ARVIND SMARTSPACES

9th February, 2024

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

Security Code : 539301
Security ID : ARVSMART

National Stock Exchange of India Ltd.
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 Friday, 2nd February, 2024 to discuss Q3 & 9M FY24 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
Date: 2024.02.09 18:45:46 +05'30'

Prakash Makwana
Company Secretary

Encl.: As above

#DESIGNEDTOINSPIRE

Arvind SmartSpaces Limited

Q3 & 9M FY24 Earnings Conference Call
February 02, 2024

Moderator: Ladies and gentlemen, good day and welcome to Q3 and 9M FY24 Earnings Conference Call of Arvind SmartSpaces Limited.

As a reminder, all participants' 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 touch-tone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Amit Sharma from Adfactors. Over to you, sir.

Amit Sharma: Good afternoon everyone and thank you for joining us on the Q3 and 9M FY24 Results Conference Call of Arvind SmartSpaces Limited.

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 – Company Secretary; and Mr. Vikram Rajput – Head, Investor Relations.

Please note that a copy of the disclosure is available on the investors section of the website of Arvind SmartSpaces Limited as well as on stock exchanges. Please do note that anything said on this call that reflects the outlook towards the future, which would be construed as forward-looking statement must be reviewed in conjunction with the risk that the company.

I would like to now hand over the call to Mr. Kamal Singal for his opening remarks. Over to you, sir.

Kamal Singal: Good morning, and 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 for the third quarter and nine months ended 31st December 2023.

The macroeconomic tailwinds continue to firm up. In the fiscal year 2024, India is poised to achieve a growth rate of around 7%, continuing a trend of strong economic performance since the onset of the pandemic. Multiple reports suggest that this growth trajectory will persist into FY25. Over the past decade, India has made significant investments in infrastructure, resulting in a remarkable 3.3x-fold increase in public sector capital expenditure. This infusion of funds has not only bolstered the country's physical foundations but has also laid the groundwork for sustained economic growth. Improved household financial well-being, increased job creation, declining unemployment rates, and advancements in education and healthcare metrics all reflect a concerted effort towards fostering broad-based prosperity.

The surge in residential real estate activity has emerged as a significant contributor to India's economic narrative. Real estate sales have hit a decadal-high supported by a flurry of new property launches and a corresponding uptick in sales across various urban centers. Despite price increases, the affordability ratio witnessed a marginal improvement in top 8 cities as income growth surpassed pricing growth and mortgage rates remained flat. Further, the demand buoyancy is being driven by end users, showcasing the underlying strength and stability of the housing cycle.

At Arvind SmartSpaces, we look forward to driving transformative growth in the residential real estate market. With consumer preferences evolving rapidly, we understand that staying relevant means continuously innovating. Our approach goes beyond mere construction. It's about crafting sustainable living solutions infused with technology and well-being features tailored to demands of the modern era. With a robust customer-centric program, strong brand, expanding geographical footprint, innovative products, and commitment to operational excellence, we are poised to capitalize on emerging opportunities and deliver value to the customers and stakeholders alike.

Coming to the Operational update for the quarter and the nine months. I am pleased to share some notable achievements. We have delivered a record-high nine months sales value at Rs. 784 crore, an impressive 41% year-on-year growth, indicating strong consumer confidence and market demand. In the third quarter of FY24, our pre-sales value continued to show positive momentum at Rs. 280 crore, driven by successful launches of our premium projects such as Forest Trails in Sarjapur, Bengaluru. This is a premium villa development where we achieved sales of more than Rs. 150 crore in Q3, which is a little more than 30% of the launched inventory. The successful launch of Forest Trails in Sarjapur follows a stellar launch of Greatlands phase II at Devanahalli and highlights the growing equity and trust of the brand Arvind in our key markets of Bengaluru. Following the remarkable response to phase I of Uplands 2 in Adroda, Ahmedabad, we swiftly launched phase II, achieving a sales worth Rs. 75 crore there. We are delighted to have a strong response to all our new launches over the last several quarters in several different micro markets.

Similarly to our nine months booking, collections for the nine-month period reached the highest levels in any given nine-month period. Nine months' collections stood at Rs. 661 crore, a significant increase of 60% over the same period last year. Collections for the quarter increased by 16% year on year at Rs. 194 crore. This performance underscores our ability to maintain a strong operating cycle aligning our sales, construction, and delivery processes effectively.

I am pleased to note that our expansion initiatives have seen promising developments with a cumulative topline potential addition of around Rs. 4,150 crore for the current financial year. Recently, we entered Surat with a Rs. 1,100 crore horizontal multi-asset township project, expanding our presence in the third city in the state of Gujarat. The project is spread over 300 acres and signed under JD model with 55% share accruing to us. This strategic move underscores our proactive approach to growth and our focus on seizing opportunities in emerging markets. We also added a new horizontal project in West Ahmedabad with a topline potential of Rs. 250 crore. This would be on an outright basis. The quantum of JDs in our portfolio is on a higher side currently, and we look forward to an optimal mix of JDs and outright deals as we progress forward. Nevertheless, successful JDs across markets showcase the confidence of landowners in the Arvind brand and this will allow us to build a strong sustainable pipeline going forward.

