ARIHANT SUPERSTRUCTURES LTD.
CONTINUING STABILITY

12th May, 2022

Corporate Relations Department
BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street, Mumbai - 400 001

Listing Compliance Department
National Stock Exchange of India Limited
Exchange Plaza,
Plot No. C/1, G Block,
Bandra-Kurla Complex,
Bandra (East), Mumbai - 400 051

Scrip Code: **506194**
Class of Security: **Equity**

Symbol: **ARIHANTSUP**
Series: **EQ**

Ref: Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

Sub: Transcript of Conference Call held on Monday, 09th May, 2022:

Sir /Madam,

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and with reference to our letter dated 05th May, 2022 intimating you about the Conference Call with the Investors held on **Monday, 09th May, 2022 at 03.00 P.M. (IST)**, please find attached Transcript of aforesaid Conference Call.

Kindly take the same in your records and inform the Stakeholders accordingly.

Thanking You

Yours Faithfully

For Arihant Superstructures Limited

ARIHANT SUPERSTRUCTURES LTD. NAVI MUMBAI

Govind Rao
Company Secretary & Compliance Officer

Enclosed: a/a

Arihant Superstructures Limited

Earning Conference Call

Q4 FY2022

May 09, 2022

Management Representatives:

Ashok Chhajer	Chairman and Managing Director
Parth Chhajer	Promoter
Abhishek Shukla	Chief Strategy Officer
Deepak Lohia	Chief Financial Officer

Moderator: Ladies and gentlemen, good day, and welcome to the Arihant Superstructures Limited Q4 FY2022 Earnings Conference Call hosted by Dolat Capital Market Private 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. Rahul Jain from Dolat Capital. Thank you and over to you, Sir!

Rahul Jain: Thanks Operator ,Good Afternoon everyone. On behalf of Dolat Capital, I would like to thank the management of Arihant Superstructures for giving us the opportunity to host their Q4 FY2022 Earnings Call. We have with us today Mr. Ashok Chhajer – Chairman and MD, Mr. Parth Chhajer - Promoter, Mr. Abhishek Shukla – Chief Strategy Officer and Mr. Deepak Lohia – Chief Financial Officer. Over to the management for the opening remarks!

Abhishek Shukla: Thank you Mr. Rahul. Good afternoon, ladies and gentlemen and thank you for taking the time out for joining the Arihant Superstructures conference call to discuss the FY2022 results. I would like to take you all through operational highlights for FY2022 followed by financial highlights of the year before handing over to Mr. Parth Chhajer. The financial year 2022 was a landmark year for us on various counts with successful launches, new project commencements, and new business development.

5 Anaika and Amisha which were launched during this financial year are already sold over 50%. We had a new tower launch at project Arihant Aspire in Panvel in February 2022 where we sold 311 units out of 494 launched units that is around 63%. Financial year 2022 started with a robust volume growth and it continued throughout the year. For the fourth quarter we achieved sales booking of 674 units aggregating to about 340 Crores in value terms.

With this the FY02022 sales booking stand at 1628 units and 13.8 lakh square feet area. In value terms sales grew by 74% to reach Rs.764 Crore. With engineering spends going strong, the collections too improved significantly in the financial year by 45% to reach Rs.416 Crore from Rs.287 Crore in the earlier year.

The growth also came with improved pricing of Rs.5,500 per square feet in FY2022 as compared to Rs.4,600 per square feet that is a growth of about 20%. About 10% of this growth would be attributable to higher realizations and the balance would be due to changing project mix.

Coming to the financials: The total revenue for FY2022 stood at Rs.332.5 Crore as against Rs.272.3 Crore in FY2021 that is year on year growth of 22.1%. EBITDA in FY2022 touched Rs.71.3 Crore as compared to Rs.50.2 Crore in FY2021 which is a Y-o-Y growth of 42.1% with this EBITDA margins also expanded by 301 basis points to 21.4% in FY2022 from 18.4% in FY2021. The profit after tax for the current financial year saw a huge enhancement by 163% to Rs.41.4 Crores in FY2022 as compared to Rs.15.7 Crore in FY2021. PAT margins to increase significantly to 12.44% in FY2022 as against 5.78% in the earlier period. This translates into a staggering growth of 270% in EPS to Rs.10.02 for financial year 2022. The return on equity has also crossed 20% as against 11% in FY2021.

For Q4 ended March 31, 2022 the total revenue, EBITDA and PAT stand at 71.3 Crore, 17.2 Crore and 9.9 Crore respectively. Please note that these figures are not directly comparable Y-o-Y as there was an effect of monetization of surplus land at Jodhpur in Q4 FY2021.

Going forward we see the company to be in a never before position where we have entered into a virtuous cycle of sales, engineering spends, and collections. We have also identified a few projects for acquisitions which we intend to close in the first quarter post due diligence. The financial closure for the same has achieved through rising of funds from ICICI Ventures India Real Estate Investment Fund. We believe that this will help company to significantly expand the project portfolio and new avenues of growth.

With this now I will hand over the call to Mr. Parth Chhajer. Thank you very much.

