31st January, 2023

To,
BSE Limited
Listing Dept. / Dept. of Corporate Services,
Phiroze Jeejeebhoy Towers,
Dalal Street, Mumbai - 400 001.

Security Code: 539301
Security ID : ARVSMART

To,
National Stock Exchange of India Limited
Listing Dept., Exchange Plaza, 5th Floor,
Plot No. C/1, G. Block, Bandra-Kurla Complex,
Bandra (E), Mumbai - 400 051.

Symbol: ARVSMART

Dear Sir/Madam,

Sub: Transcript of conference call with Analysts / Investors.

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we are attaching herewith transcript of the conference call with analysts / investors held on Monday, 23rd January, 2023 to discuss Q3 & Nine Months FY23 Results of the Company.

The same is being uploaded on the website of the Company.

Thanking you,

Yours faithfully,

For Arvind SmartSpaces Limited

Prakash Bhogilal Makwana

Digitally signed by Prakash Bhogilal Makwana
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Arvind SmartSpaces Limited

Q3 & 9M FY23 Earnings Conference Call

January 23, 2023

Moderator: Ladies and gentlemen, good day, and welcome to Arvind SmartSpaces Limited Q3 and 9 Months FY '23 Earnings Conference Call. We have with us today on the call, Mr. Kamal Singal, Managing Director, and CEO; Mr. Ankit Jain, Chief Financial Officer; Mr. Avinash Suresh, Chief Operating Officer; Mr. Prakash Makwana, CS and Mr. Vikram Rajput, Head-Investor Relations.

Please note that a copy of the disclosure is available on the lister section of the website of Arvind SmartSpaces Limited, as well as on stock exchanges. Please do note that anything said on this call, which reflects the outlook towards the future, which could be constituted as a forward-looking statement must be reviewed in conjunction with the risks that the company faces. Should you need assistance during the conference, please signal an operator by pressing the star and then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Kamal Singal. Thank you, and over to you, sir.

Kamal Singal: Good afternoon. A very warm welcome to everyone present on this call. Thank you for joining us today to discuss the operating and financial performance of Arvind SmartSpaces Limited for the third quarter and nine months ended 31st December 2022.

I would like to begin by sharing my thoughts on the real estate environment and broad highlights of the quarter. We then look forward to taking your questions and suggestions.

As everyone is aware the housing cycle has turned positive post-covid and we expect this residential demand to remain unabated. The residential real estate sector ended CY22 on a high note as sales in the top 8 cities surged to a nine-year high, as per several reports. Launches exceeded sales for the first time in the last nine years, aided by robust demand and low inventory. Further, real estate prices across the markets appreciated by 4-7% YoY in CY22. This performance is noteworthy given the 225-basis point hike in repo rate. While affordability metric has subdued in the wake of rising mortgage rates and home prices, however it remains better than pre-Covid level, and we believe the situation it is still comfortable given the long-term pent-up demand.

The consolidation and corporatization theme has played out, as was envisaged by us and many other leading players. This year, launches made a comeback in a big way, with several developers successfully launching fresh inventory, enabling greater choice for customers. Many developers have experienced record quarterly sales. We believe listed real estate players like Arvind Smartspaces with stronger balance sheets, diversifying geographical presence and an established brand will continue to outperform the overall market.

Coming to our quarterly performance, we have achieved significant operational milestones in Q3 FY23. It has been our best ever quarter in terms of both booking value and collections. Q3 Bookings grew by 58% YoY to Rs. 250 crore and Q3 Collections increased by 8% YoY to Rs. 167 crore. This highlights a strong operations cycle of new sales, construction and delivery. Our robust sales machinery and brand equity is getting increasing recognition across Ahmedabad and Bengaluru with launches continuing to perform well in newer micro markets.

We have put in concerted efforts to strengthen our Bangalore operations and are happy with the way our Bangalore story is shaping up. During the quarter, we launched Arvind Greatlands at Devanahalli, Bangalore which received a phenomenal response with almost the entire launched inventory sold within 10 hours. In the coming quarters we are looking forward to launch Sarjapur and Greatlands Phase 2 in Bangalore which will deepen our presence in this key region. We have added ~7 acres to the Doddaballapur Road, project. The size of the project has increased to 34 acres with a topline of ~Rs. 315 crore. This project is under HDFC Platform 2. There is a potential opportunity to increase the size of the project significantly by 2X subject to technical due diligence.

We are happy to share the acquisition of our 16th project in Ahmedabad. We commenced a large aggregation in South Ahmedabad of which 84 acres has been completed till date with an estimated topline of Rs. 150 Cr. This would be wholly owned by Arvind SmartSpaces. This location has emerged as one of the promising micro-markets for plotted development in Ahmedabad being home to several large plotted, villa and villament developments. The micro-market is in close proximity to the various Industrial hubs such as Changodar and Bavla. There is potential to increase the size of the project by 2-3X subject to technical due diligence.

Moving on from operational updates to the financial highlights. In 9M we reported revenues of Rs. 163 crore, up 71% on a year on-year basis. EBITDA for 9M grew by 6% to Rs. 29 crore. PAT for the 9M grew 47% to Rs. 16 crore. In Q3 we reported revenues of Rs. 53 crore, up 23% on a year on-year basis. EBITDA for Q3 stood at Rs. 9 Cr. PAT for the quarter stood at stood at Rs. 4 Cr. Our Balance Sheet position remains strong. Despite increased investments in Business Development activities our Net Debt decreased further to Rs. (34) crore on account of significant increase in internal accruals.

To sum up, the real estate sector continues to showcase buoyancy with all parameters including sales, launches and prices appreciating across the top cities in CY22. We have built a strong and sustainable foundation of the company with a meaningful focus on design and execution, efficient sales engine, rising brand salience and healthy balance sheet. We remain committed to our growth initiatives and are geared up to capitalize on consolidation and corporatization of the industry. In the coming quarters, we look forward to build on our business development intensity in our core markets of Bengaluru, Ahmedabad, Pune and MMR to create long term value for all our stakeholders.