During the quarter, we achieved financial closure on Fruits of Life in a year and gave exit to HDFC Capital on the project. It not only highlights the brand equity and execution capabilities of brand Arvind but also the thriving nature of horizontal and plotting projects in the Ahmedabad market. The platform too continues to progress well with the 3 projects already acquired under it across Ahmedabad and Bengaluru. We look forward to acquiring additional projects under this platform in our targeted markets in the coming quarters.

Now, moving on from operational updates to the financial highlights. In nine months, we reported a revenue of Rs. 224 crore, up 37% on a year-on-year basis. EBITDA grew at 68% to Rs. 57 crore. PAT for the nine months grew 60% to Rs. 26 crore. In Q3, we reported a revenue of Rs. 84 crore, up 60% year-on-year basis and EBITDA for Q3 grew by 60% as well to Rs. 21 crore. PAT for the quarter grew 121% to Rs. 9 crore.

Our balance sheet position remains strong despite expanding operations. Net debt increased to Rs. (38) crore as on December 31, 2023, from a net debt position of Rs. (141) crore as on September 30, 2023. A crucial parameter in real estate reflecting the underlying business performance quite well is operating cash flows. And during the quarter, net operating cash flows amounted to Rs. 89 crore. Net operating cash flow during the 9 months stood at Rs. 360 crore. We estimate an unrealized operating cash flow exceeding Rs. 2,552 crore coming from the current pipeline of projects.

As you would have noticed in our presentation, we have very recently pre-launched our project at Doddaballapur in Bengaluru. It's called Arvind Orchards. We look forward to delivering a differentiated experience to our customers in North Bengaluru through this one of its kind orchard-themed plotting development.

To conclude, we see a very significant opportunity for the Indian real estate market, and Arvind SmartSpaces is well poised to capitalize on the same and sustain its path of profitable growth. As we approach the financial year-end, the objective remains to end it on a very strong note across operational and financial parameters.

On that note, I conclude my opening remarks, and I would like to ask the moderator to open the line for questions and answers.

Moderator: We will now begin the question & answer session. The first question is from the line of Biplab from Antique Stock Broking. Please go ahead.

Biplab Debbarma: Sir, my first question would be on the business development; excellent velocity. Around 40 billion GDV business development that you did till date in this financial year, when do you expect these projects to be launched? All of this could be launched in FY25?

Kamal Singal: Yes, of course. Rs. 4,150 crore worth of new projects have been added in the last few quarters. And for this year, this is the cumulative number. And of course, this is planned to be launched in the coming year. In fact, Rs. 600 crore out of this Rs. 4,000+ crore is already launched. But in any case, the rest of it should also be getting launched within this coming financial year.

Biplab Debbarma: So, there is a quick turnaround time. It doesn't take much from business development to launch.

Kamal Singal: Yes, it's a combination of medium sized and very large sized projects, projects which require environmental clearance and projects which do not require environmental clearances. But putting everything together, we see a very realistic possibility of everything of this getting launched within the coming financial year.

Biplab Debbarma: My second question is on the Ahmedabad 40 acres acquisition outright basis you did. I am just trying to understand what would be the cost of the land that you have paid for that.

Kamal Singal: Normally, the specifics about the cost, etc., are not shared. Maybe you can get in touch with the team here to know to what extent it is prudent for us to share such data. But otherwise this is a great product from the margin standpoint and from the standpoint of making quicker money and hitting the market very soon.

In fact, we are hoping that we hit the market with this project in the next few weeks itself. Within this financial year, possibly we should be starting to sell this product. It's a very quick turnaround project.1q a

Biplab Debbarma: In typically such projects, suppose we have bought the land, we keep aside that cost. But what would be the other cost and what would be the quantum of that cost? Say, for this 40 acres project, what would be the other cost and what would be the quantum of that cost that needs to be incurred for this project?

Kamal Singal: Operating margins and EBITDAs in these projects vary anywhere between 25% to as high as 35% to 40%. Maybe average of a plotting project that we are currently executing will be more than 30% to 35% and this project should be very similar to that. And that's how the costs are.

Moderator: The next question is from the line of Ritwik Sheth from One Up Financial Consultants. Please go ahead.

Ritwik Sheth: Sir, firstly, you mentioned that you are planning to launch the West Ahmedabad project which you acquired recently in Q4 FY24 itself. Did I hear it right?

Kamal Singal: FY25 we said. When we talked about this Rs. 4,000 crore worth of projects, what we said was this entire pipeline that we have acquired recently, which is totaling to Rs. 4,150 crore for this current year as a total, everything of that will be launched in the coming financial year which is 2024-25. Lakshmanpura, this one project out of it, which is not a very big project but otherwise a profitable one will be launched within the current financial year ending March 2024.

Ritwik Sheth: And the second question is on the HDFC platform. What is the total amount that we have deployed till date out of the Rs. 900 crore?

Kamal Singal: We have committed in excess of Rs. 400 crore already from the platform. Maybe the payments are a little less than that, more like Rs. 300 crore to Rs. 350 odd crore. But commitment-wise, it has crossed half way and we have deployed in that sense in excess of Rs. 400 crore.

