so that is why this cancellation happened.

Anand Dubey: Thank you so much sir.

Moderator: Thank you. The next question is from the line of Ritwik Seth from Deep Finance. Please go ahead.

Ritwik Seth: Sir I had a few questions, firstly on the P&L, can you explain how is the accounting for changes in inventory done?

Kamal Singal: How the changes in inventory are done?

Ritwik Seth: Yes so it is minus 100 Crores, first of all is it a noncash P&L line item?

Kamal Singal: Let my colleague Mr. Mehul Shah explain this to you, he is the CFO of the company.

Mehul Shah: See basically we have recognized the revenue of the various projects we have include six projects the revenue has been recognized so whatever has been there in the inventory last year it has gone into the P&L so that is why there is a change in the inventory. So these are very normal course because of whatever inventory sold it goes out of your books and from that point from the inventory side what has happened in the normal course.

Ritwik Seth: Right, so I just wanted to understand it is a noncash item right?

Mehul Shah: Noncash.

Ritwik Seth: There is no cash outlay or inlay right?

Mehul Shah: We have already done the cash outflow before that is why it is standing in the inventory. This is a inventory for which we have already spent and now with sales it is getting converted into the receivables and then receivables are converted into cash the balance of that is shown either outstanding or reduction in inventory, which is nothing but something which we had already spent, it either got converted into the receivables or cash.

Ritwik Seth: If I take a step back and see our ongoing projects currently you would have mostly bulk of the value would be coming from plotted development from Beyond Five, from Skylands and from Uplands, so moving forward three years, five years down the line you are saying about Rs.1000 Crores of sales per year after four, five years so what kind of vision do we have in terms of flats, apartments versus villas how that mix will affect our overall sales mix?

Mehul Shah: No, I think just one small correction here out of a total of 14 projects that we are talking about right now only one is plotting project, which is Beyond Five there is nothing else, which is plotting. The other major project is Uplands, which is not a plotting project it is a very high-end villa project we do not sell land per se there at all. So no bare land can be bought there it is only that a product can be bought, which is built up in fact there are huge built ups to the strength of even 11000 square feet of construction type so there is minimum construction of 3000 square feet and maximum of 11000 square feet that we do on any given plot before we sell in the Uplands also, so except for Beyond Five there is no broader scheme. The rest of everything else about the 14 that we are talking here are all apartments multi-storeyed, high-rise, which are either in Ahmedabad or Bengaluru mainly speaking. For example Skylands is a high-rise project, Sporcia is a high-rise project, also is suppose to be high-rise project, Avishkar as we call it the Ahmedabad the affordable housing is going to be about to be launched now is going to be a high-rise apartment project and most of the projects high-rise apartment projects are in that sweet spot of price bracket between 50 lakhs to 1 Crore, 2 and 3 BHK and in case of Ashoka or this Avishkar as we call it at Ahmedabad will be starting from Rs.25 lakh going up all the way to Rs.50 lakh, so 80% of our portfolio now and going forward even more than 80% it is going to be very high end construction mainly towards mid-priced apartment category that is how we are looking at the market and this is what our sweet spot has been and this is what we have been focusing and this is what we will be focused in future as we well.

Ritwik Seth: So in Uplands just coming back our average realization is around Rs.1500 so most of it seems to be, the weighted average seems to be skew towards the plotted development?

Kamal Singal: What happens is this is a project in outskirts they are very high-end villa projects there the land price is around Rs.1200 per square feet, but in outskirt Rs.1200 per square feet land prices have very good price because the raw land is hardly from Rs.150, Rs.200 per square feet there. So after adding these kind of values on a spread, which is as high as 135 acres this villas end up costing around 3 to almost like 8, 9 Crores, but when you convert all these things into per square feet basis because the product is very different it looks like Rs.1500 only on a per square feet basis land and construction put together. Right way to understand this would be that a 1000 square yards of land and around 500 square yards of construction at Uplands this kind of a villa will be around Rs.3 to Rs.4 Crores worth and on that 3 to 4 Crores we will have a margin in excess of say 35% or so, but when we convert that into a per square feet, which is a standard in terms of how one is suppose to show the number it looks like as of this is a plotting or a low-end project it is exactly the other way around.

