"Arvind SmartSpaces Limited's Q3 FY'22 Earnings Conference Call"

January 28, 2022

MANAGEMENT: MR. KAMAL SINGAL – MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER, ARVIND SMARTSPACES LIMITED
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Moderator: Ladies and gentlemen, good day and welcome to the conference call for Arvind SmartSpaces Limited's discussion on Financial Results for the Quarter-ended 31st December, 2021. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Ms. Krishna Patel, Christensen Advisory. Thank you and over to you ma'am.

Krishna Patel: Thank you, Rochelle. Good evening, everyone. On behalf of Christensen, I welcome all participants on the Q3 FY'22 Earnings Conference Call of Arvind SmartSpaces Limited.

We have with us today Mr. Kamal Singal – Managing Director and CEO; and Mr. Ankit Jain -- the Chief Financial Officer of Arvind SmartSpaces Limited. Please note that a copy of disclosure is available on the investor section of the website of Arvind SmartSpaces Limited as well as on the stock exchanges. Please do note that anything said on this call which reflects the outlook towards the future or which could be construed as a forward-looking statement must be reviewed in conjunction with the risk that the company faces.

With that, I would like to hand over the floor to Mr. Kamal Singal for his opening remark. Thank you.

Kamal Singal: Thank you, Krishna, thanks a lot. I am also joined by Mr. Avinash Suresh who is the COO of the company in this call along with Ankit Jain who is the CFO.

A very good evening to all of you and thank you very much for taking time and joining this call. As I can understand this time there are quite a few people who have joined the call for the first time. So I find it appropriate to spend five extra minutes to explain and tell a little more about the company for their benefit and then we get down to discuss the numbers.

So just for the benefit of the newcomers or new joinees in the call, we are Arvind SmartSpaces, part of Lalbhai Group, which has a legacy of more than 120-years, possibly one of the oldest business houses of this country. We got demerged from Arvind Limited in the year 2015. Before that, we had been operating as a division within this company under a flagship Arvind Limited only and we got demerged in the year of 2015 and became an independent entity so to say, primarily focused on residential development, but within residential development, we have a very wide spectrum of products and services that we offer to our customers which includes a large, medium and small size of projects, horizontal, vertical, every type which includes very-very large township developments, very high end villas to medium size villas to apartments which are low priced, which are medium priced and which are luxury apartments as well.

So, we cover pretty much wide spectrum of residential products, primarily focused in Bangalore, Gandhinagar and Ahmedabad. In Pune, we started our business sometime back and to just have our feet wet there, we did one project which is currently underway. This has helped us in understanding our business there, the environment there, regulatory challenges there, and in general, to understand the market in a little more detail, MMR and Pune. We have gone through that time and we now believe that it's time for us to take a significant step forward and expand geographically in the city of Pune and MMR and in that process, we have just rolled out our major investments in the cities as well. So, this is as far as our product and customer segment issue is concerned.

We have got very important relationship which got going within HDFC Capital. HDFC Capital, after having invested in a platform with us pre-COVID, have now finally joined the company at equity level itself in the parent company which is Arvind SmartSpaces Limited. They have picked up a little less than 9% equity into the company. This is one of those rare investments from HDFC Caps where they have invested into a parent company as an investor so to say.

The company has been on a small base growing very-very consistently, last five years have seen a very consistent growth of anywhere between 30% to 50% in various important variables and parameters which we'll come to the later part of the presentation.

Moving on, just to take you through the timelines of the company, In 2015, as I said we got demerged from Arvind Limited. First infusion by promoters happening in 2016 through a preferential route, then again in 2018 promoters infused further money. In 2019, we announced our strategy partnership with HDFC Capital through platform investment so to say, it was broadly an equity platform. Generally, there would tend to be structured debt kind of arrangements with the developers on a platform basically, but this was truly in the sense of fit an equity thing where distributions are happening or supposed to be happening based on our proposed mechanism, we earn the net X and we get our X-plus, the sweat, so to say.

In 2021, we crossed the milestone of 500 crores of fresh sales despite disruptions due to COVID or otherwise and this year also we are on track to register a healthy growth from there onwards.

We issued 7.4% equity to the KMP as well in 2021 and obviously in the same year this preferential allotment to HDFC and promoters happened. As far as promoters are concerned, this was the third infusion from them in the year 2021.

Coming back to the business, as I said, we are primarily focused on residential. Pretty much 97% of what we do is residential and within residential around 70%, 71% is mid-priced. That's where we do a lot of business. So our sweet spot has been 50 lakhs to 1 crore ticket in the cities like Bangalore, Ahmedabad, Pune, etc., and 22% is luxury. Luxury, we mean some of those products which are in excess of say Rs.3 crores to Rs.5 crores. In the city of Ahmedabad, we have a few projects where we sell units on an average at around Rs.5 crores and expensive ones within the project might go as high as Rs.15-20 crores as well. That's also a healthy proportion as far as the whole mix is concerned.

In the ultra-affordable, we are small, we don't do much there but nevertheless we have a little bit of that and that account for around 6% of our portfolio.

On the capital side, more than 70% is done through JDAs and the balance is outright purchase. So we always look forward to having a healthy mix of JDs, JVs, etc., along with the bought out land as well. We believe that while volumes and scale can be achieved quicker and faster and in a better way through JDs, but at the same time we cannot underestimate importance of having our own skin into the play and hence we keep very healthy share of our own project which are acquired and purchased on an outright basis as we grow.