Parth Chhajer: Thank you Abhishek. Good afternoon ladies and gentlemen. We are seeing newer micro markets contribute to the real estate landscape in the past 12 months. Post pandemic we have seen increasing demand in extended suburban areas across the affordable housing segment especially in the price range of below 35 lakhs for a one bedroom, hall, kitchen, and below 50 lakhs for a two-bedroom, hall, kitchen apartment. The high cost of living, densities and remote working abilities coupled with cost benefits suggest that the jobs are moving to places near to where people live. Our growth remained strong during the year withstanding all challenges, validating resilience of our business model.

During Q4 FY2022 growth of revenue and profitability as lowered compared to the same period last year primarily due to the land sale. However we were able to enhance our margins despite the prevailing input cost challenges. In addition we had factored in unforeseen circumstances in our internal projects working like aggressive input cost growth and I have taken a price rise of up to 10% across projects to protect our margins.

During the year we received approvals for two mega projects Arihant Aakarshan at Taloja on a 10 acre parcel and Arihant Aaradhya at Kalyan Extension on a 7 acre parcel, which have its combined revenue potential of 1,100 Crores. Both projects shall be qualifying for section Sec 80-IBA resulting in income tax exemption. Sales program for the financial year is lined up with four mega launches approximately 600 units at Arihant Aakarshan in Q1, 400 units at Arihant Aaradhya in Kalyan in the Q2, 370-odd units in a new tower in the existing Arihant Aspire project at Panvel in Q3, and 500 units in new project in Q4.

Along with the mega launches, we shall be focusing with small programs on the other projects which have few new revised approvals upcoming as well wherein Arihant Aloki at Karjat, we will be looking at 250-odd units in Q2 FY2023, 125 units at Arihant Arshiya in Khopoli in Q2, 200 units at Arihant Anmol in Badlapur in Q3, 200 units at Arihant Amisha in Q3 at Taloja MIDC. So we are looking at adding a total of 2,600-odd units in the total new inventory in FY2023 to the existing 2,600-odd unsold units. So this would constitute to around 25 lakh square feet of new area having a revenue potential of 1,200 Crores. For the sales guidance we would be looking at a 50% CAGR to the numbers achieved in FY2022. Our sales team strength stands at 156 members today and is increasing every month along with other departments totalling to 371 today.

Now I will hand over the call to Mr. Ashok Chhajer, Chairman and Managing Director – Arihant Superstructures Limited.

Ashok Chhajer: Good morning participants and welcome to the Q4 con call, annual call for the financial year ending 2022 and as directed by Abhishek and Parth the company has made up the targets etc., on the start of the year and almost at every vertical, every threshold we have surpassed whatever was envisaged earlier, and going forward also it looks in the same similar fashion. There is a little confusion on the outcomes which is by some algorithms on the market portfolio that is that on Q4 to Q4 comparison which as Abhishek told that when we compare Q4 to Q4 the last year Q4 had an sale of a land at Jodhpur which was where we did not see any visibility for more than 10 years and that is why that around Rs.24 Crores of sale and value was from the land and with respect to it something around Rs.5 to Rs.6 Crores of profit was from the book value due to that sales.

When compared Q4 of past year to this year, if we talk about excluding this land sale, we find in terms of our operational sales, this Q4 has been more better than last Q4 and as annual records across tells and what we have seen is that we have done, the company has some good in terms of EPS, in terms of revenue growth. So our revenue growth of 74% in terms of units booked a 91% in terms of value of the sales that is FY2021 and FY2022 the sales are almost 91% up in terms of value that means we have doubled up the sales and the 900 plus flat sale of year ended FY2021 resulted in the balance sheet and the total income and EBITDA's and etc., where we could see that the EPS could grow up to 10 also and what we see is that being into a percentage completion method the future balance sheets can be judged very easily and if it was 950 which has shown up these numbers what we see ahead is that 1,628 units of sales by and large tells that there would be a growth on these lines with addition to it that would be the new launches, we would add up very largely.

The revenue recognition also has changed out largely and the net debt position as the balance sheet tells today stands out at 285 Crores out of which 146 Crores is secured and where the repayment starts to the company in the year 2023 and 153 happens to be from the promoters debt and the debt-to-equity ratio also has lowered down from 1.7 to 1.4 at group level and then talked about the attributable debt it has dropped down from 1.3 to 1.02. So we see a significant change in terms of drop in debt to equity ratio and with all these numbers we find out that there would be a great year ahead.

The business development plan is also at a rigorous pace for which the fund collection which was through different channels desired at the last financial year and which could not come. In due of it we engaged up with ICICI and that utilization would give up multiple folds of revenues and incomes for the coming projects. When it comes to number of projects leveraged, today it has three projects which are leveraged out of 14 projects as on date today whereas it was two projects out of the 14 projects as on March 31, 2022. So we go with the same policy of not mortgaging or not having charge on all the projects and have larger cash flows be with the company in their hands.

So that the mobility of the funds for the expansion of the business is at ease, I throw up the forum open for Q&A. I guess you are invited to have a discussion as well as questions on the earnings call of Arihant Superstructures Limited.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Bimal Panchal from Bimal Panchal & Associates. Please go ahead.