Ritwik Seth: In presentation slide #28 to Investors, Rs.212 Crores is unrecognized income from sales already done so the attributable construction cost for this?

Kamal Singal: As I said we have been pretty much consistent with our entire portfolio where gross margin will be around 30% and the remaining is cost of construction including the land so whatever proportionate land and construction is suppose to be on this Rs.212 odd Crores so you take out 50, 55 Crores of our gross margin from that and the balance is suppose to be construction and the proportionate land cost in that inventory for sure.

Ritwik Seth: So around Rs.150 to 160 Crores will be the construction cost for this?

Kamal Singal: Construction and land cost.

Ritwik Seth: And land including.

Kamal Singal: Yes that is right.

Ritwik Seth: So the Uplands this is the first phase that we are doing say maybe if we continue this traction we will be exhausting half the current inventory in FY2019, so what is the plan for phase II and what kind of area should we expect for phase II?

Kamal Singal: We are already in the planning stages of phase II, phase I is selling very healthy and the market response has been extremely encouraging as a significant traction that we have experienced, there is quite a bit of buzz around the city and real estate circles in Ahmedabad would know this project and this is one of the most visible project that we have had since we started this business, so depending upon how velocity is coming in, in the coming months we will be launching the next phase, but having said that we are already finalizing the designs and product mix, etc., for the next phase, which will obviously be brought to the market as we go ahead.

Ritwik Seth: So phase II should be similar around 3 million square feet?

Kamal Singal: As of now we are very confident about similar product being sold there, but we will definitely try out couple of more products to see if we can even further enhance the margins, but they will be small in terms of experiments while we are very confident and anyway selling is very well so that obviously will be continued, but we would like to do couple of more experiments to see if we can do even better than what we have been doing on margin side.

Ritwik Seth: For this Rs.1000 Crores of sales value per annum, we will have to have at least around Rs.4000 to 5000 Crores of ongoing projects by then, so what is the thought process because currently it would be around including the two forthcoming projects of Oasis and affordable housing if I am not wrong our value of fund sold inventory plus areas sold yet to be recognized and considering Oasis and affordable housing would be somewhere around Rs.1500 Crores. So my question is that currently going from that Rs.1500 Crores of inventory to Rs.5000

Crores of inventory; how do we plan and since you have said that we are going to be conservative, so how do we plan to scale up from Rs.1500 Crores of ongoing projects to Rs.5000 Crores that is in three to four years, some thought on that?

Kamal Singal: As we speak the current projects the outstanding sales to be done from the current projects is around 2000 Crores.

Ritwik Seth: That is including Oasis and the affordable housing?

Kamal Singal: Everything and if you were to take maybe two to three or maybe maximum four projects in a year we are planning to do two this year very soon then the run rate of achieving around Rs.4000 Crores, in our calculation it may reach Rs.4000 Crores gross value of inventory due in the circulation at various stages we should be able to easily shift an average of Rs. 1000 Crores because on an average we take less than four years to complete our projects, so in our phase it is more like we do so for a Rs. 1000 Crores we need Rs. 3500 Crores or maybe on the upper side Rs. 4000 Crores so we are already halfway down and even four years to double the cycle having achieved the critical mark that we just discussed is possible and if we continue doing 30% to 35% and sometimes 40% growth in topline this number even mathematically speaking, but we have a plan in terms of how we want to augment the pipeline and how we want to augment the buckets, which will give all these numbers they are all seemingly in place and that is how we want to achieve it.

Ritwik Seth: And do we have additional land bank in-house and we have Uplands and any other land banks that we would have?