As we speak, we have taken up a total development of around 25.4 million square feet, out of which, we have delivered just about 3.8 million square feet, we will be delivering some this year or early next year but ignoring that the components are 3.8 million square feet delivered.

Ongoing projects account for 14.9 million square feet and 6.6 million square feet is planned. So this is how 25.4 million square feet totally stacked up. When I say plan 6.6 million square feet, they are firm projects, either they are the phases of the ones which are already launched per se and the subsequent phases are lined up for launch or these are lands which are already acquired, they have come into our name or definitive agreements have already been signed in, part tenants have already been done. So, this is how the project pipeline pans out.

A lot of these details will be available in the “Investors Presentation” which has been refreshed today itself and you are encouraged to go through the presentation. This will have quite a bit of information on specifics about what kind of projects, where and how individual projects are stacking up, etc.,

A little bit about what are the key sort of strategic pillars that we have in our business. One is the satellite model and as I said 70% is JDs. We have a very balanced risk profile. When I say balanced risk profile it is on multiple accounts; one is we have been managing our debt at a very, very reasonable level. So, we always have had the target to keep the debt-equity at below one.

As we speak, the way business has evolved in the last seven, eight quarters, the cash flows have been exceptional and hence we've kind of flight down our entire debt and we're sitting on some reserves. So net debt actually is negative but nevertheless as a policy we know that we will not be crossing more than one debt-equity. We have a strong vision or cycle when it comes to products and market operating solutions, etc.,

Each one of our project will have a very clearly spelled out innovation or something that surprises the customer in the form of one or the other USPs, very, very customer-centric as an organization and with some very-very strong governance and systems and structures in place, I mean, as a manufacturer from our DNA of 120 years we know what it means to be having systems and regimentations, etc., and the importance of having governance, staff, members in place we are able to scale up the business the way we wanted as any other business that we've been doing in the past.

So these are pretty much the five pillars that we have as our foundation. The company really can boast of several of its strengths which are like one of the very strong brands that we have in the cities like Bangalore…Bangalore is our second home. Thousands of people there in other businesses. The entire brand side of business in the retail side of business of the group is headquartered there and of course everybody know us so to say.

And with a very strong Gujarati connection, MMR and Pune is quite a familiar terrain for us. One of our businesses are early business so to say, telecom is housed and based out of Pune and hence we know that market as well as a company or as a group so to say.

We have some very robust partnerships throughout our group and even within real estate and smart spaces business, we have some very-very strong relationship with landlords and with our stakeholders. That's one of our strengths.

We have a comparatively smaller base scale. And as you know that once you are done with your working capital requirement which is in our case, raising bank money for growth is a challenge. So that's one of those challenges that we face. If you are not deficient on working capital, and if there is nothing to bridge as far as project completions are concerned or the working capital requirements are concerned, RBI guidelines or otherwise, it's very challenging to raise funds from the formal banking channels, but nevertheless, that basically is one challenge that we are trying to work on through various initiative like HDFC platform, HDFC coming in form of being a strategic partner and having alternate sources of money to fund our growth.

And as we speak, debt levels are so low, they are negative as such. We have a huge opportunity to use this headroom to fund our growth for the next cycle of investment. Industry has been consolidating as we all know due to RERA and various other reasons. Cash flows have been tied. Several crises industry has faced. Hence, the number of active developers in the market have done down dramatically. One estimate says that active developers in major cities have gone down in excess of 50%, in some cities it could be 70%. So if there were 100 developers operating, today, maybe there are 30 to 40 in many markets operate in. So this consolidation means two things. One is that the sector is generally looking up and consumers are looking forward to investing in real estate openly as an asset class. That's one part of it.

But the other part is that, owning a house is now seen as something that is a must, that is something that is more than investment, that consumption and investment together. Due to COVID, people have realized the importance of having their own homes. And that means generally there is a demand push. And this push is not short term in our industry. We've been seeing this push for the last several quarters and we always believe that this is here to stay, this is a sustainable trend. This is one source of growth for the industry in general. But the other thing that we are seeing is this consolidation side of the whole process, where even if industry grows at x as far as organized, corporate developers with brands and track record, I think they will see a 2x growth, they will have both the benefits coming their way. One from the industry growth in general which is quite sustainable and looking up after a long time and the other is the consolidation side of it, which obviously benefit the specific class of developers and we are clearly seeing these tailwinds coming our way the way we have been able to do whatever we have been doing in the last few quarters. So that's as far as the strengths and some of the challenges are concerned.

The company clearly has some very important competitive advantages, just to name a few, land sourcing has been one of our key strengths, and we have a very, very strong JD and land sourcing team. All of land deal have been possibly benchmarks in the way they are structured, the way we have been fair to the landlord, and the way they create value, focuses on creating value rather than sharing to maximize the share, etc., we've been able to source some wonderful deals and wonderful land parcels, we continue to do that. Our investment cycle slowed down in the initial phase of COVID with various uncertainties, and obviously, it was a natural reaction to say that okay, we'll hold investment for the time being before the uncertainty sort of pinned down. But now we're in the mode where we are effectively now expanding our pipelines and quite a few announcements have been done, this quarter, we announced a large deal in Pune, which marks beginning of investment cycle in that region.

Second important competitive advantage that we have is very, very successful partnerships throughout the group and within real estate business. All our JDs and JVs are very successful. We have very, very healthy relationships. People are keen to invest once again with us on JDs and otherwise. So, it's been in our DNA and this is how we know the business to be conducted for the benefit of not only us, but also our partners. We have a very, very strong execution team. We are delivering everything on time. Till now, we have delivered quite a few projects and all of them have been 100% on track.