Ritwik Sheth: And sir, we have Rs. 4,000 crore of launches to be done in the next 4-5 quarters. What kind of business development are we looking at this year? Already we have seen a very strong business development pipeline, the highest in the company's history. What will FY25 look like? Would it be a similar number around Rs. 4,000 crore to Rs. 5,000 crore? I would like to pick your thoughts on that.

Kamal Singal: A little futuristic, but as you very rightly said and understood that you have already clocked in excess of Rs. 4,000 crore in the first 9 months of this year. We would love and like and be happy with the number which is rounded off to something close to Rs. 5,000 crore for the year, and most of the projects which are in further discussions and pipeline, generally they are quite decent in size and hence 1 or 2 happenings will mean that we will cross that number. Hopefully, we cross that and do additional Rs. 1,000 odd crore within this financial year. But having said that, this trajectory of Rs. 4,000 crore to Rs. 5,000 crore is something that we hope that we will sustain in the coming years as well. It's not that this is an exceptional year and that's why it is high. It is a trajectory that we want to maintain.

Ritwik Sheth: And this acquisition would be more or less funded by internal accruals, HDFC platform, and debt if needs arise to be, right?

Kamal Singal: Correct. As you know, HDFC, there is still significant leftover. Then, internal accruals have been very strong. This year we have accumulated more than Rs. 360 odd crore which is the highest ever. And the company is still a negative debt company as of December end. Hopefully, very conservatively, we should be raising debt to the extent of Rs. 300 crore to Rs. 400 crore. Even if it's Rs. 300 crore, it is a significant amount of money. All in all, these 3 engines are alive and kicking and we should be able to make use of these. And, on top of that, as of now, we are very heavy on JD as a structure. And that is why a lot of money is still left to be deployed despite adding a very significant top line of around Rs. 4,000 crore for the current year. To that extent, apart from deployment of these 3 sources which are internal and external, both put together, including the platform and debt and of course internal accruals, JDs are kind of complementing and supplementing the other efforts towards creating a bigger pipeline.

Ritwik Sheth: Sir, just 1 final question, one clarification rather. The reported OCF of Rs. 360 crore in the quarter, that is for our company share, right? Net to us?

Kamal Singal: Yes. This quarter number is Rs. 90 crore, Rs. 89 crore to be more precise. This year's cumulative number for nine months is Rs. 360 crore. And this is totally and purely what has come to us already. Either it is already deployed or it has gone into any repayment at all. But yes, this is purely our share accrued to us and received by us.

Moderator: The next question is from the line of Abhishek from Yes Securities. Please go ahead.

Abhishek: Where do we stand on the BD efforts regarding Pune and MMR cumulatively?

Kamal Singal: If I have heard your question right, you are asking about BD efforts in Pune and MMR.

Abhishek: Yes, absolutely.

Kamal Singal: Those efforts are on. We have evaluated a bunch of projects. A couple of them are looking quite promising. They are in advanced stages as of now. We are a little conservative when it comes to adding a new geography and that's how we are doing this time also. Surat, as you would recollect, was something that we started a few quarters back and we continued that focus for a very long time and eventually we have come up with a very large, very good and exciting project there. We hope that with the kind of efforts going into MMR market, something should materialize very soon.

Abhishek: Within this financial year or should it spill over to the next year?

Kamal Singal: This is an entry point that you are talking about and project happening and not happening is a little binary in that nature. And hence we can't say that it will happen. But this quarter or next quarter thereabouts, things should happen.

Abhishek: Sir, just one more. We just acquired a small project in Ahmedabad. Any color as to whether it will go to HDFC platform or we will execute it because it's an outright by us?

Kamal Singal: Yes, this project is taken on an outright basis. We are not involving the platform in this. So, whatever happens, the entire cash flows and margins, etc., accrue to us; and the platform is not involved in this.

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

Ronald Siyoni: Congratulations on your new business development deals for nine months. Sir, we have been spending around Rs. 700 crore to Rs. 750 crore of HDFC platform money. I believe some would have been utilized in Q3. Or if not, then how much has been outstanding? Are we using more of the bank on leveraging our balance sheet and rather than not using HDFC money or if there is a possibility that HDFC platform money would be used for more larger transactions, especially in MMR region. Just your thought process on the usage of capital of your own versus HDFC.

Kamal Singal: The platform is sized at around Rs. 900 crore total, out of which Rs. 600 crore comes from HDFC and Rs. 300 crore is to be invested by us. And out of this Rs. 900 crore total, we have deployed to the tune of around Rs. 400 crore already, and Rs. 500 odd crore is still left to be deployed. Generally, it makes more sense for us to deploy this money in little long-term projects and projects which are of little decent and bigger size and scale. For example, Lakshmanpura is not that size and hence generally we would prefer not to invest in a Lakshmanpura kind of a project there. But having said that, money is available. If a project is viable, there is no problem and there is no hindrance to investing platform money or otherwise. As we just discussed, all the 3 sources – internal accruals, platform money, and debt – all the three are available. At any given point in time, depending on the size of opportunity and the investments required and that day, that week, that month's cash flows that we have on hand, obviously, we would like to first exhaust internal accruals because that is our own money without any incremental costs and then the cheaper money and then the less cheaper money, etc. That hierarchy is always followed. It has so happened that cash flows for the last few quarters have been strong. The last 3 quarters itself have given us in excess of Rs. 360 crore. To that extent, our leveraging has not really begun. We are still negative on the overall net debt side. At the same time, this has also resulted in underutilization of the platform money on a cumulative basis. But having said that, it's just a matter of time and a few more quarters before we get into a positive side of trajectory on both the net debt and utilization of the fund money.

