“Arvind SmartSpaces Limited Discussion Call on Financial Results for the Q4 and FY20”

June 25, 2020

MANAGEMENT: MR. KAMAL SINGAL – MANAGING DIRECTOR & CEO
MR. MEHUL SHAH – CHIEF FINANCIAL OFFICER
MR. PRAKASH MAKWANA – COMPANY SECRETARY

Moderator: Ladies and gentlemen, good day and welcome to the Arvind SmartSpaces Limited discussion call on financial results for the quarter and year ended on 31st March 2020. We have with us today from the management Mr. Kamal Singal - Managing Director & CEO, Mr. Mehul Shah - Chief Financial Officer, and Mr. Prakash Makwana - Company Secretary.

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. Kamal Singal - Managing Director & CEO. Thank you and over to you, sir.

Kamal Singal: A very good afternoon to all of you ladies and gentlemen. It gives me a great pleasure to communicate with you on this con-call about the financial results for the quarter and year ended 31st March 2020 and some of the business updates that we will give you. Today, we have announced the financial results for the 4th quarter 2019-20 along with the yearly results. Investors’ presentation based on these numbers and results are made available on the company’s website. You can refer to the company’s website as well on the further numbers.

The key financial numbers for the quarter and year ended on 31st March are as under. As far as annual numbers are concerned, the company has recorded a consolidated revenue for the year 2019-20 of ≈ 302 crores against ≈ 264 crores of the previous year same period 12 months, which is up by ≈ 14%. Consolidated EBITDA for the year is at ≈ 91 crores as against ≈ 70 crores for the same period last year 12 months period, which is up by ≈ 30%. Similarly, PAT this year has stood at ≈ 39 crores against the previous year’s number of ≈ 31 crores which is again up by ≈ 28%.

Referring to the quarterly numbers, the top line is recorded at ≈ 136 crores for the quarter ended 31st March 2020 against a number of ≈ 113 crores during the same period last year. Consolidated EBITDA stands at ≈ 29 crores this quarter against ≈ 34 last year, and the company has posted a PAT of ≈ 15 crores against ≈ 17 crores for the same quarter last year. This is as far as the major financial numbers are concerned. We are quite satisfied with the overall numbers which the company has been able to post. For the year as a whole, the company has recorded a decent kind of growth in top line and a very satisfactory growth in terms of EBITDA and PAT.

Coming to some little details about the projects, the company has so far executed 10 projects in Ahmedabad and Bengaluru which measure around ≈ 4.29 million square feet and right now we are executing 9 projects in Ahmedabad, Gandhinagar, Bengaluru, and in the city of Pune and they all together measure around ≈ 14.7 million square feet.

Some of the major highlights for the quarter 4 and the year ended 31st March 2020 are as follows. First of all, the company has launched 3 new projects during FY2020. One of them is called Arvind Forreste - a villa project, near village Santej, Ahmedabad. Then we have also just about launched Arvind Uplands Two which is a part of our ongoing large township project in Gandhinagar. And at the same time one project in Bengaluru called Arvind Bel Air situated at Yelahanka has been launched during 2020.

Other major events have been like the company has received building use permission, the BU permission as we call it for its project called Arvind Uplands at Ahmedabad for second lot of villas, and at the same time, we have received BU permission well on time for another project in Bengaluru and the project name is Arvind Skylands. It has been delivered much before time.

This is generally the update and the financial numbers that we have had. Maybe we can start taking questions from all of you to understand the numbers in a little bit more detail and any other questions that relate to the business in general sense.

Moderator: We will now begin the question & answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

The first question is from the line of Shivam Agarwal from Compounding Capital Advisors. Please go ahead.

Shivam Agarwal: Kamal, I wanted to know the update on Beyond Five? Last year, it got stuck with some legal issue but what’s the update now?