As we speak, all the projects which are underway are significantly ahead of time on delivery. So, there are no concerns or anxieties on deliveries till date. We definitely take up project in a very, very conservative way when it comes to evaluating and selecting a land deal or a project deal. Value for money is something in all categories, be it affordable, or mid-priced or luxury, we always are very careful about and ensure that an equivalent branded player. We don't compete with the locals, but we do compete with the best of brands in our industry in the micro markets. And there we ensure that if x was our competitor, similarly perceived and branded player we leave at least 10% to 12% of money on the table and try to offer a little bit more in terms of specs and designs, etc.

And for the benefit of all here, Ahmedabad is the architectural capital of this country. We brought so many first in the country, and it has evolved significantly ahead of many markets that we see around, for example, we are doing quite a bit of work in Bangalore, and we do a lot of work in Ahmedabad, of course, Pune has started. If I were to compare the two markets, I'll put Ahmedabad at 150 on a scale if Bangalore was 100, then it comes to designing, the facades, the way the designs are evolved, etc., and many big names including B. V. Doshi, etc., they actually hail from this city. So that brings a very, very specific attention and focus on design and aesthetics and look and feel, etc., when it comes to building design. And of course, we are here to leverage a new brand which has a very, very long history of being a very credible name and brand in a lot of businesses that the brand is involved in.

The “Investors Presentation” which you might access from the website, it will tell you the trajectory of growth in various things, for example, our fresh sales has been growing at a CAGR of around 49% in the last five years. It was around 73 crores in '16 and it has reached Rs.529 crores last year and we target and hope that we'll be able to cross this easily this year as well. Same way our EBITDA has grown from Rs.25 crores in 2015 to Rs.89 crores in 2020. 2021 was a little bit of a break because of disruptions coming in various things and scale, etc., due to COVID first wave, but otherwise there as well we had a very, very healthy growth. Our PAT has moved in a similar direction from Rs.11 crores in '15 to Rs.39 crores number in 2020.

Going forward, a bit of information about how we look at the markets from here onwards. So, we definitely want to continue our focus on residential development. That's one. And that's our kind of way of remaining a little conservative at least in the medium term. We said we will be leveraging one aspect of derisking the business. Residential focus is our understanding that the capital requirement is comparatively low, and its less kind of cyclical in the form of demand-supply, etc., and hence makes more sense that our life cycle or life stage to have more focus in residential investment we are doing.

We have been very, very conservative about geographical expansion mainly into the assumption that, every geography is a new business, it's not cutting and pasting or it's not copying and pasting, every market needs very, very different kind of responses to very different kind of situations and ground realities. And that's how we have been doing business like we started long in Ahmedabad, then we expanded in Bangalore, currently quite a bit in Bangalore, obviously, there is a lot of scope to multiply there. And that's what we're trying to do right now

But having said that, the third market naturally for us was Pune and Mumbai, because that's the customer mix, that 50-100 lakhs and some sort of premium blend of this makes sense in these two cities as well. But we ensure that rather than jumping into the market, we took up a project, wetted our feet there, went through the grind, and understood a lot of ground realities, regulations and other things. And we are now very confident to say that look, we have gone through all this and we know the market, from consumers point of view, from product point of view and from regulatory environment point of view and this is a time for us to take a bigger leap, and that's what we have just started doing, and we've acquired a large one this month itself,

We intend to have a very judicious mix of medium term and long-term projects. We believe that some large parcels, if they are not too capital intensive, are very helpful in sustaining the numbers and consistent cash flows, etc., That's, what we've done in three or four large projects that we've taken up in past and we're currently executing as well. So, our philosophy is that we take up decent size of projects where we can create value, we can create destinations, so project should be on its feet to start with, at the same time as we progress through the project it would create independent value because of creation of destinations as we call it, as we move ahead and create disproportionate value towards the end of the project. That's what we have been doing and that's what our focus has been and that's what we like to further consolidate.

We have a very significant headroom to raise funds. We have had very healthy amount of capital infusion. We have had some strong cash flows, internal accruals. At the same time because the company is now debt-free, even while remaining within conservative norms of debt-equity, etc., we know that there is a very significant headroom to today's fresh debt and hence all three sources are significant and this investment cycle has been kicked off and we acquired three projects recently all of through large ones and we are looking forward to closing few more deals in the months to come. So that's pretty much how we look at it.

Of course, HDFC has been a great addition. One of their nominee directors is on board, Vipul Roongta, some of you must be knowing him, who heads HDFC Capital, is now a member of our board as a nominee director. We have a lot of expectations from this relationship, because of some very, very important past and varied kind of experience that a fund as big as HDFC could have. With their experience, we not only hope to leverage on their knowledge about the business in general, but also about sourcing land, kind of deals and kind of opportunity because they are into this from a very different perspective and point of view. And they've seen this market from a wider lens than what any individual developer could see. So we are very hopeful that this relationship is going to be very, very fruitful for both of us.

Coming to the specifics of this Q3 FY'2022, fresh sales for the quarter is sustaining healthy; it is at Rs.158 crores for this quarter vis-à-vis Rs.144 crores last year, which represent a growth of around 10%. When it comes to YTD numbers, the growth has been very significant. The year-to-date number for fresh sale is Rs.451 crores against Rs.322 crores for the same period nine months last year, which is a growth of 40%.

Just to recap, we had closed last year for the first time with fresh sales of Rs.529 crores and this year in the first nine months ending December '21, the sale number cumulatively stands at Rs.451 crores.