Kamal Singal: We do not believe land bank as we said we are very conservative company as such and we do not buy land to hold it, if at all we have a large chunk of land like Uplands on a JDbasis we do not want to sink in lot of money, if land process strictly WIP and any WIP has to be converted into FG at the earliest not even a day to be wasted that is a philosophy at the moment we buy any land it comes into our books of account, the idea is to hit the market in the fastest way possible and start adding value in that sense. We do not have and we do not want to add to any land banks as a philosophy in this Company.

Ritwik Seth: One final question we have villas and plotted developments and industrial sheds and apartments also, so which one is a most profitable for us and where from this incremental Rs.1500 to 2000 Crores of current ongoing projects going to Rs.4000 to 5000 in next year so where would be our sweet spot, we have tried three, four different models so where is our sweet spot?

Kamal Singal: As we just discussed sometime back our sweet spot is multi-storeyed apartments, which are mid-priced or lower mid-priced segment. We believe that this is a market above which the horizon is very small and scalability might be a problem, but this possibly is one of the fastest growing segment and India is becoming a middle class income group country and hence demand will remain. Both poses a different challenge and obviously all the companies will try, but having said that this segment is going to remain a segment, which will have organic demand coming any which way, there will be more fluctuations in segments above this and below this, so we are into that sweet spot. Higher segment will keep same thing into our product mix the way and Uplands is, but I do not think it is going to be more than 20% of our portfolio on an average basis in the longer-term, but very much 65%, 70% will be this mid-priced segment. Going below this mid-priced maybe below a Rs.30, Rs.35 lakh in Ahmedabad kind of a city and below Rs.50 lakh in a Bengaluru kind of a city again becomes a challenge for us because the way we set minimum standard for our sales in terms of what product we want to show to the market and we go to the market with our brands we believe that ultra low price is not where we possibly should be and at least in the short-term we feel that way. There could be opportunities coming as going forward, so we are not averse to that, but as we look at it ultra low is not where we are focusing so we are focusing pretty much in the middle and slightly lower middle categories in B category metros like Bengaluru, Pune etc., or Ahmedabad and luxury will be a thing here and there to bring the averages up and some of percentages, which might keep coming, but it will be little more choosy about ultra low cost.

Ritwik Seth: And just one final question we will be concentrating on Ahmedabad and Bengaluru right is that understanding right?

Kamal Singal: Ahmedabad and Bengaluru, in Bengaluru we see a huge market and it has enough depth for us to at least target the medium-term obviously that we have in terms of volumes and growth Ahmedabad is also similar not as big as Bengaluru, but still having enough depth so we believe that in short and medium-term these two markets coupled with the market like Surat or Pune for example we are very significant looking at as we speak there is one connection, which commercially is kind of understood and close, but diligences is happening so cities like Pune could be the next market, but anyway we believe that Bengaluru and Ahmedabad and Gandhi Nagar that we are operating in we have enough depth for getting our medium-term growth objectives.

Ritwik Seth: Thank you sir. I would love to come and meet you in Ahmedabad sometime soon.

Moderator: Thank you. The next question is from the line of Akshay Ajmera from Nirjar Securities. Please go ahead.

Akshay Ajmera: Good evening sir. Congrats on great set of numbers. Sir my first question is what is your total land bank and what is your value as of today?

Kamal Singal: As we just talked we do not hold any land banks the entire lands, land parcels that we have today are under development and they continue to remain under development if we buy a new land or if we get into a joint franchise, joint development agreement with any land partners the idea is to quickly take that land to the market and convert it into FG and WIP so to that extent we have hardly any land, which is lying or is going to be lying in the form of land, which is not having any projects being initiated so no land banks.

Akshay Ajmera: Second thing is since we are already into this residential project do we plan to foray into commercial spaces going forward?

Kamal Singal: Right now our very sharp focus will remain on residential, while some adjustments can be there in certain projects where it is worth doing commercial because of the way they are located, etc., but other than that we are not specifically looking at commercial at this point of time except for as you can see is we are very strong and sharp focus remains on residential.

Akshay Ajmera: Fine sir. Thank you.

Moderator: Thank you. The next question is from the line of Manish Kanakia as an Individual Investor. Please go ahead.