Before I conclude, I would like to bring attention the sector's wish list for the upcoming Budget. We do expect a few things to be further initiated by the government through the budget. Our real estate sector, as you all know, contributes very, very significantly to the GDP of the economy. We would like to see the Budget 2023 provide more incentives to the real estate sector and make it easier for developers to access capital, improve project viability and overall affordability. Interventions by the government to regulate the rising input costs, especially the core materials would be a welcome move. It will decrease construction costs and enable developers to build homes more economically. Some of the incentives for first- and second-time homebuyers would also be welcome. And they are kind of long overdue because last several years, such extra incentives have not been provided and it's always good to see such initiatives coming in.

On that note, I conclude my opening remarks and would now like to ask the moderator to open the line for Q&A.

Moderator: We have a first question from the line of Amit Agarwal from Nuvama Wealth.

Amit Agarwal: My first question is primarily on the margins. What I'm noticing is the margins annually also, as you've shown in the presentation, has come off in FY '22 and supported in FY '23 also, it's around about 18% compared to a higher margin that you got earlier. So, any particular reason for the decline in these margins? And can we take this as a regular margin going ahead? Or do you expect the margins to increase?

My question number two is that, while the sales value has definitely increased, what I noticed was the sales volume was only about 0.7 million square feet as against higher sales volume compared to earlier times. So just wondering any particular reason for volume to kind of come off a little bit, maybe quarter-on-quarter basis?

Ankit Jain: Hi Amit, thank you for the question. With respect to margin, accounting margins are based on revenue recognition, as you all know and not based on the bookings which we are doing the way we see our fresh bookings for a sale. So, the revenue recognition for the current quarter and for the current year-to-date numbers are broadly concentrated towards two projects where one is a low-margin project, which is Aavishkaar and second is Oasis where we had a specific interest cost capitalization, which was coming in. And that is how you see in a 9-month number, overall, while EBITDA margin -- EBITDA growth in absolute is only 6%. However, the PAT growth is reasonably in line with the top line.

Another reason for lower margin is the base has been set up for a next level, which is, say, Bookings of INR 600 crore to INR 800 crore, INR 2,000 crore of the company. While the revenue recognition is happening for the four-year old projects, which is coming in right now. So the base -- the expenditure, as per accounting, we are not able to capitalize on the sales and promotion expenditure, which goes for revenue of around close to INR 600 crore to INR 800 crore, INR 2,000 crore of fresh bookings because you look at fresh booking is INR 250 crore, while the top line in financials is only INR 50 crore.

So hence, the expenditure which is happening for a fresh booking that needs to be expensed as per accounting principles and hence, the margins become lower.

Kamal Singal: So essentially two reasons. I mean, how I read this is that one is a natural variation of profitability from project to project and because accounting standard -- the sales booking the way it comes and enters into the books of account is a little inconsistent. On an average basis, the good news is that our margins are protected, and we are fairly on track on that from quarter-to-quarter, season to season, it might vary, but I think we'll end up doing very, similar averages as we have been doing in the past. That's one.

The other, obviously, the reason, as Ankit just explained is that in a growing company and in a hypergrowth kind of a phase where you are selling much more than what you are recording in the books of account, so long as this situation persists, then you are selling expenditures are basically disproportionate to the numbers of the top line that you're showing. You are spending on INR 600 crore to INR 800 crore level of sales, and you are booking only maybe less than half of that in the books of account and hence, margins look a little low.

But once this cycle is stabilized and we have a little more reasonable base to compare numbers with, I'm sure this will get tapered out. Of course, there will be always some lag in these two numbers. But I think we are into a situation where the lag is little too much in terms of percentages it is little too skewed, and this should get adjusted over a period of time. So, these two are the major reasons. We are not overly worried about the margins per se. In the medium to long term, I think we are fairly okay on the margins as we've been reporting in the past.

Amit Agarwal: So, can I -- on this point itself, can I assume that going forward when this situation normalizes, our margin should be around about 20% to 25% on a normalized basis. Can I assume that? Can we take that?

Kamal Singal: Yes, very comfortably between 20% to 25%. In fact, we keep analysing these numbers for the fresh sales that we do. And if you were to draw that MIS for ourselves, I think we'll be very comfortable beyond 22%, 23% and more like 25%. And this 18% obviously, is a fluctuation that you see from quarter-to-quarter. But the range that you said is fairly comfortable as far as overall averages are concerned.

Amit Agarwal: And the reason for the sales volume down to 0.7 million square feet?

Kamal Singal: So, quarter-on-quarter, the growth is there, 14%. We had 0.64, in Q3FY22, in this quarter, we are at 0.73. And if you were to look at it from year-to-date point of view, it has gone from 2.08 million to 2.44, which is a 17% growth. So generally speaking, volumes have gone up by 14% and 17%, respectively, for the quarter and for year-to-date numbers.

Amit Agarwal: One last question. Average realization has moved up. Is it because the change in mix, you're booking more from Bangalore rather than Ahmedabad, where pricing might be a bit lower? Is that correct?

Kamal Singal: So, I will just put a note of question here on the average realizations. The portfolio that we have currently is so very diverse, strong weakened homes, which are in the outskirts and comparatively very cheap. It doesn't mean that they are not profitable maybe in terms of percentage they might even be more profitable than the more expensive ones.

But the diversity is so much that depending on what we sell during the quarter, the averages might change, especially because we've got a comparatively larger portfolio of horizontal projects and horizontal projects, we sell things between INR 6,000 to INR 30,000, for example, in Bangalore. So, this variability is natural. It doesn't indicate any specific trend of price realization.

And we'll have to analyse project-wise, and that kind of analysis needs to be done to understand the price movement.