One important parameter or variable that we always keep an eye on is the unrecognized revenue which is inventory sold, but not recognized in the books of account, it has moved up from Rs.762 crores as on 31 March '21 to Rs.1,035 crores as on 31 December '21. This Rs.1,035 crores does not include the share of sales out of projects which are happening on DM basis. Of course, that sale figure although it's there in fresh sale number but it does not reflect in our books of account, there only the DM fee reflects in our books of accounts and that's how these numbers are calculated and Rs.1,035 crores does not include such sales.

On collection side, it has been record quarter once again. Against Rs.105 crore collection last year same quarter, this quarter we've collected Rs.154 crores, a very healthy growth. Even on a YTD basis, collections have been extremely strong. Last year, we collected for the year as a whole something like Rs.192 crores in first nine months and this year first nine months we've collected Rs.434 crores. Collection is pretty healthy, a little about net interest bearing funds, that is basically debt position. We started last year December at Rs.197 crores debt for the company as a whole, which is now minus 85 crores, so there's a delta of around Rs.300 crores or thereabout. We wiped off that debt and we are sitting on reserves and surpluses as of now. This money is waiting to be invested in. We are very aggressively trying to deploy this money as soon as possible. And at the same time, we have to come back to the previous levels of debt and maybe increase a little more because the equity side increased quite a bit, mainly on account of the profits obviously during these periods and also on account of additional equity which has flown in from HDFC and promoters, etc., during the period.

A little bit of information about the last project that we signed, very recent project it is. It is a project in Pune in a micro market called Bhugaon. This is a 35 acres of land parcel which we are buying on an outright basis. The definitive deal has been signed. We have paid part money already. And due diligence is over and we are hoping that the final diligence and other things will happen at a brisk pace. But as far as finalization is concerned, the project is all done and this is a decently sized project measuring 35 acres, which has indicative saleable area of 1.3 million square feet if you were to develop only villas on this land. That's our initial idea that will be developing villas there. We have had some great experience in developing world-class villas in multiple locations in Ahmedabad. We did that in Bangalore as well. And we believe that we can bring in disruptive innovation there in villa kind of projects. There are so many venues and new kind of solution that we could bring into the market and that's what we want to replicate in Pune. First one was not that big as such. As I said, just about wetting the feet there. But now this one is very large, 35 acres, with a potential top line of around 700 crores.

Just to explain a little bit about project pipeline. As on March '21, we were at 22.8 million total projects taken up, out of which 3.8 million was completed. Today as we speak, the number has gone up to 25.4 million, out of which 3.8 million is completed and from the balance 14.9 million right now is under execution and 6.6 is plan. So, you can get actually much more sort of details on that in investors' presentation, which is uploaded recently.

On the financials, post the completion method, we used to take revenue based on part completion method and now we are supposed to be realizing only when the projects are getting completed. One word of caution here is that, for a company, which is not too big at this point in time and projects are not as many as you could see in some of the other mature and bigger players, we'll always have these ups and downs when it comes to booking of sales in our books of account based on this accounting standard. So, it always creates that sort of going up and down in the books of account, but nevertheless, we are at Rs.42.9 crores this quarter against Rs.44.5 crores last year. So, it shows a decline of 3%. When it comes to PAT, we have grown by 18% at Rs.5.9 crores from Rs.5.0 crores last year same quarter. PBT is also up by 21% to Rs.9.3 crores from Rs.7.7 crores last year. EBITDA however is a little down at Rs.12 crores from Rs.14.4 crores last year. This is the quarterly numbers.

On a YTD basis, the numbers are looking a little better; at Rs.95.6 crores against Rs.84.8 crores last year, there is a growth of 13% on revenue. PAT has grown to Rs.27 crores against Rs.25.7 crores last year. PBT has grown healthy, at around Rs.15.7 crores against Rs.5.1 crores last year and PAT is at Rs.11.1 crores against a figure of Rs.2.2 crores last year YTD December. So, that's how the financial numbers have moved.

I think I talked about the debt already that debt-equity ratio is (-)0.21 and on net basis, net interest is 8.7 now, gone down to (-)85 crores which is a surplus money lying in the banks of accounts as we speak.

Shareholding pattern remains broadly the same. A little dip because of the shares issued to HDFC from 56.88% belonging to promoter and promoter group, it has come down slightly to 54.34% and accordingly 9.51% has now gone to real estate Investment Fund from 0% previously and accordingly the public float has gone down drastically from 43%-odd to 36% right now. So that's pretty much the story. We have lot of details which are given in various ways of slicing and dicing on our investors presentation which can throw a lot more light on various things… project-wise, location-wise, style type of inventory-wise, saleable, unsold, values, etc., So I think it will be helpful if we go through those numbers and we'll be happy to respond any specific detail that might be required still once you have gone through those numbers.

So with this I am pretty much gone as far as numbers are concerned and maybe we are now open for any questions that might be required to be asked.

Moderator: Ladies and gentlemen, we will now begin the question-and-answer session. Our first question is from the line of Dhananjay Mishra from Sunidhi Securities & Finance Limited. Please go ahead.

Dhananjay Mishra: Can you provide figure of the total launches we had last year vis-à-vis what was the sales booking last year in terms of volume and also in nine month the same figure launches versus booking?

Ankit Jain: Specific to the details, the details are available on our website in the investor presentation of last year. Nonetheless, I can read out for a quick update. Last year total number, if you were to ask me total booked area is 28,65,000 square feet and in terms of value it is Rs.529 crores for the full year as a last year versus current year Rs.451 crores for the current quarter with the overall total value of 2.08 million to be precise.