Ronald Siyoni: And my second question would be, as you also said that Rs. 300 crore to Rs. 400 crore debt might be raised for the next year. Already we are getting big larger sized projects to JDs. Leveraging the balance sheet to get better margins is the thought process versus JD projects would be there but the mix would be lesser and outright would be higher?

And last would be on the margin front. There is a little bit of volatility in margin size and is it because the plotted projects had a lower revenue booking during the quarter and which had led to sequential dip in margins?

Ankit Jain: Margin, if you look at on a year-on-year basis, for the quarter is the same, which is 24.7%. These are adjusted margins for the interest element. We have given this information in the information update. Hence, our top line for the quarter is 60% growth and margins are equivalent to 60% growth. However, as a percentage of margin, these percentages of margin in financials do not reflect the current bookings because there is a lag in the accounting the way accounting happens. So, this relates to mainly projects which have been delivered and which were launched a couple of years back. For example, the quarter relates to revenue recognition from Uplands and Oasis. The plotting projects booking which we are looking at like Uplands 2.0 or maybe a Forest Trails, which is there in the current quarter, which is more of pre-sales, does not come into books of accounts. Hope this clarifies.

Ronald Siyoni: Yes, right. I understand that, but because the previous 3-4 years launched a project which has hit revenue recognition during this quarter, the mix of that would be lower towards this plotted developments and hence there is a little bit of sequential volatility. Because, in the last quarter, the margins were very good.

Ankit Jain: Yes, the last quarter's margins were higher. Again, it will vary on the revenue recognition projects.

Kamal Singal: Depending on which projects are getting into the books of account, this volatility remains. But on an average, the margins otherwise are fairly consistent to the extent of around 25% of EBITDA, 11% to 12% of PAT. In fact, last quarter was, in my understanding, a little bit of an aberration where more profitable – disproportionately profitable – projects entered into the books of account and hence this higher margin. In the current quarter, the cumulative number in that sense is actually more representative of the profitability and the level of profitability that we expect in the normal course on a steady state basis.

Ankit Jain: And maybe just to add to your comment that plotting projects having lower margins, that is not the case.

Kamal Singal: Actually, it's the other way round. Plotting is actually a little higher margin. And the second part of your question related to more outright versus JDs, etc., yes, generally we prefer to have a very optimal balanced portfolio from the structuring point of view. But it has so happened that in the first nine months of this year, we have done more of JDs and less of outright but because that has also meant that we have more investible money left as of now for the top line that we have already tied up, it will automatically be an orientation where we will see more outright projects coming our way in the coming months from the money which is still left to be deployed.

Moderator: The next question is from the line of Rakesh Wadhwani from Monarch AIF. Please go ahead.

Rakesh Wadhwani: Sir, in the initial remarks, you mentioned we work on the operating margin of 30% to 35% for the horizontal projects. Can you also give us what is the operating margin we work for the vertical projects?

Kamal Singal: Weighted average of the two will be 25%, rather 25% to 30%. And I will say a long term stabilized difference in operating margin will be to the extent of 5%. If we are hovering anywhere between 25% to 30% as overall margins, then vertical would be more like 25% or 22% and thereabouts, and horizontal will be more like 30% to 35% or a little more in a few selected cases and more like that. And hence the average of anywhere between 25% to 30%. You can assume that there is a difference of around 5% between the two on an average.

Rakesh Wadhwani: Sir, what will be the IRR we will be minimum looking with respect to the vertical or horizontal? Because, if I look at horizontal, it should have more IRR.

Kamal Singal: Horizontal has more IRR generally because the cash flows are better, they are more frontloaded, collection times are less, and margins are healthy or decent or even better than vertical. In that sense, all the three are adding up into one common understanding which is higher IRR. So, definitely yes.

Rakesh Wadhwani: Sir, my question is what will be the IRR that we will be looking for in both the projects in order to take a project. For example, if you are working on a new land development now or thinking of a new land acquisition, what is the minimum IRR level we will work and otherwise we will reject the project for the horizontal or vertical? If you can talk about that.

Kamal Singal: Generally, 25% IRR is our broader understanding. It's not written in cast, but on an average, we know that it has to be 25% and thereabouts. We have several projects, rather most of the projects which are a little better than that, but we are okay compromising a couple of percentages here and there. As a minimum, average it is around 25% for us.

Rakesh Wadhwani: And the projects that were launched in the last 1 or 2 quarters, like Uplands 2.0 and 3.0 and Fruits Of Life which got full booking or 90% above booking in the month of launch only, that will have an IRR of 40% to 50% also?