But generally, on an average basis, it will not be very prudent to draw any conclusion. But for the sake of clarity, we have increased prices in most of the projects in the last couple of quarters and general increase has been in the region of double digits and thereabouts.

Moderator: We have a next question from the line of Bajrang Bafna from Sunidhi Securities.

Bajrang Bafna: Congratulations for the great set of numbers in terms of presales and collections. My first question pertains to the overall environment because off-late, there are multiple reports which are budging on down that interest cost has gone up from 6.5% to 9% for the housing loans and this could put pressure on the overall sales environment of the industry and multiple media reports are suggesting that some of the larger players are showing signs of slowdown in terms of their sales and collections.

So, I know that Arvind is still an emerging company and has got a lot of opportunities to tap and the market size is very minuscule in the micro markets, where we are operating. So, can you just share your analysis or your thought process on this movement of interest rates and the demand that we are witnessing going ahead?

I don't want to hear Greatlands because that's a success story, which we are aware. But broadly, in other projects, how are we seeing the demand environment panning out for us? That will be my first question, sir.

Kamal Singal: Sure, Bajrang. We are very optimistic. We've seen some amazing numbers and performances not only by us, but also by several of our industry peers. And what we've also seen is that the depth and the breadth of this rally or this momentum has been absolutely great, unparalleled. In fact, in my experience, last one, more than a decade, we haven't seen a cycle like this with such great depth.

One great thing about this cycle has been that it is primarily driven by end consumption. Investors are broadly out of the market. Investors has in, the large investors who could potentially buy a 50-apartment block or 100 apartment block. Those are not the kind of guys who are buying all through this period.

What we see is the first home buyers, the second home buyers, which are dominating this entire momentum. And when that happens, it is comparatively more sustainable, and that's what we see and that's how we see this.

Now obviously, every great run will have some sort of a tapering which will come, and which will go. And we are also seeing maybe small signs of things not happening with that kind of a bullishness that we were seeing in the last few quarters. But in our understanding, it is a great momentum still. It is still very sustainable.

Whatever we have been launching, we've had some 3 or 4 launches in the last few quarters. And in fact, two very recently, and both of them have just flown off the shelf. End of the day, markets and the cycles are one part of it. The second part will always remain that there is a baseline demand, which is there for the industry. And then what matters is your product, what matters is your location, what matters is you're offering, what matters is your pricing, what matters is your brand, execution track record, so on

Within this, what we have been talking about for the last few quarters is that there is a clear shift in favour of organized players in the industry, and that consolidation is playing out. We had this kind of a conversation in one of the previous calls where we said that even if the market was to slow down, the shift in itself, if the 100 becomes only 105 as a total pie, which otherwise was hoped to be 120, for example, which is a great reduction in the momentum.

But still within the 105 pie a good percentage or quantum of volumes is shifting from unorganized players to organized players, the corporate players. That trend is very clearly visible. That trend has played out, as I said in the opening remarks.

And we are very confident that even that bit of the churn or the re-shifting of or the realignment of supplies is good enough for players like us who are very small, so to say, in the micro markets and the broader markets that we are operating in and with a very strong brand and execution track record, etc.

So, we are not overly worried. We are not too aggressive about anything. We are taking every step one at a time. Every micro market is being treated very specifically in the way it should be treated. And hence, even if the cycles were to or to be a little on the lower side, we are not overly worried.

But of course, you should do all these things right, your pricing, your costing, your execution, etce. So, I mean, so far, so good. Things are looking pretty sustainable. And we are confident that the kind of capabilities we are investing in, we are building the last few quarters, I think we're in the right direction. And it's time for us to build the pipeline rather, worry today shouldn't be how fast and how good we can sell.

I think the worry for this company is how fast we can create the pipeline. And our energies are focused on building that pipeline first and then taking a bit of the challenge of sales. By the way, sales not been a great challenge in any case. But we are, in any case, investing upfront in our sales engine to various ways. So not overly worried really.

Bajrang Bafna: And sir, if we try to see the numbers, INR 250 crore presales, if you remove Greatlands then the base number is just closer to INR 60 crore only. So how are we seeing moving into Q4 and the next financial year the kind of pipeline that we created, including Sarjapur and Doddaballapur and Greatlands 2, which is going to come and eventually the Ahmedabad.

So can we expect this year to end, let's say, closer to INR 800 crore plus going by the run rate of last three quarters and maybe somewhat 25%, 30% kind of growth in next financial year, maybe closer to INR 1,000 crore, plus presales. So just if you could highlight with some broader pipeline numbers will be really helpful, sir?

Kamal Singal: That's a very good point that you raised, Bajrang. As you very well said that there is an orientation in the numbers and one project has taken lion-share. But with the project portfolio getting diversified gradually for this company with a small base to start with a couple of years back, I think we are getting fairly diversified in terms of contributions coming from various geographies, various projects, various product categories.

And that is truly getting played out now. We've got luxury, we've got mid-price, we've got horizontal, we've got large villas, we've got small villas, we've got large plots, we've got golf, we've got non-golf -- within this, there are dynamics which are getting played out. And the good news is that it's all getting balanced out.

For example, last year as a whole, we sold around INR 600 crore of fresh sales and this year, by the end of this 9 months, we have done more than INR 550 crore 558 crore to be more precise, in my understanding. So all-in-all, it is a good momentum.

Sustainable sale has to play its own role. But at the same time, it is important for us to keep launching one or two projects every quarter for the period as a whole, going forward. And this number has to go up substantially. So, in a growing cycle, contribution of new launches has to keep going up. That's what we are seeing now. This year has panned out like that. And if you were able to launch a couple of more projects in the next one or two quarters, the same trend is expected to be sort of witnessed even further.

So all-in-all, within these variabilities, sustainable and this will make sense together and we should be able to record a healthy growth. We have been telling that our idea and our track record is to grow by 25% to 30% year-on-year, and that's what we have been achieving.