Dhananjay Mishra: Coming to the upcoming launches if you could talk more about this Bangalore project like Devanahalli and other projects like Oasis and the Bel Air which is already going on, how is the sales happening and whether we are on track to complete sales on time?

Kamal Singal: There is a very detailed presentation in investors presentation which gives specifics about project wise details in terms of the size, how much we sold this quarter, etc., But just to just to throw a broad light, there are three projects which have been acquired recently, one of the large has been acquired in partnership with HDFC under the platform deal that we had which is right now to the extent of maybe 50-odd acres already done, so 50-acres have come into our books and we want to expand more than that and we are trying to see if we could expand it by another 10 acres to 20 acres, but nevertheless, our initial idea was to do around 50 acres…

Dhananjay Mishra: Our Bangalore ongoing projects are all 100% right, this Bel Air, Edge and Oasis?

Ankit Jain: All 100%, yes.

Kamal Singal: There is no JV at this point in time except for the first one which is yet to hit the market which is this and Devanahalli project which is essentially a floating project in partnership with HDFC. So that is expected to hit the market in Q1. We have for the first 2,700-odd acres, the land use change order coming from the government last week. So we've crossed the major milestone there already and I think we're on track to launch this very soon maybe by Q1 of next year. That's on Devanahalli. Then the second project we acquired is located at Sarjapur. This is a JD project, essentially a large villa development project. There also approvals, etc., are now in process. We have signed initial definitive agreement already and further processes are on and the idea is to bring that also to the market in Q1 itself. We hope that these two should hit the market in Q1 of next year April to June period. The last one that we've just taken in Pune, obviously, this will take time, the land use has to be changed, it's a process of anything between five to six months' time. So I think that project should be launched somewhere in the later part of the financial year. The rest of the projects are at a fairly advanced stage of execution; be it Bel Air, Oasis is about to be completed, I think we should be able to deliver it within this financial year or early next quarter for sure or same is the case with other projects like Aavishkaar, etc., Uplands is happening consistently, selling, building, delivering, handing over, various stages, etc., So other things are fairly at an advanced stage and two of them will hit the first quarter and one which is the last one should hit in the later part of the year.

Dhananjay Mishra: We have 5.8 million square feet unsold inventory from ongoing projects and then we have about 6 million planned project, so total about 11 to 12 million which we will be booking probably in next three, four years. What is our target in terms of annual booking for this year, next year next to next year because already we have done 2.08?

Kamal Singal: We don't have specific guideline in terms of specific targets and numbers there. But we definitely have a plan in mind and that's what we have been pursuing. As you see from our numbers, we've been growing on vitals at the rate of around 30% to 40% most of the times. Our investment cycle was a little subdued when the COVID started and maybe we lost two, three quarters there but right now we're in the middle of a very aggressive investment plan and that's how these people have been added. So what we intend to do is to continue this momentum of sales which is growing at a very, very healthy pace in last few years and that's what we will continue to do. Of course, pipeline to be strengthened. And that's where the entire focus is. We are a conservative company when it comes to selecting a project, but once done, there is no stopping and going to hit the mark as fast as we can, that's how we're doing this. We take this business more like a process industry where land is the raw material, hitting the market is a priority, and having no SG or lowest possible SG is the idea. So that's what we are doing. Building blocks are in place. We have aggressively acquired in the last three, four months and next three to six months, we'll see a lot of action happening and we got funds tied up for that moment. That's how we look at it. All I can say is that we should be looking at a very healthy growth when it comes to fresh sales going forward the way we've been doing in the last few years.

Moderator: Next question is from the line of Keerthi Jain, an individual investor. Please go ahead.

Keerthi Jain: Sir, my question is with regard to the further business development activity. In your opening remarks, you had highlighted that our net debt, which is minus 85 crores plus we have the strength in the balance sheet to lever up. What is the level of leverage you will be comfortable and how much BD we will try to add further in next 12 to 15 months?

Kamal Singal: That's a very good question. Any investor would like to have little more on this. Historically, if you see, as a declared benchmark, we've always said that we want to be in the region of debt-equity of one or thereabouts. Definitely, we don't want to cross beyond one. And maximum we have actually achieved on ground is around 0.8 and most of the times we hovered between 0.5 and 0.8 or so in the past. Now with the enhanced equity base and capital infusion, etc., even if we were to remain at 0.7 or 0.8 and we are having no net debt on the book means that a debt raise of Rs.400, 500 crores should be comfortably possible plus we have a surplus, etc., which we are sitting right now on to the extent of Rs.85-odd crores or thereabout. An internal accrual have been strong. Sales is really performing. We've had a lot of focus on digital and various sales initiatives, etc., So sales has been healthy. Projects are at fairly advanced stages of completion in most of the cases and hence there is a very significant cash inflows expected the way it has been happening in the past few quarters and that's how we wiped out our debt so to say, but this kind of momentum is expected to continue for some more time, and all these three things put together means we have a decent amount of money on our hands to augment our pipeline.

Keerthi Jain: I am just looking rough math sir, like it translates to like 500 crores of land acquisition and that should translate to at least 2,000 crores plus of BD next year, sir, is it a fair assumption? Today, you have done a project announcement of Rs.600 crores.