Bimal Panchal: Good afternoon and heartiest congratulations for the excellent results. My question is, in your opening remarks you said from you tied up with some ICICI Venture. So can you share about the key highlights of that understanding with the ICICI Venture, only one question? Thank you, Sir.

Ashok Chhajer: It is a fund of around 45 Crores being raised from ICICI Venture, which would be a free float fund where the projects taken would not have acharge by the lender and the new projects which are being taken would be completely free cash flows without any escrow account mechanism with the company. So that gives us a lot of flexibility and in terms of growth as well as in terms of free cash flows and we see that the projects which have been identified as told in the last concalls also are fast-moving products and we would cope up with the pace of real estate which is ongoing.

Bimal Panchal: Thank you.

Moderator: Thank you. The next question is from the line of Balasubramanian from Arihant Capital. Please go ahead.

Balasubramanian: Good afternoon Sir, thank you so much for taking my question. My question regarding that two projects like Arihant Aakarshan and Arihant Aaradhya, what is the cost for the land and land cost per square feet as well as what is the cost of construction like what kind of bookings you are expecting in those projects. These are my first question.

Ashok Chhajer: Well the cost of land for both the lands accumulated in the books is around 75 Crores and the revenues would be to a tune of 1,100 Crores and so the marketable sale value happens to be something around a bandwidth of Rs.4,750 to Rs.5,000 a square feet and when compared to these range where the land cost works out to be Rs.150 to Rs.200 a square feet the amount spent on the land and with the construction cost of around Rs.2,000 to Rs.2,100 per square feet. We see that there is good alpha in the projects and both approval being taken before March 31, 2022 which was the last date for taking any approval under the category of affordable housing, qualifying for no tax on incomes. We see that in the next four to five years we would be completing the projects and it would yield surprising numbers.

Balasubramanian: My next question regarding the 45 Crores from NCD like the interest offered is 16.43% if it is reasonable?

Ashok Chhajer: The quality and the type of money are always different where and accordingly the cost is that. The company will be able to make up in spite of this cost more margins because of its flexibility of not having charge and lien on the new projects which are going to be purchase from these and for the information of the participants' in the real estate sector there are three to four type of funds, one is in pure construction finance where the money has to be utilized only for construction and which is the lowest cost of fund where we already have an facility with HDFC at around 11% after this rate increase by the repo rate and then comes out to be in one level up where there is a part construction and part take out money for the project or for the general corporate purpose which goes to a little higher bandwidth and thereon goes to and one level up where the funds are utilized for the new project sales which is nowadays called as platform deals and above that is what we have engaged with where in the platform deal the projects which are undertaken are mortgaged or the cash flows are with the lender. The fourth level is where the funds which have been taken from the lands which would be purchased from these funds will not have any charge by the lender. So it justifies it.

Balasubramanian: My next question, rising interest rates like how you are experiencing demand right now.

Ashok Chhajer: Well the news is just afresh in the last week and you cannot tell that within a day the reactions have come because real estate hasn't, it takes time to respond to any such financial or larger decisions by the government and in spite of when we see about the India inc appraisals happening, it is above the inflation level largely when it comes to metro cities like Mumbai or Delhi and their presence have been in the range of 7.5%, 10% to 15%, 20% also. So the 0.5% of increase in home loans does not makes a person disqualify from its eligibility to buyloan on the contrary with the going trend you would be able to buy more.

Balasubramanian: My last question regarding the raw material prices that I was referring that operational highlights that earlier mentioned in projects like that costs have increased Rs.300 per square feet, but however the company increased like Rs.500 per square feet in sales, it is like this trend will continue.

Ashok Chhajer: Well the raw material prices now have gone stabilized and some of the commodities are on an correction of the raw material prices though the sales prices once touched does not get reversed out when it comes to real estate. So going forward when the prices would lower down from any marginal would increase the profitability of the real estate sellers or the products and then it comes to our self Arihant, we can see it from the increase in the margins and the per square feet of average sale price both indicates that this thing has been very well taken care of.

Balasubramanian: What kind of price hikes you are expecting in upcoming quarters.

Ashok Chhajer: We do not intend to do a speculation and we always have believed into that we are into an industry which is into a factory model of sales and though we have all the product lines ranging from 20 lakhs up to Rs.3 Crores still the objective is that we always sell fast and do not increase the prices largely because this gives us the working capital at ease and in advance stage and as we see that out of all the projects even only one project is just mortgaged and the rest are all free that tells that we are working, the projects have been managed by the company without any working capital and that has been the key strength of the company to one do the construction, (a) complete the projects without the working capital requirement and (b) acquire and purchase the projects at a lower land cost, so that the feasibility of the project does not get referred to any large extent due to any reverse trend of cycles or increase in raw material cost.

Balasubramanian: Thank you Sir, that is it from my side.

Moderator: Thank you. The next question is from the line of Chetan Phalke from Alpha Invesco. Please go ahead.

Chetan Phalke: Sir, Good Afternoon and thank you for the opportunity. What would be your estimated interest outgo for financial year 2023 and if you can just elaborate a little on our balance sheet or debt reductions plans going forward given the positive cycle that we are looking at.