Kamal Singal: Beyond Five, as we have been discussing for the last few calls, has been stuck for a pretty longish time as a project. It is a JV project. We haven't really invested in the land per se except for some initial deposit that we have paid to the landlords, but I am happy to inform that some very concrete progress and steps have been taken already. As we see it today, the project is looking like coming back on track within the next few weeks and not months. We can hope and we can expect to launch this project very soon, maybe within the month of August or thereabouts. We have almost kind of resolved many of the issues which were there. Of course, not 100%, but as of now, we are much more confident of launching it very soon as compared to what we were a few months back.

Shivam Agarwal: That’s a great news, Kamal. Also, one more question; after this lockdown, allover there is news of labor going back to their hometowns. What is the current situation at our project sites? Will we be able to complete our projects by the dates we have specified?

Kamal Singal: It’s a very good question and this is a question which possibly is there in the minds of everybody in our industry. There are 2 ways to look at it. One is, whether this will have an impact on the overall timelines of completion. The answer is, very small; yes, it will have a small impact for sure, but most of our projects have been significantly ahead of schedule in any case. So, absorbing a delay of 2-3-4 months’ time is not a problem. We don't need any extension in terms of overall deadline as we see it today. So, we don't see any material impact on the delivery dates that we have committed to the customers, but yes, the last 3 months have been disruptive, but we are more than kind of confident that these delays should not be resulting into any impact on our end dates of delivery in most of our projects as such.

The second part of the question is about the availability of labor. Yes, the impact has been very severe for the last couple of months. In fact, for 2 months, the activity certainly came to a total standstill, and once the lockdown started easing out, the workers started going back to their hometowns and that has happened practically to all the sites, but things have started improving now. The labor in bits and pieces have started coming back. Some of our projects are working at around 20% to 30% of the total labor strength that we had before COVID, but then a couple of projects have yet not started work after the lockdown opened up. But having said that, it's very specific to the location. Ahmedabad Uplands, we have started working to a certain extent, maybe 30% or 40%. Aavishkaar, we are very confident that this work will start from around 1st of July or maybe middle of July and labor is coming back, and the contractor and other team members are very confident of starting very soon. Bengaluru Skylands, already BU is received but last bit of finishing and other touches, sports utilities, and the clubhouse, etc., is happening and there is enough labor and as such it is about to be completed. So, there are no worries. Another project we have in Bengaluru is Oasis which is a major project. There it is taking a little bit of time before labor can come because Bengaluru is now getting impacted a little more than what it was a couple of weeks back and hence it is expected that this drag will be a little longer in Bengaluru for the projects which are in the middle of very high level of activities. But we are sure we are well within our timelines. As of now, no extension should be required in terms of completion dates of the projects. But let's see where we go and how it pans out from here onwards.

Shivam Agarwal: Also, I had one more question. With the 200+ crore debt position, if the sentiment remains weakened, are we comfortable with this or have we opted for any moratoriums as of?

Kamal Singal: We are taking this call very tactically. We have a couple of lines of credit that we have taken from financial institutions and banks. HDFC is one of the major ones and we haven't taken moratorium from HDFC. They are the major credit providers to us for the last 4-5 years. We have not taken any interest or principal repayment moratorium from HDFC, but we definitely have taken moratorium from a couple of other guys who just came in with the interest arbitrage that people get from them in the short term. In those couple of cases, we have taken moratorium.

Moderator: The next question is from the line of Rithvik Sheth from Oneup Financial. Please go ahead.

Rithvik Sheth: Sir, a few questions from my side. Firstly, how many projects did we launch in Q4 FY20?

Kamal Singal: As I said in the beginning of the discussion, we have launched three in the last financial year. This includes Forreste. This is one large township and phase I of that has been launched. Then we launched Uplands Phase II at Nasmed and we have launched Bel Air at Yelahanka, Bengaluru.

Rithvik Sheth: All these projects were launched in Q4 FY20?