Manish Kanakia: In Uplands for phase I how many apartments are there, which we have to set?

Kamal Singal: We have villas in Uplands, we have around 189 villas.

Manish Kanakia: Out of which we have sold?

Kamal Singal: 127 villas are sold already.

Manish Kanakia: Suppose the projection is in December 2018 right?

Kamal Singal: We are giving projection in December 2018 for the villas, which are sold and few more. See these are the projects where we are giving option to choose our design being very high-end and high-end things means specific choices we have designed some five different designs which can be chosen by the customers so broadly what we do is that we sell make a bucket of five to ten villas we will start construction upon confirmation, so December is when we will be kind of delivering most of what we have sold does not mean that we will be delivering the entire 189 because that will remain open so suppose this quarter we sell 10 then those 10 will be initiated in terms of construction and they will be cleared at a different point in time that is how the project goes.

Manish Kanakia: So going every quarter run rate do you think 10 or 12 is going to be the run rate till then, then that takes another one-and-a-half years to complete this 189?

Kamal Singal: See we should more rather focus on what is the area to be sold, the sizes could be very different from and I notably analyzed that in that context at this point of time, but we have sold how much in the last year in terms of rupees , 65 Crores we have sold and so maybe couple of years it should be. So may be couple of years to take before this entire inventory is gone, but having said that we cannot wait for this entire inventory to be sold before we launch the next one because then as we move closer towards selling everything there are constraints about availability of X or Y type of inventory so maybe by the time we have sold what we have already and we would be launching the next phase to ensure that the variability or diversity in the products, which are being offered at this destination are by then of course the customers we choose from.

Manish Kanakia: Maximum there will be two phases right, phase I and phase II?

Kamal Singal: There could be three depending upon I think my guess will be that there will be three phases. Minimum three phases with a very large one and we also want to take advantage of reaching the product mix as we proceed further and they are getting the entire land as a big parcel, you would rather keep experimenting with new and new products, it is like multiple projects happening at one location, so we will keep experimenting with more products and hence there will be more than one more phases to expect from this.

Manish Kanakia: Regarding Beyond Five as I calculate roughly 66 lakhs square feet and an average price of 770 what you have written the project comes to 515 Crores of salable revenue out of this it is a JV how does the JV works, what comes to our balance sheet, P&L and what goes out?

Kamal Singal: So around Rs.250 Crores come to us the way it is structured, out of which we will only be doing area development here, we are not doing any construction, these values exclude construction if at all we have to do, we have flexibility to do villas also here. As we look at it from the current client point of view it suppose to be only a plotting scheme, but the area is coming up very fast and hence there could be some middle value wherein we can start selling some villas also there, but given that everything is only plotting the topline is around Ra.500 Crores-550 Crores as you have said and our share will be approximately Rs. 250 Crores from that.

Manish Kanakia: 45% is how much?

Kamal Singal: 45 plus some other incomes and all that so maybe it ends up at around especially it might be some 47%, 48%.

Manish Kanakia: This also you expect EBITDA of 25%?

Kamal Singal: No this will be significantly more because it should be in excess of 40% in this case.

Manish Kanakia: And when do you think you will be because this project is delayed quite some time so when do you think you will launch this?

Kamal Singal: By middle of this year is what we are expecting most of the issues are getting ironed out very fast I have just taken longer than what we had anticipate, but these kind of land aggregation is actually what creates value, but having said that possibly it has taken more than what we anticipated, nevertheless 80% to 90% land is already aggregated, some small left over issues are being ironed out and we are hopeful that by middle of this year we should be able to start this project.

Manish Kanakia: Roughly July, August?

Kamal Singal: Yes I mean five to six months from now.

Manish Kanakia: So then we will miss the Dussehra or the good season, which is usually a good sales Dussehra, Diwali right?

Kamal Singal: Yes plots to sell during start of winter is always better because plotting schemes somewhere look horrible and the same plot looks much better in winter so sun is better that time so yes you are right start of festive season is what we should be looking at launching this project.