Ashok Chhajer: See in terms of cash flows, cash outs around Rs.25 Crores would be what would be required for interest outflow on cash flow management, cash statements because major of the interest of the unsecured are accumulated to the account and hence cash flow is not there though it has an impact on capitalization amortization and profit and loss, but when it comes to cash flow management, free cash flows and as well as collections 25 Crores is what we think that would be the outgoing for the interest for this financial years.

Chetan Phalke: Any comment on debt reduction plans going forward.

Ashok Chhajer: I think we will try that after these additional borrowings we would be able to come nearby to the last year's debt as it is. So we see that the Rs.45 Crores of debt taken from one lender, try to repay to the other lender and we may be just nearing or equating to the financial year ending 2022 numbers or it would be an addition of around 5% to 7% and for your additional information there is no interest out pay to ICICI for this financial year. So that is what we called about that there is a lot of flexibility from the lender.

Chetan Phalke: What would be our estimated pre-sales for the year FY2023 and how many units we are targeting to deliver?

Ashok Chhajer: The budgets and the targets which have been approved by the board and which has been stated to the respective departments is that the sales would be looked for targeted to something around 3,000 flat sales in this financial year, and that would mean around 1,800 Crores sale something less than 1,800 Crores for sale. We can keep in bandwidth of 1,650 to 1,800 Crores depending upon how much Vashi project starts off earlier as that ticket size is of 2.5 Crores, 3 Crores.

Chetan Phalke: So by Vashi you mean Arihant Advika right.

Ashok Chhajer: Advika, yes. So there may be surprising number and I may also be surprised by these numbers of 1,600, 1,700 Crores, my team is geared up and we are well out on to the field that we will do the best and when it comes to sales today, the sales of real estate are generally driven by the institutional channel partners which is called as institutional brokers and the largest and the biggest of them starting from Prop Tiger to Property Pistol, etc. All are engaged with Annual Operating Plan (AOP) which we call as Annual Operating Plan as a contract being signed between the company and the channel partners. So this tells the commitment from each of them when they commit that they would individually some would do around 150 Crores from their office in the through financial year something we will do 200 Crores. So when it comes to 12 to 15 of them working and even half of them achieving the target, it would mean that 1,800 Crores is not a magic figure.

Chetan Phalke: So what would be your cash collection for the year 2023 estimated number, ballpark what are you expecting.

Ashok Chhajer: We see around Rs.700 Crores of cash collections.

Chetan Phalke: What is the status for Arihant Advika as we speak as in we are planning to go for a final launch during this quarter or next quarter.

Ashok Chhajer: Launch it was already done, so it is the product is already launched it is there for offering of sales since last one year, good that we did not sell largely because that has protected us from the cost of inflation of raw materials which has come and yes once this demolition all is completed and the site is handed over to the engineering section which would be something around on the Q2 of this year and in the quarter two the work should commence and thereon we will take up exercise of pushing up the sales and again increasing the visibility to the home buyers and so we come across around five of the mega launches are scheduled for this financial year and around six of small launches are scheduled for this financial year. So there are total 11 project launches which would be coming up in phase wise manner in this financial year. So there is an inventory of 5,500 flats on the shelf which you call where the management has given the flats for sale to the sales department and they are targeting that out of 5,500 they would be able to do 3,000.

Chetan Phalke: How many homes were delivered during this financial year FY2022?

Ashok Chhajer: FY2022 around 400, 450 because some of the occupancies, we take benchmark as Occupancy Certificate (OC) received as the home delivered and the OC for some of the projects, which was targeted in the last financial year have come just last week. So this financial year it looks like around 1,200 flats possession would be given.

Chetan Phalke: FY2022 it was close to 400, 450 somewhere in that range?

Ashok Chhajer: Something like this.

Chetan Phalke: I was just looking at a few slides in your presentation that says we have a revenue potential of close to 7,000 Crores from our ongoing and future projects. So this future projects of 4600 Crores can we expect all these projects will be launched within next three years or it will take some time.

Ashok Chhajer: Of course, no it should not take even that much time it is targeted to be already all approvals are received for these future projects and they are scheduled for launches this year itself.

Chetan Phalke: In your view how fast we can do a pre-sale of this 7,000 Crores inventory can that happen over the next four years, five years, ballpark any time frame as per your understanding.

Ashok Chhajer: Collectively three years should be able to achieve it.

Chetan Phalke: So within three years our cumulative pre-sales should be around 7,000 Crores.

Ashok Chhajer: Yes, something it may be a little lesser than that, but it could be something between 6,000 and 7,000 Crores.

Chetan Phalke: Over and above the 7000 Crore do we have any other excess land parcels and how much that can contribute or any comments on that.

Ashok Chhajer: No whatever new would be purchased that would be added on, but a few of the land parcels which is worth of around 100 Crore plus has not reached the stage of design board which would come up. So when we talk about balance sheets it is something around and one or two parcels of land which is what 100 Crores which are unutilized and where the numbers have not been shown.

Chetan Phalke: Just one last question any comments or outlook on the dividend policy going forward?

Ashok Chhajer: Company today is into a very expansion mode hence we request the shareholders that more the money lies with the company, it would be able to reach greater heights and hence this year there was no dividend declaration as board decided. For the next financial year it will leave it up to the board to decide how to do it.