The 9 months are showing the same trend, if you really see and we are hoping that a very similar trend should be there for all of us to see when we end the year in general sense. And that's what the trajectory is, and that's what we are trying to achieve.

Bajrang Bafna: Good to know that. Sir, any other big pipeline that you could sound apart from that, what has been disclosed in where you are targeting maybe in Bangaluru or Ahmedabad apart from the Sarjapur and the new, these 84 acres that you acquired in South Ahmedabad. So, any big pipeline to move into a broader trajectory going ahead?

Kamal Singal: As I said, the energies are focused towards acquiring new projects, extending the pipeline. I think it will be better for us to announce and declare the complete details once they are absolutely firmed up. We definitely are at advanced stages of a few things, both in Ahmedabad and Bangalore, and these are reasonably sized and scaled things. And we'll definitely come back to you at the earliest possible time.

We've added at least one project in Ahmedabad in the last quarter, some 84-odd acres of plotting development. It's a small one. But good thing about this project is that it can be scaled up very drastically. It can be 2x to 3x where it is today, and that's what we are doing right now. So, we're not in a hurry to launch this. We'll take a little more time to consolidate the overall area per se and then launch the project.

But similar projects and even built-up projects in Bangalore, we are all looking at all these possibilities. And very soon, we should be able to come back to you and tell more concrete information on what we are building.

Moderator: We have a next question from the line of Biplab Debbarma from Antique stock Broking Limited.

Biplab Debbarma: Good afternoon, sir. And congratulations on a good set of numbers, truly commendable. And my first question is on your platform with HDFC, that platform of INR 900 crore until the third quarter, how much has been deployed? And by when the entire INR 900 crore you expect to deploy?

Kamal Singal: There were two platforms. One was already deployed, and that investment is now up and running. Greatlands is the project, in the first one. So that's over. Our Platform 2, as you said, INR 900 crore. Out of this INR 900 crore, we've already committed INR 300 crore. From this INR 300 crore, maybe actual outflow because we always get payment terms, linked to the project that we acquire, INR 150 crore, a little more than that has already been paid in terms of cash flows. And that basically means a little less than or INR 800 crore of top line is already kind of locked in. So, this is where we are.

This quarter should be a good quarter in terms of further deployment of the platform money. We have the same fine microscopic view of every project that we take, both in terms of its viability, it's affordability and its margin profile. And hopefully, we should be able to ramp up the deployment in the coming months. But as we speak, INR 300 crore committed already, which gives a little less than INR 800 crore of top line and INR 150 crore outflow has already happened.

Basically, Greatlands was basically Platform 1, Fruits of Life and Doddaballapur are the 2 additional projects which have so far seen action on Platform 2. So, we can actually visit ourselves to these 2 for the time being, which adds up to INR 300 crore. And a little less than INR 800 crore of top line. So, 2 projects are already done under platform 2.

Biplab Debbarma: And South Ahmedabad is also on platform 2?

Kamal Singal: South Ahmedabad right now is Arvind's own project. We will have to take a final view on whether or not it should be falling on the platform, that's always a possibility. But depending upon various other dynamics, we can decide on that. And we have flexibility on that to a certain extent.

But yes, project is already frozen, and we have started doing things on that and progress on that. But we'll see whether we should be putting that into the platform or not. But 2 of them, Fruits of Life and Doddaballapur are already put on the platform and disbursements have happened.

Biplab Debbarma: My second question is on your projects, upcoming projects, Sarjapur and Doddaballapur and North Bangalore, etc. Just trying to understand at what stages are these projects? And by when we expect these projects to be launched some ballpark timeline, if you could give us, sir?

Kamal Singal: So Sarjapur, obviously, all efforts are there to launch within this quarter before we end the financial year and that gives a lift to a lot of other things as well. Although it's a little tight, but right now, we are all putting more efforts to launch it within this quarter. Let's see, hopefully, it happens. If it doesn't happen, maybe we are a couple of weeks here and there. That's about it. We're at the very last stages of approvals. Our plans are all there, and we are waiting for the second stage of approval of the project.

And obviously, then we'll be left with the RERA approval. And if that happens and that starts as a process in the first week of February, by end of February, we get our RERA approval and then we launch, that's how the bar chart shows us at this point in time. But obviously, it can go a little here and there.

The rest of the projects, one is North Bangalore, Greatlands, Doddaballapura. This is happening in phases. We are about to launch Phase 2 of Greatlands at this point in time. It is just about to get approval for Phase 2, maybe within 1 day or 2. And then it goes into RERA, and then we launch this. So, with this, the Phase 1 and Phase 2 of Greatlands are over, and then we take up the next project.

Because it's very similar vicinity, unless we launch Phase 2 of Greatlands, there is no point in launching this one. But anyway, this phase is also under various stages of approvals, and I think it should take around 2 to 3 months from now to get the approvals done. So best case scenario is that in first quarter, this project should be launched.

Biplab Debbarma: So, we have Sarjapur in the fourth quarter, we expect and Greatlands Phase 2 in the first quarter of FY '23, these are the upcoming launches?

Kamal Singal: Greatlands will happen in fourth quarter for sure.

Biplab Debbarma: And Doddaballapur and North Bangalore in first quarter. Is that correct, sir?

Kamal Singal: Broadly yes.

Biplab Debbarma: My third question, I have been noticing that most of these projects are either plotted development or kind of villa kind of projects, horizontal projects predominantly. And sir, is there any – I mean is it what is happening in the market that demand for these kinds of projects are more than the vertical or you are just focusing on the horizontal kind of plotted development or villa kind of projects, and maybe latter we will touch the mass housing?

So, I'm just trying to understand this product, you're choosing this kind of product. What is the reason behind it? Is it a conscious decision or you just happen to get this kind of projects that has better potential in plotted or villas? So just trying to understand what is your strategy on this -- regarding product?