Kamal Singal: I am not sure whether these are Q4. I think Forreste was just launched in Q4 or ending Q3. I am not too sure about it, but these three definitely happened between Q3 and Q4, mostly Q4 only. But maybe we will check and during the presentation, you can clarify this.

Rithvik Sheth: We have done 150 crores of sales value in Q4 FY20. How much would that be from these 3 projects?

Mehul Shah: It is around 117 crores.

Rithvik Sheth: So, we are maintaining the run rate of around 30 to 40 crores from our already launched projects per quarter?

Kamal Singal: Yeah.

Rithvik Sheth: Second question is on the cash outflow for FY21. If you could highlight firstly on the construction cost that we plan to incur and what would be the total expenses or fixed expenses at the corporate level irrespective of site restarting, that would be very helpful.

Kamal Singal: I am not sure whether these numbers are there on the presentation or not, but nevertheless your question is very valid under the circumstances when people are squeezed on cash flows and there are worries about short term, etc. Our company is operationally very very less leveraged or unleveraged as we may call it and fixed cost proportions are very small. Most of the activities are outsourced and hence we have a very small core team which handles the business per se. To that extent, we are not worried about the fixed cost in any significant way. Second is, on the interest part, the debt/equity ratio is pretty low at 0.76 or so and hence interest outflows are also quite manageable and they are almost like 30% of EBITDA or even less than that - between 25% and 30% of our EBITDA. So, as far as fixed cost is concerned, the company is very well placed and we are fairly comfortable on that.

Rithvik Sheth: So, on an annual basis, would it be safe to assume that our fixed cost would be employee cost plus some part of the operating and manufacturing expenses?

Kamal Singal: Majorly employee cost. There are hardly any other major costs. There is no real estate cost, there is no rental, there is no…. It's broadly the manpower cost and this is a very small core team that we have.

Rithvik Sheth: What about the construction cost for FY21? If you can also throw some light on the collection activity post COVID and how was it in April and how has it been in the last couple of weeks or in June? Comparison between that.

Kamal Singal: We will get you the exact data in the presentation or otherwise maybe you can ask these very specific pointed questions after the call and you can address it towards the finance department and Mehul's team. But in a general sense what I can tell you is that we have enough and more leverage in our hands to kind of balance our inflows with outflows because our projects have been significantly well placed on deliveries and because as such construction activity has slowed down, we don't have any negative cash flows happening at this point of time and we are not being forced to take extra credit to keep the show going. That's not the case and we are very confident that for the year as a whole, that situation will remain with us and expected cash flow should be able to manage our OPEXs and we should not be going significantly negatively. That's the effort and that's the hope that we are working with and that's what has happened in the last few weeks as well.

Rithvik Sheth: Sir, any updates on the HDFC platform that you had signed a few months back? Are we looking to acquire any assets in current market conditions or anything?

Kamal Singal: Of course, it's a business which has to grow. There are no two ways about it and we have to acquire new projects. New projects is not some sort of a capital expenditure for us. It's pretty much a raw material. If the business has to run, we have to have new projects coming in all the time. So, to that extent, the answer is very clear. Yes, that we will need more projects and we will have more projects. But having said that, we all are aware of the severity of the issue which is at hand and the kind of impact it already has on the Indian economy and the demand, etc., and the situation has still not settled down. So, we will take a little conservative view. We will rather prefer to see that the things settle down a little more and there is a little more clarity about how the things are behaving. We don't want to jump while the waters are still troubled and so taking a very cautious call, a very kind of informed call. We are very keen to add projects and that's the case with HDFC platform as well. The partners have obviously decided validified to use that. We are almost ready. We have diligence couple of projects already under the partnership. From the viability and location point of view, we are happy with that, but obviously, both the partners feel that let things settle down before we take the next step and those steps possibly will be reviewed in the month of July or thereabouts.

Moderator: We will take the next question from the line of Shivam Agarwal from Compounding Capital Advisors. Please go ahead.