Chetan Phalke: Just one last question if I can squeeze it in. So how much of this 7,000 Crores will yield into say our PBT or EBITDA ballpark any number for the listed entity.

Ashok Chhajer: We would move with an CAGR as this would be a forward-looking statement and hence we see that the CAGR which is look forward it should be something around 50% for this financial year the next year it should be around 33% or 40% and the third preceding year should be around 30% we do not know that we would be able to do a 50% CAGR Y-o-Y, but I am confident that we would be doing it up in this phase and with the company growing in size and CAGR of 30% also is expected.

Chetan Phalke: All right, that was very helpful. Thank you very much.

Moderator: Thank you. The next question is from the line of Vikash from Heallthx Services Private Limited. Please go ahead.

Vikash: Thank you Sir. One of the slides is there in which Della is there, which is a 1 BHK Office and 2 BHK Office is there. Now that after the COVID this kind up the project feasibility is there in the market?

Ashok Chhajer: I think when we talk about feasibility yes our estimate and contract division has very well taken care of the cost and vis-à-vis the marketing division has put up the correct sale price which would have earnings and when we compare to the projects in and around we found it out that though we are selling at same or maybe a 2% to 3% higher than the adjoining market, but due to the design and the uniqueness of the product design which was one of its own kind of having an inbuilt office pod inside the house the sales which have confirmed and been turned out is already giving a confirmation of response of 311 units by the year ended March 2022 in two months of launch that is February and March and in April also the same music is continuing and there is sales ongoing in sustainable manner in this project

Vikash: So we are confident enough to sold out all this 494 units as well.

Ashok Chhajer: We are launching up one more tower in the Q2 of this financial year. So this project has eight towers, three of them are already launched and out of which two are almost 65% to 70% of completion in terms of value terms of engineering done and we see that we would be able to do, there is a demand, pent up demand for the new tower of another 400 flats to be launched up in Q2.

Vikash: Okay, thank you. Sir.

Moderator: Thank you. The next question is from the line of Ankit Bajaj from STCI Finance Limited. Please go ahead.

Ankit Bajaj: Good afternoon, Sir. My first question here is how many of your existing projects have received OC this year.

Ashok Chhajer: For the projects on sale or for the projects which are already 100% sold, 100% completed.

Ankit Bajaj: The projects are on sales.

Ashok Chhajer: Projects are on sales are to a tune off around six of them where the OCs have been received and which we can categorize as ready for possession.

Ankit Bajaj: How has been the collection this year compared to previous year.

Ashok Chhajer: This year the collection was around 416 Crores and as in the factfile given, the collection have increased by 45% on year-on-year growth so it was 287 last year and we have done a 417 Crores of collection this year.

Ankit Bajaj: And any new Land that was purchased this year.

Ashok Chhajer: This year we did up in Kalyan extension land purchase where we have received the permission. So that is to a tune of 7 acres and 9 lakh unit that is the Aaradhya.

Ankit Bajaj: What would be your purchase price?

Ashok Chhajer: That was 22 Crores.

Ankit Bajaj: 22 Crores or 72 Crores you say Sir.

Ashok Chhajer: 22 Crores.

Ankit Bajaj: Thank you very much.

Moderator: Thank you. The next question is from the line of Ronald Siyoni from Sharekhan. Please go ahead.

Ronald Siyoni: Good afternoon, Sir. I wanted to know the construction out flow which would be expected in FY2023 as we are seeing around 700 Crores of cash collection what would be the construction outflow during FY2023.

Ashok Chhajer: 400 Crores.

Ronald Siyoni: Then still you would be left off with a lot of value right 700, 400 by another sales and marketing cost and also interest. Still there would be around more than 100 Crores cash available for FY2023 right.

Ashok Chhajer: Yes, it looks so. That would be the deployment for the engineering section utilization further with the new projects also.

Ronald Siyoni: There has been a somewhat changes frequently each quarter with respect to previous quarters or years in terms of sales figure or in terms of million square foot. So what kind of adjustments is being done like does this added into the next quarter or something of that sort.

Ashok Chhajer: No, we follow a method that on each quarter basis wherever the payments have been received are taken as sales booked and we net of whatever numbers we give, we give a net of numbers after cancellations which would have happened. So when we see a revision of sales number it means that we are showing you net of numbers, final confirmed sales which are there on the books where all the cancellation has been accounted for. So that is why this change of behaviour would be there on every quarter-to-quarter where there would be new sales which would be added on and there would be a direction of cancellation. So by and large at our company level generally there is a cancellation of around 10% to 15%.

Ronald Siyoni: During the quarter we have seen the rise in inventory being booked and which has led to strong gross margin expansion. So has there been one-off or something that has increased the inventory during the quarter?

Ashok Chhajer: The engineering which takes place when we talk about inventory on the balance sheets, it is the work in progress and the inventory is into two forms one is WIP form of inventory and the other would be the Ready Position inventory. WIP inventory when it is increased that means engineering has taken substantial speed and for the unsold portions where the revenue recognition does not extracts figure out of this WIP, the rest numbers are towards the work in progress towards unsold inventory. So the time a flat gets sold or that is the time when WIP again gets decreased and that is the reason what we see as WIP.