Kamal Singal: Yes. On top of that, these are JD projects. So, the capital deployment is very less in any case. We would have actually recovered most of the money that we would have deployed on a net basis. In these projects, IRRs are so high that they are not relevant to be discussed in that sense. JD projects selling in 3-4 months or 5 months, giving you very hefty upfronted cash flows means IRRs are going to be very high. But that's because the way they are structured and the sale velocity simultaneously is good. So, the answer is yes.

Rakesh Wadhwani: Sir, now coming to the point of business development, what we have seen in the past – if I go before COVID, the company had more business from the horizontal. Slowly and gradually, the portfolio is shifting from horizontal to vertical. But if I look at the FY25 launches also, in the last few quarters, the company has done a land acquisition move towards horizontal. So, I just wanted to know land acquisition or business development strategy for FY25. Where do we see more land parcels will be added, i.e., in horizontal or vertical?

Kamal Singal: It's a great question. As I said, more JDs have happened in the first 9 months, and JDs first tend to be a little more horizontal than being vertical. But because we are left with quite a bit of money to be deployed in outright projects, as we just discussed a few minutes back, that will mean that more of the horizontal will start entering into the portfolio very soon, as we continue and deploy more money. But having said that, we have been quite happy and conscious about remaining a little more horizontal historically in the last 3-4 months and specifically post-COVID. In fact, we were the company who spotted this trend very early, and we saw benefits not only from the point of view of efficient allocation of capital but also from the point of view of mitigating and minimizing risk or rather optimizing risk in the portfolio, given the uncertainties we had during COVID and thereafter. This strategy generally has paid off well. We don't see that we have penetrated deeper than what we should be doing and hence we see a lot of scope still left in the markets that we are in. For example, even Surat, a great city the size of as big as Ahmedabad is, etc., but there are very few horizontal developments which are of that great quality, international standards, bringing a very different perspective to how a horizontal development can look like, etc. These are the kind of opportunities which are quite untapped. A lot of real estate developers have appreciated this. We spotted this trend a little early and hence our portfolio today looks heavier on the horizontal. Going forward also, we will continue to keep a similar kind of focus on horizontal. But having said that, you will see quite a bit of action happening on vertical as well as we go ahead with deployment of the under-deployed money that we have from all the 3 sources we discussed.

Rakesh Wadhwani: Kamalji, if you can give some numbers like if we go for Rs. 4,000 GDV value, what will it be – like 60% will be horizontal or 30% or 70%? Any thoughts you have in the mind? My doubt is that to get such a big land parcel, it will become difficult. Not maybe in FY25 but in FY26 or FY27, getting big land parcels will be difficult. That is why I'm asking.

Kamal Singal: Today we are optimizing. We have got both the options. As we invest and the way we have invested in the last few quarters, it doesn't mean that we have not got ideas and opportunities in vertical for that matter. It's about deploying in the best alternative at that day looking at the possibility of sales, velocity of sales, etc. To that extent, we are not worried about in what direction we will go or whether or not larger or these kind of parcels will be available. In fact, we have surprised ourselves already by getting into larger and larger horizontal arrangements and joint development agreements than what we were set out to be. And as the brand builds further and as the recognition happens further, it's already very strong in the markets that we are. We are getting more and more opportunities in the market where landowners are approaching both for vertical and horizontal on a joint development basis and hence this opportunity. In fact, when we talk about consolidation in the market, it essentially means that even if the market grows by 10%, the guys and the brands who are organized, they are growing by 25%. And that means a lot of landowners now, instead of thinking of doing things themselves, want to go through the brand route, through an organized player route, and get into development indirectly. If that is happening, the trend of JDs is only going to increase and consolidate further. To that extent, we are quite hopeful and there are reasons to believe that these deals and these kind of deals will keep coming. But having said that, to keep a little fatter skin in the game, there has to be an optimum balance between JDs and our own projects so that not only that we have better ratios in terms of profitability, return on equity, etc., we should also have skin which is fatter which means return on effort has to be further optimized and even in the absolutes for the effort that we put in as a portfolio are also healthy. So, verticals which are owned by us are equally important. Our idea is to invest almost 50% of the money that we have, maybe 60% of the money goes into our own project and 30% to 40% money goes into JDs. But 30% to 40% money going into JD means they will create a disproportionate amount of top line because they are more efficient in creating top line. To that extent, there will be a little bit of an orientation towards the top line being coming from JDs more, but from an investment standpoint, it might be 60:40 in favor of own vertical projects versus JD.

Moderator: The next question is from the line of Harsh Pathak from B&K Securities. Please go ahead.

Harsh Pathak: Sir, I wanted to check – we have been hearing that the major demand, 70% of the demand in real estate space, comes from the top 7-8 cities. But with regard to your recent foray in Surat, that's maybe you can say a tier 2 city, how does this foray come in our strategic growth map? What's our thought process? Maybe I am looking from a medium-term strategic growth point of view.

Kamal Singal: You are talking in the context of Surat, right?

Harsh Pathak: Yes, Surat and in general our foray in our tier 2 cities. Are we looking for similar forays in other tier 2 cities as well or will we consolidate in this market? Any color that you can give.