Kamal Singal: Yes, I understand your question. So, the answer is that we don't have any specific preference to either of the 2. I mean we have been doing quite a few vertical projects, which are anything between 12 floors to 22 floors and that remains one of the most important product segments for us.

Although post COVID, it has so happened that there has been a very strong preference, consumer preference towards horizontal, and people started investing in such projects much more significantly and heavily as compared to what was happening before that. We had spotted this trend a little early and that's why a very significant portion of our overall investments went into horizontal projects in the last 4 to 6 quarters. And that has led us very decent kind of dividends.

So, it was an opportunity, and we realized it. We quickly cashed on it. We sourced land pretty quickly, got it ready for conversion and sales, etc and that's how things panned out. But it doesn't mean that vertical is less important to us. I think eventually, when the dust settles and everything else settles, we will have equal proportion of horizontal and verticals coming.

Right now, we are looking very aggressively at verticals once again. We have been doing that all through in any case, but it so happened that horizontals are making much more sense in terms of margins and in other parameters and hence, we got a little more oriented towards that. But all in all, in the long term, in the medium term, we should be doing both in almost equal proportion when it comes to the product mix part of it.

And by the way, within horizontal and vertical, we have various subsegments. We are also kind of balancing the portfolio on those sectors. For example, within horizontal, we've got small plotting, big plotting, farmhouses, golf-centric plotting. In villas, you've got small villas, which is costing around INR 1 crore. We've got villas, which are much more expensive than that.

In fact, Sarjapura will be something in between where a villa should cost a little less than INR 2 crore to INR 2.5 crore and thereabouts. So basically, an alternative to vertical house of 3 to 4 BHK house is something like INR 1.5 crore, INR 1.75 crore in Bangalore today. And that's what we will offer in the form of a villa where you own your sky, you own your arch, etc, and offer a very important, very good value for the consumer.

So, within these two broad categories also, we are diversifying. They're already very diversified. But all in all, we'll have a very healthy mix of both these vertical and horizontal products.

Moderator: We have a next question from the line of Ritwik Sheth from One-Up Financial.

Ritwik Sheth: I just had one question, what is the expected initial investment in the pipeline over the next 1 year on the 5 projects that we have mentioned in the slide?

Kamal Singal: You are talking about the overall investment or only in these 5?

Ritwik Sheth: No. Only in these 5, the initial investment which you have mentioned on the pipeline.

Ankit Jain: Overall, we do not give project-specific outlay per se. But however, if we were to add total commitment, as Kamal Bhai mentioned, which is nothing but Greatlands and the Fruits of Life, Doddaballapur, South Ahmedabad project. So, all-in-all, put together, including the potential which we aspire to, it comes to around INR 500 crore of investment.

Ritwik Sheth: And what would be the ideal timeframe for us to launch these projects? Because I believe that if we add up the – what we are expecting at Doddaballapur and South Ahmedabad, which you have mentioned 2x, 3x potential from already that we have acquired, what would be the ideal timeframe for these to get launched for FY '24 and be a reasonable estimate for us to launch all these projects?

Ankit Jain: Doddaballapur, for example, is just like Greatlands where we have again some 27 acres. We have moved up to 34 acres. It's a reasonable size to get launched and probably might get launched in 3 to 6 months of time.

Kamal Singal: I think broadly speaking, all these 4 to 5 projects should be getting launched with a reasonable inventory, opening inventory getting opened up for sales within next 3 to 6 months' time. So, whatever we are reading right now across all these 4, 5 projects, everything should be hitting the market in the next 3 to 6 months' time. Couple of them could come earlier also. But broadly speaking, this is the time and on average basis, 4 to 5 months. But from the range point of view, 3 to 6 months, everything should be hitting the market.

Moderator: We have our next question from the line of Akshay Kothari from Envision Capital.

Akshay Kothari: Just wanted to understand on a blended basis, what would be our payment structure -- payment milestone which we would be receiving?

Kamal Singal: On the customers, you are saying? Or the sales that we do?

Akshay Kothari: Yes.

Kamal Singal: This is very clearly dependent upon the kind of project and the product we sell. Our typical plotting project will have a payment term of around 15 months. Our typical villa project will have something like 30 months, 25 to 30 months. And a typical apartment project, a high-rise apartment, which might range from 14 floors to 22 floors will have a payment plan of 36 months. Did I answer your question?

Akshay Kothari: Yes, that answers my question. So generally, depends on the development, right?

Kamal Singal: Yes, correct.

Akshay Kothari: So, I actually came across some of the unorganized players. What we are actually doing is offering, SIPs in Ahmedabad region-only, they are offering some INR 7,000, INR 8,000 SIP. And they are transferring ownership of over a period of five years in the plotted segment. So, in the plotted segment, you mentioned our is only 15 months?

Kamal Singal: On the higher side, yes. But I'm sure, I mean, SIP in a plotting scheme plan is a product where you don't need to have very long payment terms. And generally, we haven't faced any problem realizing our money within this 15-month period, and that's what we've been doing more.

Ankit Jain: In fact, the bankers are able to take care of the payment side schedule, which we have offered to the customer, and we are honouring those commitments.

Kamal Singal: Yes, even banks are now funding very comfortably. There was a time a few years back that the banks wanted a much more stringent norms on releasing payments if it was to be bank-funded property, essentially the plot. But now almost all the banks are fairly flexible. They accepted very well, and this product has a category. And they are very comfortable disbursing the entire money between 12 and 13 and 14 months. And that's why we say 15 is on the outer side, and we're very comfortable on this.

Moderator: We have a question from the line of Kirti Jain from Canara HSBC.

Kirti Jain: My question, sir, is with regard to the land addition capex for next one year. What is the target which you have kept in the mind in terms of the land addition capex?