Kamal Singal: Of course, this Rs.500 crores or whatever, broadly guessing the same number or a similar number. All this money has to be invested in next three to six months' time for sure. This is a short to medium term plan if six months to eight months is a short to medium term plan, it is called so. So yes, this entire money has to go there. Now it really depends upon what kind of products and projects we do. Sometimes if you were to figure out the top line, sometimes the ratio could be 100 crores investing will give you a top line of 700 crores, 800 crores, sometimes it could be 500 crores as well depending on what kind of project coming. But the way we are doing, we are focusing more on horizontals for the last two quarters. We have a very clear focus on all the horizontal projects. So, we want to do projects, which are villas, plots or at least not very heavy on FSI. That's for many reasons that we do, and we continue to do that, then the ratio could be something like 1:6 or 1:7. So, Rs.500 crores investment should be giving us in excess of Rs.3,000 crores.

Keerthi Jain: Sir, your strategy which is very interesting, like why you want to do more of horizontal, like we are hearing from other companies who are listed, all talk about only vertical, 50 floor, 40 floor, what is the thought process about that if you can give some idea that would be great?

Kamal Singal: It's not that we don't do high rise. We have projects which are 22 floors, lot of them are 15, 14, floors, 40 meters, 70 meters, etc., We haven't really done some 100 floors. But below that 60 meters, 70 meters, we have been doing for sure and that has been our core for a long time. But, we always have put a lot of focus on large horizontal developments in the past. We have developed a very, very strong capability there. But what we want to offer is a lot of function of what we are expert in, what we need to be taken to the market is what the market needs. And in our understanding, horizontal has been a little ignored in this country as a whole. If you go to any other developed economy, you will see that there is a core part of city, there is a CBD where you see lot of high rises concentrated in the middle of everything. And then as you start going out, the area start becoming more residential, and more and more horizontal and spaced out and panned out. Now, this focus has been there as far as we are concerned. It also optimizes the risk element into the whole thing. The degree of investment or exposure in construction in such project in relation to the land value, the ultimate profit targeted, and the top line generated is healthier in case of horizontal development and hence the operating leveraging so to say is significantly less, and it optimizes the risk profile on the project side. So we have generally affinity to do horizontals. That strategy has paid off. But having said that, we do quite a bit of vertical as well. Going forward, if we were to deploy x, then I think 60% of that or even more could actually go into horizontal development.

Moderator: Our next question is from the line of Prem Khurana from Anand Rathi. Please go ahead.

Prem Khurana: Sir, just to continue on what the previous participant was asking, I mean, basically on the business development side, just want to understand your thought process, the way you would like to approach this new acquisition, the idea would be to kind of add more in the existing markets, or would you be open to look at new geographies as well, given the fact that now we have liquidity in place, you also have HDFC platform to be able to kind of use it to your benefit, the idea would be to kind of strengthen your leadership position in the existing markets itself or you would like to kind of look at new micro market as well?

Kamal Singal: Great question. I think this is a question we live every day, every morning, every evening. And the answer is fairly consistent. We have gone fairly deep in the markets of Bangalore, and Ahmedabad if we include Gandhinagar in Ahmedabad only, they are twin cities, but still we see a huge potential. If we're doing four or five projects in Bangalore, that's nothing, we could easily do 15. So on one side, we have a very, very small niche, as we call it and we have a significant sort of headroom to go deeper into these two core markets, but we know that in the medium term, we can't be a two market company right. So we need to expand and we have realized that a few quarters back, that's why we took up one small project in Pune to understand the environment there as I said before, and now is the time that we received and got this confidence of knowing the micro market. We have started investing heavily in Pune and MMR. When I say, MMR basically it's the outskirts of Mumbai. So Pune and MMR we are treating as one market, Bangalore as one market and Ahmedabad, Gujarat, Gandhinagar, etc., is the third market. So having done in a reasonable way, right now, good proportion of our fresh investments are now flowing into Pune and MMR region which is our third major city. So in the medium term, I think we'll have enough and more to do in these three. They should give us enough and more room to grow and invest in. And once we've done that, and we start feeling the same way as we did, having done two markets, and then we entered into third one, I think we will start exploring fourth. But at this point, we are focused on these three. And we'll continue to go deeper into these three markets. And that's how it is. We will continue to be a little more conservative about expanding horizontally in the sense. Going deeper is a better strategy. We want to be of very, very decent size in a market that we operate in first before we venture out in the next market so to say in terms of geographical expansion.

Prem Khurana: When you evaluate new transactions, so how do we decide on which project would go under HDFC platform and if it is middle income or affordable, which is what the mandate is for the HDFC platform, if we have an opportunity in the segment, so how do you decide whether you would want to do it on your own or you would offer it to the HDFC platform or is it that you have the right to kind of offer them, and then then they can evaluate?

Kamal Singal: As of now, it's up to us and HDFC, both to jointly do a project or not do a project. So if both of us agree, it can be done. If one of us don't agree, it cannot be done. For example, the Pune one is being done on our own, we are as a company, and there is no other partner. H-CARE 1 Fund which created this platform is done, they've completed the investment cycle of that fund, and that fund from fresh investment and commitments point of view is over and hence the platform release done. The second phase of our partnership with HDFC has brought in extra money, but that has come in the form of equity into the company and hence it's not project-specific, the stake is there, and hence, what to acquire and what not to acquire obviously is an internal issue within the company. Now, HDFC has recently announced, as we understand two days back, they have three funds, which is a huge fund, the investment go as high as $2 billion or thereabouts. Now, that's an open discussion. And obviously, given a very, very strong relationship with HDFC as a group through various sort of arrangements, platform equity, etc., we'll keep exploring how and where and when we can invest to that.