Manish Kanakia: And coming back to Arvind Oasis as I understood what you said is that 60 Crores we paid for land and 4800, which we expect as a salable price and so if I multiply by 7.5 lakhs it is up to 360 Crores and if you say 28% to 30% gross margin should I assume that Rs.2000 per square feet should be our cost including advertisement and construction everything?

Kamal Singal: You just learnt some very quick numbers, but saleable area is not suppose to be 7.5 lakh square feet like it is around 5.5 lakh square feet and we expect a topline of a little less than Rs. 300 Crores on that Rs. 280 odd Crores and generally we should have a gross margin after covering for all the expenditures including land to be in the region of 25% to 30% so that is how the project is configured.

Manish Kanakia: And is the figure of 12 lakhs salable for the Ahmedabad low cost correct?

Kamal Singal: Yes around 1.1, 1.2 million square feet that is right.

Manish Kanakia: As far as both the projects are concerned I am just trying to understand the construction cost which is the construction cost of 1500 to 1700 correct for Ahmedabad?

Kamal Singal: Ahmedabad should be fine yes Rs. 1500 per square feet will be little less than Rs. 1500 per square feet and Bengaluru could be yes Rs. 1700 -1750 - 1800 per square feet it also depends upon how we look at the cost what all components you adds in costs and what all formats go into overheads, etc., but I think the way you are trying to understand this number between Rs. 1400 to 1800 per square feet very much cost both Ahmedabad and Bengaluru on a build up area basis.

Manish Kanakia: Trade receivables have been rising usually in this industry you collect money before the construction happens usually on claims you get 20%, 25%, so why if the trade receivables rising?

Kamal Singal: So that is a very specific stand, there is no actually significant or work noting increase in the receivables it is only that on March 26, 2018 we got building use permission for Sporcia and we have sold most of it and there is a huge chunk of dues, which fall upon completion of the project, so the movement project was announced to be completed on March 26, 2018 we have raised all the demand note that is when the project outstanding becomes due, so it is more like a book entry, which shows this number will be very high they are just falling due on March 27, 2018 and obviously in a month, month-and-a-half time, two months time people are going to come pay the balance money and get the sale deed done so it is nothing I mean this is absolutely normal out of this maybe Rs. 50 Crores is like that if you due this Rs. 50 Crores there is nothing it is only that it just got due for the entire 400 or 425 odd customers some Rs. 10 lakhs each to be payable time of projections are ready now.

Manish Kanakia: Alright. Great. That is it from mine. Thank you so much.

Moderator: Thank you. The next question is from the line of Jigar Shah as an Individual Investor. Please go ahead.

Jigar Shah: Good evening sir. Congrats on the good set of numbers. Sir my question is on revenue recognition method like lot of real estate companies have a different revenue recognition methods just wanted to confirm how do we do it?

Kamal Singal: It is on completion percentage method and with RERA kicking in we just explain half an hour back in response to queries by one of our callers earlier. Now industry as I think broadly settled and our practice is now matured post RERA era that once you receive 10% of the money sales is recognized in proportion. Two the money spent on the project that is how you call it as percentage completion method and this is a method we are employing here.

Jigar Shah: So it is not like here we need to complete 25% of the construction cost?

Kamal Singal: That is there that is the first hurdle so unless you spend 25% on construction other than the land cost so you have to spend and pay for the entire land and you have to spend a total of 25% was total budgeted construction cost that is when you can first recognize revenues for example Oasis has just started selling, so if you have to recognize any sales irrespective of how much you otherwise sold on a customer to the supplier basis books will show the sales only after we would have spent 25% of the budget, which is approximately Rs. 30 Crores so unless we spend Rs. 35 Crores on ground no sales can be recognized.

Jigar Shah: Fine sir. Thanks a lot.

Moderator: Thank you. The next question is from the line of Ruchak Mehta as an Individual Investor. Please go ahead.

Ruchak Mehta: Thanks for taking my question. Good evening to everybody. My question is for the Skylands project in Bengaluru over the last 12 months we do not seem to have had much traction with the units books, so just wanted to understand what happened over there?