Shivam Agarwal: My question is regarding Megaestate. Where is the inventory of this particular project has been lying from the last year onwards and it is the same though it is a small project, the inventory value is not much beyond 30 crores, but why is this stuck?

Kamal Singal: Yeah, this is one of the small projects, a small amount of inventory which is there. For some reason, the direction has had some problems in terms of sale ability, etc. We are confident that we should be able to liquidate this inventory very soon. But yeah, this is a little old inventory which is left over in the project.

Shivam Agarwal: Also, due to the sentiment of work-from-home going on, what is your view on our recent commercial launch of The Edge? Are there any bookings cancellation? Or the response the recent investors are still strong enough on the sentiment?

Kamal Singal: Yeah, that's the general belief and general perception that commercial real estate is going to be a little more hit as compared to residential and other kinds of portfolios, which looks like very logical. We have a very small portion, very small component of commercial real estate and that too the leasing commercial real estate as we may call it, but Edge has surprised all of us. Firstly, it is not a product to be leased. I think the leasing segment is where more trouble exists. This project is on a buy-and-sell mode where we are basically attracting small and medium sized businesses to have and own their office in a kind of A grade office and have a fairly decent and world-class kind of environment for their own businesses. To that extent, in our understanding, it has got impacted comparatively significantly lesser. In fact, we have sold very decently during the lockdown itself in The Edge and we see no impact on the overall momentum. In fact, we have sold more than what we were selling otherwise in this project before COVID actually. We are surprised but that's how it is.

Moderator: The next question is from the line of Jigar Shah from Negen Capital. Please go ahead.

Jigar Shah: Sir, I want to know, do we see any price cuts taking place going ahead?

Kamal Singal: It's a good question. Generally, a lot of talk has happened on this topic and various webinars and experts have opined on this, but I see this question in 2 different ways and rather opposite ways. One is that it's logical to think that with demand going down and with the kind of job losses that one is expecting or what has already happened, it will definitely have an impact on demand and hence the demand goes down. Obviously, price should be coming under pressure and reduce some prices here and there. But at the same time, the other side of the coin is that the price is a function not of demand alone. It's a function of demand and supply both. While demand might generally be lower but so is the case with supply. So, short term, any knee-jerk reaction can happen either ways. It can go up; it can go high. For example, steel prices - demand has plummeted almost to 90% level but the steel prices have gone up. Those kinds of things can happen in the short term because it's about supply as well. In my understanding, in the medium term which is a more rational kind of time period that one can discuss is that in medium term, supply will be getting impacted significantly more as compared to demand because a lot of developers can come under stress. At least psychologically, there will be very very few launches happening and to commit on new projects under these circumstances should go down dramatically. To that extent, supply will be getting hampered and once supply gets hampered, it takes a lot of time before it bounces back because real estate projects are long-duration projects. In my understanding, it will balance out. And on the cost side, there is no reason to believe that the cost will go down. To the contrary, the costs are really going up. With rupee depreciating, currency behaving the way it is behaving, etc., and even the short-term supply disruptions in materials is only resulting in costs going up and hence for developers to reduce prices for the new launch also looks very unlikely. So, in my understanding, it will all balance out. We haven't reduced any prices as of now, and developers who are properly capitalized and developers who are reasonably placed on the timelines of their projects, I don't think there is any reason to panic and drop prices per se. There can be repackaging. There can be offerings which will be twisted around to suit cash flows of the buyers because some buyers might have a temporary issue with the cash flows, etc. All that is fine but it doesn't mean that there will be any significant reduction in effective prices. That's what our assumption is and that's how we are doing.

Jigar Shah: Sir, can you throw some light on the inventory like what is it, how do we see that inventory levels going down, going ahead?

Kamal Singal: You are talking about industry in general or Arvind specific?

Jigar Shah: Company specific.