Ronald Siyoni: The P&L which it show the changes in inventory that would go up going ahead, it just says that the construction spend has increased which has not been sold is it right?

Ashok Chhajer: We will get back to you on these numbers from the CFO I will note down your number and name.

Ronald Siyoni: I will get in touch with you.

Ashok Chhajer: Okay fine.

Ronald Siyoni: The last one is that effective tax rate how do you look at this tax rate is also increasing so from FY2023 what should we assume as effective tax rate?

Ashok Chhajer: Effective tax rate to whom.

Ronald Siyoni: In the P&L for FY2023.

Ashok Chhajer: The effective tax rate is same exactly what is there for all the companies. So our effective tax rate for the holding company is 25% plus surcharge.

Ronald Siyoni: Because it shows around 15% to 16% which we have been in FY2021 and FY2022.

Ashok Chhajer: That happens because of the section 80 IBA income tax projects where it is not so Arihant 4 Anaika of the company which contributed to do the largest number of this financial year on standalone basis also which was 25 Crores out of 41 Cores. So that PAT margins, due to that ATIB project PAT margins, the effective tax rate got reduced from 25% to 15%.

Ronald Siyoni: Thank you very much.

Moderator: Thank you. The next question is from the line of Tirath Muchhala from Elusividya Advisory. Please go ahead.

Tirath Muchhala: Sir, thanks for taking my question and congratulations on a fantastic year. My question is that we have very ambitious launch plan. So what is the internal target for sale as per the launch, do you hope to sale 20% of the units in the first year or things like that?

Ashok Chhajer: Yes, that is the plan that we target to do up and sale about 20% some of the project really performs very far well like Arihant Aspire in the month of February, March gave a sale of almost 65% and 70%. So the wish list is always that we sell around 50% but we are happy with 20% because that covers up the requirement of working capital.

Tirath Muchhala: So how is your experience with Advika because if I am not wrong then I think this is one of the most premium projects that the company will do so as the experience been very different has the brand been received well?

Ashok Chhajer: Well the company has done such projects earlier also as we told that we always take projects with respect to population metrics and this form should be into the richer class or the higher income group which is around 5% of the company's total portfolio and the rest forms to be into 27%, 25% into middle income group and the 65% in the affordable housing. The company has been doing such projects earlier also, the market as well the buyers are confident about ourselves executing such kind of projects as it has done earlier and the markup flat, sample flat, everything's are ready, we show flat where the customer can identify what he is going to get and how the finishes would be.

Tirath Muchhala: Have we had to hire some higher trade talent or expansion of the company in the recent past?

Ashok Chhajer: We are increasing the strength of employees across all these sections, but if it comes to a particular project like Vashi we already have a good team force of sales for the project in place.

Tirath Muchhala: Can I ask a couple of more things?

Ashok Chhajer: Yes.

Tirath Muchhala: One is, if you guys have any thoughts on the market cap of the company it is around 600 Crores and you compare it to the pipeline it is very small. So do you have any thoughts on that?

Ashok Chhajer: I leave it up to the market to do the price discovery of the equities which the companies have 10 EPS and going forward there would be a CAGR to it also and we accept the price or the market cap which has been discovered by the shareholders offhandedly other than the shareholders when it comes to Discounted Cash Flows (DCF) the numbers are almost two times to what those spreadsheets and excel sheets tell. But the reality is the markets, and we see that a company of these strengths in terms of all the verticals right from managing the finances to execution and procurement of new projects this would be valued very good in the coming years.

Tirath Muchhala: Just one last request if I may. All the bigger real estate companies provide a cash flow statement as per the quarter. So that would give a lot of transparency to us investors. So if you could please start doing that.

Ashok Chhajer: In the investor presentation which would be there uploaded on the exchanges in the next days, the revenue and cash flows with economic interest would already be there in the investor presentations from this quarter itself.

Tirath Muchhala: Would that be something like a detailed cash flow statement or we can follow land purchase cash outflow or things like that.

Ashok Chhajer: That would be elaborated one for that I would wish my team to get in connection with you and explain the detailed spread sheet as it is not an one simple line of statement. So all the data it can be provided to you.

Tirath Muchhala: All right, okay thank you Sir.

Moderator: Thank you. The next question is from the line of Vaibhav Kacholia from VK Capital. Please go ahead.

Vaibhav Kacholia: Sir, thanks for taking my question. One thing I wanted to understand when we take up a project what is the kind of IRR's we are generating on projects and maybe you can give us an example like you had said this line we bought for 75 Crores and the sales can be 700 Crores. So what will be the cash flows and what will be the IRRs.

Ashok Chhajer: See, we look at an IRR of around 30% on year-on-year basis which when we envisage 30% to 35% in reality it boils down to the bandwidth of 24% to 30% when all these uncertainties or certainty all the factors come into place in real and reality. So whenever we take a project we eye for this type of IRR.

Vaibhav Kacholia: So what is the main factors of which pulls down the IRR's it is the delay in sales and collections and calculations?

Ashok Chhajer: There are many factors like sales, engineering, finance cost, the time duration, cycle, the timing of the gap between the vendor payments and the collections, etc., etc. So generally it should never be taken into account very correctly we should always eye for something x plus. So that we end up in to and right figure.