Kamal Singal: Good question. Skylands actually have sold pretty decently in the last 12 months, it is only that the net sales is not looking very healthy because during the times of RERA and GST and also demonetisation there were quite a bit of cancellation, which came it happen to most of the projects and developers, people thought that prices will fall significantly, etc., etc. and they were given a chance to cancel until the ATS was executed under the new regime under RERA so we lost from 30, 40 bookings during that period so any incremental skill that you are seeing right now is some total of that increment plus around 30 to 40 cancellations, which happened due to these specific events, but otherwise we are satisfied with the velocity in the Skylands and I think having passed this turbulent period it is on track and then even execution is happening very fast and very significant progress on sight and we held up schedule even there in terms of completing the project and customers are significantly value that progress that we are showing on the project.

Ruchak Mehta: Got that. That is all from my side.

Moderator: Thank you. We take the last question from the line of Sunil Kothari from Unique Investments. Please go ahead.

Sunil Kothari: Thanks for opportunity. Sir broadly our balance sheet size is Rs. 600 Crores and working capital is approximately Rs. 400 Crores, which seems very high on current revenue and current numbers, how you think about this and what you see after maybe two, four years, what type of working capital should be the proportion of the revenue or something some guidance on this?

Kamal Singal: While on an apparent basis this looks high Rs. 400 odd Crores from Rs. 600 Crores balance sheet, but the way our industry works is that the higher the proportion the better it is. What it reflects is that we have lot of lands and projects, which have already come into the stage of execution. For example Oasis we have just bought some six seven months back and it has been launched now just a day before that entire investment of parcels including land and whatever little expenditure that we have done so far in the last three, four months of predevelopment, etc., has come into the WIP or the working capital, so this entire chunk by and large or a very significant portion of this working capital is actually on account of new lands, which are coming in, in fact between Oasis and Avishkar, which is affordable housing project in Ahmedabad this is showing Rs.100 Crores increase in working capital, which is basically an investment for the new project, but the way real estate accounting works it is shown as obviously WIP because that is what we are converting from raw material to finished goods, but these are investments into the new projects.

Sunil Kothari: Sir broadly this type of working capital will remain because we are growing?

Kamal Singal: No, even in a stabilized environment you have to have enough and more pipeline under WIP that reflects the overall deployment of funds at any given point of time, so this is Rs. 400 odd Crores out of which Rs. 300 Crores is invested directly into projects that basically signifies the health of pipeline and the healthier you are the better it is. Real estate we do not hold assets per se may be little assets are held other than WIP, assets are held in the form of WIP on account of mostly the land and development that we do on those lands before they become salable or they start selling, etc., so these proportions will remain as it is or they should even improve further because of the way they account for the assets, which are bought for the purpose of conversion and for the sales of, this trend will pretty much stay the same way and obviously it will get more consolidated as we expand further.

Sunil Kothari: Thanks for clarification. Thank you very much.

Moderator: Thank you. Ladies and gentlemen due to time constraints that was the last question. I now hand the conference over to Mr. Kamal Singal for closing comments. Thank you and over to you sir.

Kamal Singal: Thank you very much for the time that all you people have spared. There were some very good questions, which were asked and let me once again thank you for the time. Arvind as we have been discussing is spreading very steadily, we have our own way of consolidation in the form of little bit of conservatives on the way and the base that we have also grow with keeping the balance sheet light, keeping the debt levels very light, which has to remain asset light model, no land banking, converting each and every land parcel that we have brought in to WIP as we just discussed in the past as possible way. So these are very sharp focus on B category metros, Bengaluru, Pune, Ahmedabad kind of cities and reaching a goal of Rs. 1000 odd Crores in next four odd years. So these are pretty much our strategy pillars and we feel that we are on a very strong footing to achieve these objectives. Let me thank all of you again and if you have more queries you can always be in touch with our investor relations team, which is always ready and we will be very keen to help you with any very further information that you might need. Thank you very much.

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