Kamal Singal: So, as we just discussed, we have INR 900 crore of platform, out of which around INR 300 crore is committed. In fact, the actual cash outflow is only INR 150 crore. But assuming that INR 300 crore will go in the projects that we've already committed, we are left with INR 600 crore of additional cash flow from the platform itself.

On top of that, we should also have around INR 200 crore to INR 300 crore of debt and internal approvals. So, all in all, INR 600 crore plus INR 200 crore and add a couple of hundred crore from internal accruals, etc, I think we are looking at something like INR 800 crore to INR 1,000 crore of capex, over and above what is already committed.

Kirti Jain: Sir, have we identified projects sir. Are we closer to sign up?

Kamal Singal: It's the process, and it needs a long pipeline. We're aggressively working on that. The whole focus of the company is to build that pipeline. We should be able to invest this kind of money in the coming months for sure.

Kirti Jain: Because what we have seen, sir, the additions of the new projects are broadly in line with the sales, we haven't seen any nonlinear project additions. So that's why my question came, sir. Are we already facing any challenges in new land acquisition or any legal headaches or what are the challenges you are facing, sir?

Kamal Singal: So, you are right that the gap between the fresh sales and new additions has to go up. And that's what is required, and that's what we are busy doing these days. You will see some action happening in next couple of months, three months' time. And we are very confident that we will have a very visible gap getting created between the two very soon.

There are no specific challenges to mention, but I think we come from a position that we have a little finer microscope through which every project has to go through. We don't want to add projects just to add top line. We have to have a very rational mix of projects, which makes sense in terms of not only top line, but also bottom line.

It can be a healthy mix of JD, JVs and outright. We are doing all the three. But having said that, last three to four months and six months of hard work is now are becoming quite evident in terms of some of the results and visibility that we have internally for the pipeline that we are trying to build, and we should be able to start showing the reasons and component of this pipeline very soon, and you'll see this delta coming in.

Moderator: We have a next question from the line of Faisal Hawa from H.G Hawa and Company.

Faisal Hawa: So, sir, would I be making the right statement that the villas construction and development, we would be having the highest ROCE and ROE? And are we definitely focused on improving our ROE in the year '23, '24 because ROE and ROCE has always been the bugbear of most real estate companies, and there are very few which are able to even post ROCE or ROE, which is in the late teens. So, if there is focus on this area and our equity with HDFC, has this been like a focus area or an area of discussion with them before they include equity in our company?

Ankit Jain: Villas per se, villas development are very profitable as compared to a typical high rise. So naturally, the return portion is high, and they can get a disproportionate return as compared to a vertical high rise. Secondly, the capital employed portion. So, with the platform coming into our portfolio, the return on equity has already been optimized to a great extent because finally, the deployment of capital from our side is very minimal from an equity stake point of view.

Kamal Singal: So, I think with the kind of product mix and the structuring that we are doing over and over again, and the kind of focus we have on low equity, so to say, I think on ROE, we should be fairly comfortable and well rather be leading most of the peers on that. That's what we are aiming, and I think we are healthier out there on this parameter.

Having said that, we also are aware of the fact that while increasing ROE through joint development basis where your capital deployment is thinner comparatively. We don't want to get into a situation where we do a lot of volume and in the process, add a lot of contingent liabilities to execute and take up those kinds of volumes in terms of construction, etcetera, and not adding corresponding proportionate and rational and logical bottom line for yourself.

So, we definitely would like to balance the two in a way that not only ROE gets optimized, which is the top priority for us, and which is a top preference for us, and that's what we have been doing. But at the same time, we are also mindful of the fact that we are not taking undue risk, which are hidden risk in a situation where ROE has become too high. But then the contingent liabilities, as reset of execution are disproportionately high. So, on a balance side, we will do both. And of course, we should be being pretty good on ROE front, and we have been doing that by the way in the past as well.

Faisal Hawa So would you be able to give a number to the ROE for the year '23, '24? And as far as Ahmedabad is concerned, do you see any kind of an early signal like this being like Bangalore, which was like 1.5 decades back with the Gift City coming back, coming into the play and there's been talk of even the Ahmedabad hosting the Olympics. This could be like a big change, a game changer for our company. And that's one. And sir, can you give a number to what our present value of land bank would be?

Kamal Singal: So first, I mean, just to take three different questions that you raised. One about Ahmedabad market. Of course, Ahmedabad has seen a great action and there are triggers like Gift City. Gift City has been there for several years and rather for a very long time. But I think it's at that inflection point now where things are happening on ground and a lot of developers have now started showing interest and there is some genuine absorption of our space, which has happened. And obviously, this is boosting the overall market.

And there are new industries with tech, which is coming in that area and setting up shops there. So, this is great in terms of the real estate as a sector. There is definitely a little speculative, but nevertheless, it's not unfounded. There is a new boost, which is always talked about in Ahmedabad, which is potential hosting of Olympic.

This is becoming one of those talking points in the real estate sector, which is boosting the market a lot. And I hope that this momentum continues, and things happen on that front. Right now, of course, there is an element of speculation out there.

But generally speaking, Ahmedabad, has a market is very robust. Demand has been fairly consistent. The market is showing depth and consumers have shown that they are willing to invest. They're willing to spend money on real estate as compared to any other asset class, and that preference is pretty strong. So, we see Ahmedabad shaping up pretty well.

We can't say that it will be as great as big as Bangalore. Of course, Bangalore had several very, very powerful engines, including IT. Maybe Ahmedabad doesn't have it of those proportions. But directionally speaking, yes, Ahmedabad seems to be getting into a trajectory, which is very different from what it used to be in the last 5 to 10 years.