Kamal Singal: We have historically been a little conservative when it comes to geographical expansion and adding a new city. In the first almost 1 decade of our operations, we limited ourselves to Ahmedabad-Gandhinagar being a twin city and Bengaluru. And then we started thinking of cities like Surat. In fact, we talked about Surat almost a year and a half back when we thought that this could be potentially a great opportunity for us. Quite a few things have happened since then in Surat including the Bourse coming in and other activities like bullet train becoming a reality very soon, maybe by FY26, we start seeing the train running through the city, etc. You'll be surprised that Surat actually is bigger than most of us believe. It's almost as big as Ahmedabad is on many fronts, including the number of houses sold, the size of the market, per capita income, overall scale and size, businesses, etc., including population. Almost they are the same size. So, it's a very natural fit. It might not be a tier 2 strategy for us in that sense, typically. But we see Surat as a very natural extension. Whatever way we look at it, it could be seen as an extension of Ahmedabad, just a 3-hour drive from here and very similar consumer mix, customer mix, brand recognition, etc., almost the same size, and it can also be seen as a twin city to Mumbai, for example. Once the bullet is ready, it's about 1-1/2 hours from Mumbai. So, to that extent, it fits perfectly into the strategy overall. And we have spent enough time understanding the city, understanding the markets, and we have taken more time than what we would have ourselves anticipated to enter into this city because we wanted to make sure that we enter with size, scale, and then the city should have potential to go deeper as we go forward. It's not about doing an opportunistic 1 or 2 projects. Once we enter, it has to be of decent size, and that box also gets checked in this case. Other than that, we have said that in the medium term, Ahmedabad and Bengaluru obviously our home markets, then MMR is our third priority. So to say, we have taken time before we announce something concrete in Mumbai, but in Pune, we have already got going and we hope that we will add something there as well. These three are going to be our medium-term focus. And Surat can be seen more like an extension of either Ahmedabad or Mumbai, whatever way you want to take it.

Harsh Pathak: Any progress on the Mumbai market that you would want to highlight?

Kamal Singal: Mumbai, we are very intensely into the market at this point. We are not in a position to announce anything at this point in time, but the focus is becoming narrower and narrower. Hopefully, in the coming quarter, we should be able to announce something there, but that enough and more resources are already put in. We are very closely monitoring and evaluating the market and specific opportunities. Hopefully, something should materialize soon. Surat is a great addition. We are happy that finally we have broken into the market, and once we reach there and we have a strong setup there, I am sure this will give us a great opportunity to go deeper in a market which is as important as Ahmedabad for us.

Harsh Pathak: Just one last question. When you say that when we are nearing closure on the Mumbai market, will it be an outright purchase or a JD? I am asking more from a cash flow management perspective.

Kamal Singal: It could be both. But the way we are seeing at this point in time, it's looking more like a JD entry where the initial fund deployment will be contained to a large extent. But we are open to both, we are evaluating both. Going with the sheer numbers and the trend that I am seeing from the option that we have evaluated of late, it seems that chances of a JD happening are higher than an outright happening.

Moderator: The next question is from the line of Akshay Kothari from JHP Securities. Please go ahead.

Akshay Kothari: Sir, congratulations on a very good pipeline. And it was exciting to see Arvind SmartSpaces foraying in Surat. I just had 1 question. What is the nearest village on NH 48 where we have done this Surat thing? Is it near Kamrej?

Kamal Singal: Yes, it's very near to Kamrej, you are right.

Akshay Kothari: Again then following up on that, based on the indicative top line of Rs. 1,100 crore and 13 million square feet generation, per square foot would be around Rs. 850 per square foot, right?

Kamal Singal: It will be more like Rs. 7,000 to Rs. 8,000 per square foot of realization on the land, yes.

Akshay Kothari: What would be the size of the plot?

Kamal Singal: That we have not figured out yet. It's at a very early stage of planning and designing, etc. I think those details will emerge over a period of time. We have just got into an agreement and finalized the deal, etc., but we will share such details when we are close to the launch. Anyway, as per the regulatory requirements, RERA, etc., we aren't supposed to be getting anything on the project before it is approved. So, we will wait for that information. But generally we will do what we keep doing at a place like Uplands in Adroda, stuff like that or a mix of both.

Akshay Kothari: Sir, just one last thing. Just to get your thoughts on this. Surat is generally very famous for textiles and diamond market of late. The thing is inherent nature of these businesses is that the people have so much of cash that their second business is generally becoming getting into real estate because generally that is where money can be parked into. We being a company who doesn't indulge in all these activities, how do you see this market actually evolving? Because, today it's not there. In fact, the real estate players over there are the ones who actually are very much unorganized.