Prem Khurana: You are going to have further presence in the markets like Bangalore and Pune. Generally, what we've seen is that most of these developers, whenever they plan it, they explore new micro markets or new markets, they generally tend to kind of go for JD project, because the idea tends to be you would not like to go to a market where you don't have expertise or you're already not present in that market, because you don't understand the system well, but when I look at Pune that we have, entirely 100% yours. So how does it work with us? You're kind of okay to go solo even if it is a new market, or the idea is you're going to try and derisk and go with some partner early, whenever you're planning to enter a new market, and then once you have some name, then look for solo projects or you're open, either way, you're okay with it as long as you're able to make a good in the project?

Kamal Singal: Great question. But the answer is very counterintuitive so to say if you are expecting one way on the strategy. We believe the other way around that if you are exploring a new market, it's better done with your own funds first, because then the variables we control and the dependencies and the relationship risks are less. With your own money, you will clearly focus on delivering something to the customer unhindered and with the kind of specs, whether or not we make money, because when you have your own money invested, you can take calls, which otherwise you will not be able to do. And first thing at the time of entrance into a market, which matters the most is to make sure that the customers are happy. Now, we don't want to be having constraints there. And that's why we would rather do our own projects to start with. But having said that, derisking our own investment is very key. And that's why we are very, very conservative on investing our own funds into a new market and that's why we are not in 10 markets today, we are only in the third market that we are entering at this point after having done two in a big way in last so many years. So we believe that it's safer to be on your own first, deliver the value, deliver the promise, and make sure that the customers are happy. Before we take any chance with the customers one… we can't take that chance by the way, and more importantly, relationships with the investors or the landowners is as important as our relationships with the customers. I mean, if you think that you're not mature enough, then we have no right to be playing with the value in the land and the money of somebody else and put that relationship and track record in danger. We boast of some of the healthiest relationships with various stakeholders, including land owners. And that's what we want to further consolidate. In fact, unless we are doubly sure about success of a project, both in terms of markets, the products and also our capabilities, we won't rather take any chance which somebody else's has planned for sure. In fact, it comes later.

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

Rishikesh Oza: Sir, is it fair to say the booking value of this quarter is very much sustainable now. And now going ahead, we will be keep on growing this number?

Kamal Singal: That's the whole idea. We have been growing at a very healthy pace, and the last two quarters have been great. And that's why we are pumping a lot of our investment into new projects and pipeline, building blocks are all in place. And if we continue doing the kind of investments we've done in the last couple of quarters, I think we are on track to kind of sustain these numbers on sales. Of course, real estate projects, when you acquire them, some of them take three months to hit the market, some of them might take eight months or nine months to hit the market. But I think important is that even if there are launches happening at a discrete sort of pace and points, important thing is that the pipeline has to become bigger. That's where the focus has been. And we are very, very aggressively working on that. Cycle has been revived with a very, very different kind of trigger and vigor, which was not the case in the initial part of COVID. So we are trying to make it up, cover up the lost time. And of course, the environment has helped us with very strong approvals and fresh equity and debt so, additional debt to be raised, etc., So I think on long term basis, medium term basis, we are poised to strengthen our sales. And the sales engine by the way is working, a lot of building blocks behind this. But I think we have a very, very strong team, which includes the call centers, virtual sales, digital setup. And I think we have one of the most advanced of IT and the technology stack behind whatever we do on the sales side. Sales paradigm has changed dramatically in the last eight quarters, the way houses were sold, the way lease was transacted. I think there has been a sea change. In certain aspects, I think we even crossed some of the developed markets when it comes to the tools and titles available for an effective sales admin to perform as a nation. I think we have been very, very tech savvy people. And we have a very, very strong technology stack going behind the sales. I think we are very well poised to continue our growth in the fresh sales parameter.

Rishikesh Oza: My second question is you're mentioning in PPT operating cash of around 1,500 crores. So if I say approximately how many years can this be realized?

Kamal Singal: There'll be a couple of additional slides in the investor presentation. Most of our projects are getting over between one year to three years, three and a half years' time. So most of what you are reading here, from the list of projects, which are already launched, they should all be done within a span of one to two and a half, three years' time from now. And the new ones, assuming that they will be hitting the market in next six months, maybe three, three and a half years thereabouts to complete the project. So mostly these are one to four years, averaging maybe two and a half, two years, something like that.

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

Ritwik Sheth: Most of the questions have been answered. Just a couple of questions. Firstly, you mentioned MMR. So is something at an advanced stage? Are we looking to launch any project in this calendar year itself?

Kamal Singal: As I said, we treat Pune and MMR as one market for our services from a region point of view. And obviously, we're actively looking at entire belt from Pune to Mumbai or that side, outskirts of Pune and some other outskirts of Mumbai as well. It has so happened that we are able to close the first major deal; Bhugaon deal of 35 acres in Pune. But of course, we are actively looking at options within Pune, outskirts of Pune and outskirts of Mumbai. So this is a binary situation. Next one could come from Pune itself. Next one could come in the outskirts of Mumbai towards Pune or vice versa, etc., But, yes, within this region, we will definitely be adding a few more projects in the near future.

Ritwik Sheth: In one of the earlier questions, you mentioned about a new fund from the HDFC platform, which is for 2 billion. So can you just rephrase it, what is this related to, do we get this?

Kamal Singal: Yes, this is just a market information I'm telling you and sharing with you. All I wanted to say was, we got investment from the first one H-CARE-I Fund into our SPV and also into our parent company. They are now coming up with the second project, which they have announced in the market couple of days back. It's a huge fund. So that just an market information, nothing to do with Arvind at this point in time as far as that fund is concerned. It's a general fund which they raised and announced in the market, and possibly they'll have plans to start investing from there.