Vaibhav Kacholia: So is 20% a more fair number as shareholders we should expect.

Ashok Chhajer: 20% from.

Vaibhav Kacholia: IRR's on any project.

Ashok Chhajer: Yes, it would be more than that ROE would be to an extent of 24%.

Vaibhav Kacholia: Got that and can you please explain how do we do the sales to these channel partners like how much are they paid, are they paid around 5% of the sales values.

Ashok Chhajer: We start from 3% and the few of them achieve the Annual Operating Plans where they receive 5% and cost to the company is on an average of 4%.

Vaibhav Kacholia: Which are the biggest ones these Anarock and Square Foot, Square Yard and all these guys are also working with us.

Ashok Chhajer: They work with us, but the larger numbers are from many other ICB's also.

Vaibhav Kacholia: You said I think Prop Tiger.

Ashok Chhajer: We do not give sole selling or mandate to one company and where the mandating company takes up an accumulation of all the brokers and channel partners. We ourselves have our own in-house team where a calls throw away all the channel partners start working in no time for the company and they are directly connected to the company rather than through any selling machine.

Vaibhav Kacholia: And one more question where would our rank in Mumbai MMR region be in terms of sales any idea on that like we would be in the top five, top ten companies.

Ashok Chhajer: Top five.

Vaibhav Kacholia: In terms of our presales.

Ashok Chhajer: In terms of presales unit wise yes.

Vaibhav Kacholia: No in terms of value wise.

Ashok Chhajer: Value wise in MMR region yes.

Vaibhav Kacholia: Top five.

Ashok Chhajer: Top five.

Vaibhav Kacholia: But there would be a lot of other listed players Godrej, Oberoi, Mahindra who would be larger than us, right, we would be in the top ten for sure.

Ashok Chhajer: In Navi Mumbai they do not hold any position.

Vaibhav Kacholia: No, I am saying all over Mumbai including Mumbai.

Ashok Chhajer: No, Mumbai it cannot be compared and it should not be compared I will request you not to compare on that basis because the ticket size of per flat sale in Mumbai is around five, ten plus also. So when it comes to unit wise, yes, we may be on top five when it comes to value-wise it may be in a bandwidth of even around 20 because we sell our products which are largely in 250 lakhs up 50 lakhs affordable housing. So we do not have large ticket size projects in quantity. That is why when it comes to analysing we defend ourselves saying that only cash collections or cash flows should not be the only measure for our standard template for evaluating an real estate company because when we talk that the zinc thing and the loveliest thing about real estate is about affordable housing which everybody likes and on the other hand when we talk about comparing cash flows from 50 lakhs to companies with Rs.5 Crores of flat sale it will never match. So P&L happens to be, the PAT happens to be a major factor also and the investment return happens to be the major factor on the capital deployed or the network deployed. So we had a networth of around 160 Crores, 163 Crores collectively with subsidiaries in the last financial year which today is around 203 Crores. So that is what the growth is that from Rs.163 Crores of networth in hand that is what the company as in capital has and rest forming out to be the funds borrowed and etc., but the capital growth when we talk about it is like that we have done sales of 4.7x Crores to the networth we have done collections to 2x Crores that means if we had 163 Crores and we did a collection of 415 Crores two and a half times networth collections we have done. So that is around five months when we do one cycle of rotation and with the networth when compared for the revenues also which is at 332 Cores that means from 163 Crores 332 Crores of revenue means here maybe we are doing one rotation within six months which is 2x. So 163 plus 163 something around 332 and the PAT margins from the networth that is the capital which the company has of its own it is 25% of the networth where the PAT came out to be 41.22 Crores. So we compared like this also sometimes.

Vaibhav Kacholia: I understand it is in fact extremely impressive even at a ROE level. So in fact in that context only I am asking in fact next year if we do 1500 Crores will we be in top 10 including Mumbai.

Ashok Chhajer: I do not know how other companies are doing because the real estate is doing so good everybody is ambitious and many have super growth plans like ourselves also. We would like to see that we are a step ahead of them, but all companies are good, many companies have really great strengths in terms of acquisition of market share, etc., and it would be an outcome only after the year ended.

Vaibhav Kacholia: Can you explain this why have we taken this loan at such a high rate when we are getting construction funding at 11%, I mean, all the construction funding we can get is not sufficient to meet our needs is it or beyond our networth.

Ashok Chhajer: a) When it comes to Arihant Superstructures Limited our company only one project out of the 14 are where construction finance is availed for that is Arihant Aspire from HDFC at the rate of 11% per annum today and a bandwidth of 10.5% to 11%.

Vaibhav Kacholia: This loan we cannot extend for future projects they will not be willing to give at in today's market at the same rate more if we ask them?

Ashok Chhajer: Yes, they we will get, if we need to spend money for the steel and cement, we will get the money, but if you want to take the money outside and buy a piece of land, then they will not give.

Vaibhav Kacholia: I got that. So cannot we use our own networth for land acquisition and more construction funding for other projects?

Ashok Chhajer: Everything is deployed. Everything is free flowing in the bank, the whole 200 Crores is already sitting in the books and the balance sheets with the assets on the side.