Kamal Singal: When it comes to buying a house, it's like something that if you like, then you stretch yourself. If you don't like, anyways there are many reasons not to buy that. We have seen that wherever we have delivered a great product, for example, Uplands, irrespective of the values that were there at unit price levels, once people like it, to manage cheque is not that big an issue. Banks are funding. That means that even businessmen want to have a little bigger size of their balance sheet these days. The overall environment is changing, overall orientation is changing, and investing in a house doesn't mean that you have to take the entire liquidity out of the system of your business. It broadly comes from a bank if you so need it, and that's the cheapest source of money in any case. I will give you one example. If you are buying a Rs. 10-crore house, you have got 2 options. One is to take that money from your business out even if it is cash. But the cost of that capital, direct or indirect cash or otherwise, has to be much more than what you could have otherwise managed through a bank. So, even for a businessman who has a lot of cash and who keeps a lot of cash deployed in his business, he is always short of cash. That's how businesses work. And then to get into an asset which is appreciating, an asset he wants to enjoy, it is actually better despite having cash to take that money from the cheapest source which is housing loan and then deploy it irrespective of whether it is Rs. 10 crore or Rs. 15 crore. All these combinations make a lot of sense. We haven't faced the kind of problem which looks like or appears to be from a periphery and we have been able to sell quite a bit of these products at a very hefty pace. And of course, Bengaluru and those kind of markets don't have this issue at all. In Ahmedabad, we have cracked this already in multiple projects, multiple sizing, scales, etc. So, very hopeful and very reasonable to believe that. This is one aspect that we need to be careful about, but having said that, if the right product is delivered, the right product is planned, and the right excitement is created, there shouldn't be a problem selling it.

Moderator: The next question is from the line of Rishikesh from RoboCapital. Please go ahead.

Rishikesh Oza: Sir, my first question is that we have ongoing unsold projects worth around Rs. 1,400 crore if I have to see the operating cash flow table that we have presented in our presentation. I would like to know what kind of expected sales velocity do we see here now.

Kamal Singal: In the ongoing unsold projects you are saying?

Rishikesh Oza: Yes.

Kamal Singal: Generally, from the sales mix point of view, we see a trend of one-third and two-third coming from sustenance and new launches. Broadly, this is what we possibly could be doing this year, and this is what we should be doing next year. Does that answer your question, or you have some other part of the question to be answered?

Rishikesh Oza: I wanted to mix this up with also the Rs. 4,000 crore GDV that we are planning for FY25. What kind of velocity do we see for both of them? If you could provide us separately like for years of velocity that you see for unsold ones on ongoing projects and the ones that you will be launching in FY25.

Ankit Jain: Part one of the question is with respect to the completed and ongoing projects. It has increased significantly during this quarter. And as you rightly pointed out, it has reached close to Rs. 1,400 odd crore, mainly because of the 2 launches which we had. We had one Forest Trails launch with an approximate sale value of Rs. 550 crore, out of which only Rs. 150 crore is sold. Hence, Rs. 400 crore has got added into the inventory of ongoing projects. That is one. And second one, is the phase II launch of Uplands 2.0 for which we have launched close to around Rs. 325 crore of inventory and out of which Rs. 75 crore is sold. So, the balance Rs. 250 odd crore gets added to the ongoing projects inventory. That's why you see an increase in the ongoing inventory number.

Rishikesh Oza: And this Rs. 1,400 crore, how many years are you expecting to sell it off?

Ankit Jain: This comes into our sustenance entry basically.

Kamal Singal: It is difficult to predict at this point in time, but you could see that in a couple of years' time, 2 to 3 years time, everything should be on an ongoing basis getting liquidated. Last year, we sold Rs. 800 crore total. This year, we are hoping that we will grow by 30% on the sales and next year also we will grow by 30%. That's the base target that we are keeping. Building on that number if that's how we are going in totality and if one-third of that is supposed to be coming from sustenance, I will rather look at it from that point of view. And that way, it is very easy to crunch that number in that sense. You can just plot the overall sales number first, which is starting from Rs. 800 crore and this year and then next year, and then assuming that 30% to 35% comes from sustenance of that, I think that's a better way to look at it rather than seeing how and to what extent and what quantum will be sold from the Rs. 1,400 crore to Rs. 1,500 crore that we have right now. To that extent, you could analyze because sustenance also is an evolving number. We launched something today, Lakshmanpura. Maybe a couple of months since the launch phase and thereafter it enters into the sustenance category in that sense immediately after the first major launch. So, we will see that one-third should come from sustenance on an ongoing basis. And overall number of sales you know how to predict and work.

Rishikesh Oza: Also, How do you see the revenue and EBITDA margins from a P&L accounting perspective for FY25 and FY26?

Kamal Singal: MIS sales is something that you know how they are appearing and how it is happening. And books are obviously delayed by 2 to 3 years on an average. That's how the trajectory is. Generally, within a legitimate gap, the trajectory of growth that you see in your fresh sales should be also dovetailed with the trajectory of growth in the books of accounts. If we say that we have been sort of consistently growing to the extent of 30% to 35% on fresh sales year on year, that should be the stabilized growth appearing in the books of accounts. So, one way to look at it could be that you just assume that similar growth shall be visible in the books of account as well, which is more like 25% to 30%. But one major disclaimer in this is that it can really vary. On a comparatively smaller base of number of projects, etc., for the company like ours, it can vary from period to period because of that one trigger point when you firmly say that this project is closed and this project is completed, OC, etc. Because of this 1 stop point, which is 1 button to be pressed – 1 day, 1 minute – this can vary, but on an average, long term and medium term, the growth trajectory will catch up with each other in both top line fresh versus what enters into books of accounts. The other relevant factor in that is that as of now as we speak, there is in excess of Rs. 2,000 crore worth of sales which has already happened where the money is coming, going, and development happening, unrecognized revenue which is actual sales but not yet reported or entered into books of account is worth Rs. 2,000 crore as we speak. That's how you could take it. That is also one important handle for you to work on this number to predict what could happen in the books of account and at least next 2 to 3 years by when these projects are getting completed in any case.