Ankit Jain: A typical ROE is computed basis the P&L return. But in real estate, unfortunately, the P&L may not reflect the situation on the ground. And hence, we internally track more on an MIS basis or more on a presales basis rather than simply tracking only on our financial numbers. So we are already in double digit. And definitely, we are going to improve it as we move along because the focus on the new BD is more on profitability. Just beside it is not just, as Kamal Bhai mentioned, just adding a top line and volume numbers, which is not the target. The target is to improve the profitability.

Kamal Singal: By the way, one very important point and it could be relevant to everybody present here, an INR 1,000 crore investment can give you a top line of INR 10,000 crore, INR 5,000 crore or INR 3,000 crore. But what is equally important is what is the bottom line that each of these numbers can give us. INR 3,000 crore can give almost the same or better bottom line than an INR 5,000 crore or even INR 8,000 crore to INR 10,000 crore.

So, what we always do, for example, horizontal. And if the mix of horizontal improves or increases comparatively because of the market dynamics, preferences in the medium term, it basically means that you might actually end up earning more EBITDA, and the margin, on INR 3,000 crore that you would have otherwise INR 5,000 crore.

In fact, you could see in our numbers already that we've invested almost like INR 300 crore, which is giving a top line of just about INR 900 crore, INR 800 crore. But I think we are very confident that this INR 800 crore, INR 900 crore of top line will give us much more in terms of bottom-line EBITDA, PAT, as compared to what we would have done in a vertical strategy, if you were to invest this INR 300 crore coincidentally into our vertical product mix, although it doesn't mean that we are undermining vertical, again, to keep saying the same thing over and over again.

But if we have a very sharp focus on ROE and margins, product which plays a lot of roles, and that's where your agility, your flexibility, your adoption, your spotting of early trends, etc, are very relevant. And we intend to keep doing that repeatedly and hence improve our returns.

Ankit Jain: To answer your last question on land bank, we do not bank on any lands. As you can see in the presentation, everything which has been acquired or which is in the definitive stage has already been disclosed and part of yet to be launched items.

Kamal Singal: The idea is to acquire land, not for creating a land bank. Its idea is to hit the market the fastest possible manner, the quickest in the earliest possible manner. That is why whatever we have purchased, pretty much everything is either on the verge of getting launched or it is already launched and hit the market and sold or sold well already.

For us, it's about converting land into finished goods at the earliest possible time profitably and that's how you were to scale up. There are no land banks per se in the company. Everything is pretty much on track, either launched or on the verge of getting launched.

Moderator: We have a next question from the line of Rahil Shah, an individual investor.

Rahil Shah: Just wanted to ask about your view on the cash flows and the launches like in general, over the next one to three years, are we expecting to have a lot on our books, adding new project launches? Or are we going to continue working on the current ones mentioned in the presentation? And what was the -- second part is what was the land area in this quarter? Just if I missed earlier.

Kamal Singal: When it comes to launches, of course, we'll keep launching newer and newer projects. I mean just a month back, we just calculated that in the new projects, we would be investing anything between INR 800 crore to INR 1,000 crore in the next 12-odd months. And if the average investment size is something like INR 100 crore at a location that will mean that we should be launching 8 to 10 projects in a year in the next four quarters. So that's where we are on the new launches.

Of course, that can be further boosted by getting into joint developments where the capital requirements are competitively smaller. So that answers the first part of the question.

Ankit Jain: Second is the quarterly volume numbers, I think that is there in the presentation slide, you can go through slide number 12, which explains that there is close to 7,30,000 square feet, which has been sold during the quarter.

Moderator: We have our next question from the line of Biplab Debbarma from Antique Stock Broking.

Biplab Debbarma: So, I have two small questions. One is you have -- you are doing very well in Ahmedabad and have spread their footprints in Bangalore too, I think, there's 13 or 14 projects altogether in Bangalore so far. And just trying to understand this in 9-month FY '23, what would be the share of Bangalore and Ahmedabad. And going forward, how do you see these two markets contributing the sales booking?

Kamal Singal: I think in the medium term, we would rather be looking at something like 40%, 40% each from Ahmedabad and Bangalore, and 20% in the initial periods from MMR and Pune market. Of course, these are new markets, and we are trying to get a foothold there. But there is a team in place and there are energies being devoted out there for Pune and MMR, and we should be able to start few things there in the coming months. But generally speaking, medium to long term, it is supposed to be 40%, 40%, 20% broadly speaking. And as we speak now for the 9-month period, it is 58% share is from Bangalore and remaining broadly is from Ahmedabad, barring some very small numbers coming from Pune.

Biplab Debbarma: So, Bangalore is contributing significantly now?

Kamal Singal: Currently, yes. But generally, you could say that we are basically operating at 50-50 right now. In the long term, this ratio will be more like 40%, 40% and 20%, 40% each from Bangalore and Ahmedabad, and 20-odd percent from MMR in the medium term. MMR possibly once we get a foothold, and we are comfortable out there, maybe it can increase further, but in the medium term, that's how it should be.

Biplab Debbarma: Sir, which part of MMR you are looking at? Because my understanding if it is 20% and that to Pune and MMR. So, the MMR footprint will be small. That means it will be some -- in terms of stopping potential, it only some INR 2,000. It would be more of an INR 200 crore. So which part of MMR are you targeting or would be looking at?

Kamal Singal: So obviously, Pune apart we will be, in MMR in the suburbs. It will be more like a Thane market like that, more like a Kandivali, Dahisar those kind of macro markets. So, if you were to just sum it up in the sense of pricing, maybe we'll be more comfortable operating in markets, which are more like INR 15,000 to INR 20,000. And we are not really very focused on something like an INR 50,000 to INR 1 lakh market. So, we're very clear that we want to do in Mumbai, MMR, what we do in Bangalore, although the scales are different in terms of price absorption.