Ritwik Sheth: So potentially, that could come to us on the SPV platform, which…?

Kamal Singal: They've been investing in various ways with us, including platform and company level through fund through various kinds of structures that they have within their setup. So, we will definitely explore with them in terms of what more we can do from this new fund and otherwise. HDFC as a group has been a credit provider also. There have been our number one banker all through this journey of almost seven, eight years, they are the prime lenders to our business for SmartSpaces. So in multiple ways, we have had, so many fruitful and strong relationships with them. So obviously, we hope that it will further consolidate, and we'll keep exploring partnerships as we go forward.

Ritwik Sheth: Two bookkeeping questions from my end. What would be the land cost for this Pune land which we are going to acquire?

Kamal Singal: 90-odd crores or thereabouts.

Ritwik Sheth: The estimated operating cash flow at about Rs.1,500 crores that we have mentioned in one of the slides, so that would be at project level, right?

Kamal Singal: This is net cash flows after accounting for lands, the share of landlords, all expenses for development, overheads and everything. If you take out every single thing, which is out of pocket, this is net of everything which remains with us.

Ritwik Sheth: At project level, right?

Ankit Jain: This is after allocation of corporate overhead. So this is a net EBITDA for the company.

Kamal Singal: This is net of overheads. This is the money that we see in the business for us.

Ritwik Sheth: Last comment or your view on this. So if I look at the projects that we have done till date, it's about 2,500, 2,700-odd crores of cumulative ongoing projects in completed and ongoing projects, where we have unsold value of inventory and also the booking value about 2,500, 2,700 crores. And you mentioned earlier that in next one year we're looking to invest about 400 to 500 crores if we get the projects which could have a multiplier sales value of five to six times depending on the type of the projects that we acquire. So we're talking about 2,500 to 3,000 crores already incremental projects from this cash flow. So just one question on this, are we ready in terms of bandwidth to handle this level of projects and what needs to click over the next one to two years?

Kamal Singal: So just one small flag here. This ratio of 1:5 or 6, whatever, if it was 500 it means that 3,000, that is also based on an assumption that we buy out all the land parcels that we invest in. Rs.100 crores spend means an outright purchase and which results into this kind of a turnover. But obviously we'll also have a very significant component coming in from JDs. Sarjapur project for example has an upfront investment of Rs.15 crores giving us some Rs.700 crores of top line. So that changes numbers dramatically. So Rs.500 crores is not entirely for outright only. So 50-50 breakup of these funds and maybe that's too high you can say, even if it is 60-40, 40% going towards JDs and 60% on outright, that will mean that the number of 3,000 crores for a 500 crores year mark will grow dramatically up in terms of top line. That's one flag I wanted to raise. On your question of bandwidth, yes, that's extremely important. End of the day, any business I think the primary constraint is the bandwidth or the managerial capabilities and talent pool, etc., and not money and not land… of course land is abundant, isn't it. So we have been very conscious about it. We have been building teams way ahead of our time. We think that the first investment that we need to do even before we invest in a piece of land is to invest in corresponding and even little more on the manpower, on the managerial capabilities, etc., That's how we have evolved and that reflects in our delivery so far. We have had one of the best sales engineers. On a small base we have delivered every single project on time and we have been quite upfront about investing in people. Today, as we speak, we have had some very-very senior and very-very experienced, very-very dynamic set of people joining this company in the last three to four quarters, Avinash himself is an example of that, ex-Birla and as a COO. We have had head of our national sales who has joined from Lodha, very-very vast experienced in Pune market. We do that and we focus on these markets and we are fairly established in other markets in any way. Ankit himself has joined from a very, very strong finance and structured systems oriented background from Marico as a CFO. So we have been building teams in a very, very big way and of course upfront. We don't want to be behind the curve on building team. We will rather be little ahead of time and invest more than invest less on this.

Moderator: Ladies and gentlemen, that was the last question. I would now like to hand the conference over to Mr. Kamal Singal for closing comments. Please go ahead, sir.

Kamal Singal: It's been great having time spent with all you guys and thank you very much for sparing your valuable time. Last few quarters have been great, the momentum has been great, we see extra tailwinds coming our way because of the way industries evolving, consolidation happening, general mood being better, buyers more inclined to buy more and buy bigger, market is driven significantly by end consumption, element of investment for the investors into real estate is significantly less, that means less ups and downs and more stable and sustainable kind of growth, prices haven't really gone up for real estate, affordability is at its best. So we believe that India is poised for a very-very strong next few years when it comes to real estate. There is no bubble like Evergrande happening in India. Most of the developers are very well capitalized at least the kind of people that we deal with and hence it's a very stable market when it comes to both the demand side and the supply side. So we take this as a great opportunity. We think that we have all the building blocks in places. We're very aggressively right now focusing on building our pipeline and of course we'll be investing upfront and heavily in technology, in our systems and processes which are obviously one of the most evolving industries as we believe it and we'll keep strengthening our governance structures which are possibly one of the finest in this industry. So all in all we're looking forward to a great and exciting period going ahead and I think many of us, our peers will be feeling the same way and they will also be able to show the kind of numbers and results that one would expect from this segment after a comparatively longer cycle of something that means very significant or great way in the past. So all in all great, and in the end, thanks a lot everybody for joining us and look forward to hearing more often with you.

Moderator: Thank you, Mr. Singal and members of the management team. Ladies and gentlemen, on behalf of Arvind SmartSpaces Limited, we conclude this conference. Thank you for joining us and you may now disconnect your lines.