Moderator: The next question is from the line of Amit Jain, an individual investor. Please go ahead.

Amit Jain: I have a couple of questions. First question is, from the launch to 6 months of time, what percentage do you ideally want to sell off?

Kamal Singal: Internally, we would always target to sell in the first burst itself, maybe more like a month, month and a half, 2 months, at least 30% to 35% and thereabouts. Because once we do that, we know that the project is broadly in autopilot mode when it comes to money required to execute. 35% is a very good number. And then you know that basically you don't need much of a money for your construction and the cash flow requirement goes to almost zero if not exactly zero. That's how most of our projects are doing. As we speak, most of the projects are breaking even on the construction side and creating positive cash flows thereafter. So, 30% to 35% is the first milestone that we need to achieve, and that generally we tend to achieve sooner than 6 months. After the initial launch within maybe 1 to 2 months or 3 months of launch, thereafter it's a sustenance phase. And every month, you then tend to start selling something like 2%, 1%, or 3% every month and thereabouts depending on velocities. We confidently, have been selling much more than the numbers that we just discussed in many of the projects we have sold in the recent past. But as management, as business people, we are happy selling one-third and thereabouts in the initial burst.

Moderator: The next question is from the line of Rakesh Wadhwani from Monarch AIF. Please go ahead.

Rakesh Wadhwani: How are you finding the land prices or the JD agreement shaping up in the future? Because, now, what we have seen in the last few quarters or last 1 or 2 years the demand for real estate is very strong. That has led to land price increases or the share that is being asked by the JD partners is higher. Are you witnessing the same thing and how are you trying to manage that?

Kamal Singal: In general, yes, land prices have moved up across markets and across geographies, and outright deals are more expensive. That's the trend. But the good news is that such price hikes have broadly been taken care of by the improved realizations. And hence margins, if at all, have got into very little pressure at this point in time. But having said that, lands have become more expensive and hence absolute values and the costs have gone up for the end product, but still the demand and the sustainability of demand is quite widespread and most of the inventory is being bought by people who are not big investors buying for speculation. These are long-term investments or long-term consumption sort of purposes that the buyers are buying the inventory. So, it's no big worry, and it's quite sustainable.

Rakesh Wadhwani: How are you negotiating with the JD partners for that?

Kamal Singal: JD, especially in the larger land parcel, is quite subjective. People are looking at much more dependable, corporate, governed, and trustworthy people to partner with. There, the competition actually is less than what we would have anticipated. And that basically is a function of track record versus the brand and the reliability, etc. They are finding a good deal. In fact, it's more of us choosing rather than opportunities coming our way because we have to create value, we have to create the destination, and these are long-term commitments and generally these are long-term value creation projects. So, there, it's about us understanding the potential of the land more. And valuation generally is not that big a concern. Outright deals are a little more difficult because the price sensitivity there is high for both the parties and generally the valuations have gone up on our outright deals.

Moderator: The last question is from the line of Deepak Purswani from Svan Investment. Please go ahead.

Deepak Purswani: Sir, I just wanted to understand, in terms of the launch pipeline for the next year. Since we have mentioned we have an inventory that we launched to the extent of Rs. 4,100 crore, I just wanted to get the sense especially related to the 2 projects in terms of the approval process. One is NH 48 Surat which was recently launched. How should we look in terms of the approval for that project? And second is the South Ahmedabad one.

Kamal Singal: Both these are very large projects. And of course, approval processes are a little longer than a medium-sized project or a small-sized project. To that extent, in the coming year, we will be a little heavy on these launches in the second half of the year. And we are hoping that both these projects should be hitting the market in the real sense in the second half. And hence, in fact, the first 2 quarters comparatively will be a little lighter on launches and will be significantly heavier on a planned basis in the second half. And both these should hit the market in the second half.

Deepak Purswani: And sir, if you can also share in terms of our economic interest in the figures and numbers at the current juncture. For example, last year, we did Rs. 800 odd crore. And this year, looking at the trajectory, we may close at Rs. 1,100 odd crore. Can you please share what would be our economic interest in these figures?

Ankit Jain: We do share our economic interest project-wise against each of our projects. We have already put in, in one of the sheets in the investor presentation our economic interest. You may refer to the same.

Kamal Singal: But just a reminder. These EBITDA numbers and the margin numbers that we report, this is after all other interests being taken care of – landlord's share of land, JD-JV shares, etc. So, whatever is reported from MIS standpoint or the project margin standpoint etc., all the numbers are post external interests.

Moderator: As that was the last question, I would now like to hand the conference over to the management for closing comments.

Kamal Singal: Thanks a lot everybody for participating in this earning call of Arvind SmartSpaces. And thanks again for your continued support on this. I hope we have been able to address most of your queries. However, if there is anything missed out on any of your questions, kindly reach out to Vikram and he will connect with you offline and clarify and give further information as may be required. Looking forward to interacting with all of you in the coming quarters. Thanks for your time.

Moderator: 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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