So, what sells in Bangalore for INR 1.5 crore, maybe it is INR 2.5 crore in Mumbai. And that's why the pricing from -- on a carpet area basis, what is INR 10,000 to INR 11,000 in Bangalore could be INR 15,000 to INR 20,000 in Mumbai. So that's how we would rather prioritize and focus on above INR 15,000 to INR 20,000 on a carpet area basis is the segment that we're targeting. And I just mentioned to you the kind of macro markets that we are focusing on.

Biplab Debbarma: And when it comes to sort of Bangalore business development -- so we have been seeing upsell, like everybody is selling, which is good for the real estate sector. And it looks like logically, the expectation of the land on our -- or your JDs partner should go up, which means the valuation of land should go up. So, are we seeing -- because everybody is selling, everybody would have cash flow -- net cash flow or free cash flow bad back and they want to deploy it to grow further? So, in terms of business development, do you see any kind of valuation rising? Sir, in this current up-cycle, do you see valuation expectation, valuation, or the expectation from that landowner going up significantly compared to, say, two, three years ago? And yes, so that is the question. So how easy or difficult...

Kamal Singal: Of course, I mean, in a good cycle, in a cycle where everybody knows that the markets are doing great and there are players who are wanting to expand. Actually, landlords also are aware of the situation, and they will expect more. And hence, it should mean land getting a little more expensive.

But that has always been the case. I mean one might say that this is happening more right now, but the situation is always like that. I mean, for example, in a market like Ahmedabad, landlords are pretty rich. They are not desperate. They are not in a hurry to sell, and they are money people in general sense. And hence, they've got tremendous amount of holding power. And that's why, I mean, trading apart, they would always like to optimize their returns and sell when they feel it's good to sell for them. So that's always been the case.

This is where a branded player or a corporate player can do better in a land deal, which are very high value dependability of the buyer, the credibility of the buyer and the capability of the buyer in terms of actually closing the deal within the time frame with the kind of cash flows and strength of balance sheet are equally important to the buyers. Buyers on one hand, want more price, but they are also smarter now in terms of understanding who can close the deal and who might not be able to close the deal, who could come up and honour the promises and who could not. And hence, there is a tilt and a twist in favour of corporate organized players there, and that's an opportunity actually we see.

Similar is the case with deals on JD basis. People know that a player who has a track record has a much more kind of possibility of performing as per expectations of both the partners and hence, better deals are actually going to branded players and corporate players. To that extent, despite competition in general sales heating up and prices in general sense heating up. But when it comes to competitive advantages and disadvantages, I think corporate players still stand a great chance of getting some very variable projects and options out there.

Biplab Debbarma: So basically, in terms of supply, in terms of doing a deal and in terms of supply as well as demand in terms of selling the product and in terms of acquiring the projects, the consolidation happening in both spaces, both in...

Kamal Singal: Absolutely, yes.

Biplab Debbarma: No, that's understood, sir. And my final question is on what percentage of your products are predominantly into horizontal products. So, what percentage of your sales booking overall, say, last 1 year or 9 months or so, what would have availed home loans?

Ankit Jain: Home loans as a percentage of overall sales, pretty high. It will depend on, again, project price. So, all the high rises will have at least 70%, 80% will be home loans.

Kamal Singal: I mean this is a data which is not readily available with us right now. But as Ankit said, in a vertical project, it says 70% to 80% in most of the projects. And in our horizontal basis, maybe the ratios will be more like a 30%, 1/3 of the total things that we are selling. But we can come back to you with a bit more precise data.

Biplab Debbarma: No, that's fine. I'm just trying to ascertain the kind of buyers, what kind of buyers are this -- those predominantly who buy this plotted development and villas. So, my guess is right, the home loan share would be percentage of people who avail home loan in those kinds of products will be less that is 30-40%.

Kamal Singal: Yes, comparatively, you are right.

Moderator: We have our last question from the line of Akshay Kothari from Envision Capital Services.

Akshay Kothari: Sir, pardon me for my ignorance, but I'm a little bit new to this industry. So, I just wanted to know whether the plotting development, which we do, is it on the agricultural land and then we convert it to NA?

Kamal Singal: No; We would convert the land first, then the plans are getting approved. And then you will start selling. So, it's the other way around, actually. And by plotting, you mean, basically, we mean some very, very high quality, high class, world-class infrastructure with concrete roads and payment, etc with some very beautifully planned and laid out large club houses of 40,000, 50,000, 60,000 square feet, and even 1 lakh square feet in a couple of cases. So, these are very amenitized and very high and specified projects and infrastructure that you're talking about. But land is to be converted first, approved subsequently and then sold.

Akshay Kothari: Okay. So, because we are at a natural disadvantage because apart from the brand name, which Arvind is pulling because other smaller players generally all domiciled in a particular state and who are that farmer registration, we would be at an advantage, right?

Kamal Singal: I mean in general sense, yes. But a great development which has happened in the last 1.5 years, 2 years in Bangalore is that this is no more required. As a company, we can buy land directly from the farmers, develop and sell. So, in one of the largest and the biggest potential market for us, which is Bangalore, this hindrance is already removed.

And when it comes to Ahmedabad, we have device mechanisms and systems wherein the aggregators take responsibility of buying the land, converting and then under an agreement, selling to us for development.

So of course, there is a circuitous route when it comes to Ahmedabad, but still doable. And we've been doing it for very, very large tracks of land parcels over and over again. And in Bangalore, fortunately, this hindrance is not existing now.

Moderator: I would now like to hand the conference over to Mr. Kamal Singal for closing comments. Over to you, sir.

Kamal Singal: Thank you. On behalf of the management, thank you, everybody, for participating in the earnings call of Arvind SmartSpaces and for your continued support. I hope we have been able to address most of your queries. However, if we have missed out on any of your questions, kindly reach out to Vikram, and he will connect with you offline. Looking forward to interacting with everyone in the next quarter soon. Thank you. Thanks a lot for your participation. Thank you.

Moderator: Thank you. On behalf of Arvind SmartSpaces Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.

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