Vaibhav Kacholia: For this land acquisition we have to pay the 16% kind of level is it we cannot get at 12%, 13%, or 14%?

Ashok Chhajer: We would like to. For the market's information the takeout money or the land acquisition funding money where even the free float is where there is a complete flexibility if one checks out into the market, the cost of fund today for such set of funds to anybody is to an extent of from 20% to 24%. So the platform deals or the equity partners, equity fund structure deals which happens is from an bandwidth of 20% to 24% per annum and company getting it at 16.45% is a very good rate.

Vaibhav Kacholia: But even after paying 20% people are still making money.

Ashok Chhajer: Many of the Mumbai projects it is the need of the hour for a particular period of time and so I think that must be a business model for it and it has been working all these years. That is why when we talk about that listed companies, if they have equity in hand the ratios and the sizes and the numbers everything changes. So when it comes to debt versus equity the company can raise funds through equity is more preferable because it would give more benefits to the shareholders in terms of percentages, ratios and values.

Vaibhav Kacholia: Right I understand. In fact for our scale of operations, our networth and our market cap is pretty small. So are we also would like in some ways do we need to strengthen our brand at a corporate level?

Ashok Chhajer: Brand in terms of the sector where we are operating is already at the most preferred and highest level. So as a brand, as a recognition, it is topping the charts and yes though very aggressive, the company and its model of business we avoid taking very high risks, and that is why there is an organic growth to the company so when we talk about how did this company grow it was around Rs.40 Crores of capital around year 2012 and thereon till now without any raising of capital we have reached a size of 200 Crores of networth plus all these years and that would have been paid to a tune of around 350 Crores. So it can be told that from 40 Crores the company earned 200 plus 350, 550 Crores. So from 40 Crores in 10 years Rs.550 Crores of earnings could be done.

Vaibhav Kacholia: What is the 350 Crores?

Ashok Chhajer: We have given 10 years of interest, so if we had money for the equity then we would not pay the interest, so all these money would have come into our pocket.

Vaibhav Kacholia: Got it. No in fact I think at a consumer level our brand must be really strong I am saying more at a corporate level is there a requirement like do we feel that and is there any way to do anything about that either like make some very marquee projects like in Mumbai a lot of builders have done some really marquee projects and like Beaumont or Oberoi, Sky Heights which have really helped them uplift their brand at a corporate level also I am saying.

Ashok Chhajer: By doing a project of this size only makes up an corporate brand is not what we believe into it, but, yes, the relationship and the visibility can be increased in terms of corporate level for the company because it is in an affordable housing segment and its strength is being affordable housing and we will still like to live in this place for another five years.

Vaibhav Kacholia: Got it, make sense. Thank you so much Sir.

Moderator: Thank you. The next question is from the line of Chetan Phalke from Alpha Invesco. Please go ahead.

Chetan Phalke: Thank you for the opportunity again. Just one last question, since we are going to spend close to 400 Crores on our engineering this year and going forward our spend will be more than that. Can you throw some light on our engineering capabilities or our in-house structural team, is it completely in-house or we are outsourcing our engineering to these EPC players like capacity or others or are we thinking in that direction?

Ashok Chhajer: Going forward we do not engage with the larger EPC contracts construction companies. We also do not do in-house by employing labours and wages we do and semi-contractual basis where subcontracts have been given on a particular assignment that is an electrician is given an electrical contract, a plumber is given a plumbing contract, and civil works is given a civil contract, the finishing tiling works have given their respective contract. So this helps out in terms of reducing the cost of construction and that is what all efficiency is all about and it helps out to have larger control on the labour cycles and if we buy it from our own, when we talk materials, larger material like steel, cement, etc., being bought so economy of scale happens, helps out to even buy materials at lesser cost. Also when we talk about branding in my life I always believed that the vendors are the best brand ambassador of a company because they are on the taking side rather than the giving side. So when we are directly in contact with the material supplying agencies or the vendors and the relationship between them which is continuous since last two and a half decades helps out to build the brand to a larger extent.

Chetan Phalke: Instead of dealing with one large EPC player we are dealing with multiple vendors who specializes in their own respective things and that is how it will continue going forward.

Ashok Chhajer: Or else you are paying for a courier subject that is the EPC contracts also subcontracts with the same guy and they charge up an 18% of profit on the services being taken and given to the specialized contractors because finally the works are done by specialized contractors.

Chetan Phalke: All right, got it. Thank you very much.

Moderator: Thank you. Ladies and gentlemen this was the last question for today. I now hand the conference over to management for closing comments.

Abhishek Shukla: Thank you very much everyone for taking the time out and attending this conference call. It was an enlightening and enriching session with such a good number and good quality of discussions that we have had. Thank you very much.

Moderator: Thank you. On behalf of Dolat Capital that concludes this conference. Thank you for joining us. You may now disconnect your lines.

***

For further information, please contact:

Abhishek Shukla
Chief Strategy Officer
Abhishek.shukla@asl.net.in
M: +91 96191 95775

Ashok Negi / Bijay Sharma
Churchgate Partners
asl@churchgatepartners.com
Tel: +91 22 6169 5988

Note: This transcript has been edited to improve readability