Kamal Singal: We are just fine. Whatever we have launched, we have limited inventories only. We have finite stocks available. We never add inventory in anticipation of anything and we take a very cautious approach towards committing to new inventory, etc., and launching newer projects and I think that approach has significantly helped us. The guiding principle that we have set for ourselves that we keep talking about all the time, I think they are coming to our benefit at these uncertain times. We are not leveraging. We have not leveraged any significantly and hence we have not overinvested in land at all. In fact, as we see today, there is not even a single parcel of land or an inch of land that we have not lost. So, we are not sitting on inventory which is not productive. Everything is put to use and hence we are fairly comfortable on the inventory side.

Jigar Shah: When do we see this inventory getting cleared? Say roughly around 600 crores? When do we see that like over the next 2 years or….? Could you just give an idea?

Kamal Singal: It's not ready inventory that we are talking about, right? It's all WIP.

Jigar Shah: But could this be sold in the next couple of years?

Kamal Singal: Naturally so. A company which does a Rs. 300 to Rs. 400 crores of annual sale has to have a WIP or the project pipeline of around 600-700 crores. That's the bare minimum and that's a very healthy number to have. In fact, I would like to add to this number a little bit more - in a scattered way of course - we will not overinvest in a location, etc., which is again as per our guiding principles, but having said that, these inventory levels in the form of WIP at various stages of execution for a company with a top line of around Rs. 300 to 400 crores with a Rs. 600-700 crores of total…. I think this is a very very conservative number and it's very comfortable.

Jigar Shah: What is the interest like? Are we getting inquiries post this lockdown/partial unlock? Do we see good inquiries coming in or the buyers have just disappeared? Like not too much interest kind of a thing?

Kamal Singal: No, they have not disappeared. In fact, they are visible more than what we had anticipated. The sales numbers which we are hoping to do or register even within this current quarters are better than what our anticipations were keeping some very uncertain times, etc., in mind, but with all these negatives around and all the bad news and economy, job losses, etc., I think we have done fairly well. It's not a dead end for sure and there is still a decent kind of momentum under the circumstances and we are quite bullish about the further revival.

Jigar Shah: So, basically we are getting good inquiries post….

Kamal Singal: Inquiries are there, conversions and there. Of course, we will be hit; 20% to 30% drop is all fine and it is expected. But if you are talking about something happening to the extent of say 80% to 90% drop, that's not the case.

Jigar Shah: Like we are getting bookings, right? We are converting these inquiries into….

Kamal Singal: Absolutely. We are still converting, and sales are happening across projects.

Moderator: We will move to the next question from the line of Rithvik Sheth from Oneup Financial. Please go ahead.

Rithvik Sheth: Sir, just one question. What kind of launches are we targeting in FY21? Any color on that?

Kamal Singal: That's a good question again. Last year we launched three and the idea is to keep this momentum up. So, we should be launching at least 2 or 3 projects for sure, but then beyond that, a lot of calls will start getting taken from July onwards. Let's see how the pandemic goes and how the situation unfolds. As I said earlier, we will take a very conscious call. We will keep an eye on everything that we can see around and then press the pedal on further investments but having said that, at least a couple of projects or 3 projects should be getting launched in the coming financial year or the current financial year as we may call it, for sure.

Rithvik Sheth: And one of the projects we should expect is Beyond Five as you mentioned earlier in the call, right?

Kamal Singal: Absolutely, yes, that's the hope side.

Moderator: As there are no further questions, I now hand the conference over to Mr. Kamal Singal for closing comments.

Kamal Singal: Thank you very much for being with us on this call today. The company has been maintaining the kind of momentum that we saw in the last 4-5 years, and we have been seeing from very turbulent times due to COVID last quarter, etc., we obviously know the risk and the challenges that this environment poses to all of us, but at the same time, we also look at the positive which is coming our way. We know that this will give quite a different kind of opportunity to healthy real estate developers, more organized real estate developers. Supplies are expected to go down definitely in the times to come. Our understanding is there can be a positive impact in terms of overall balancing of demand and supply but then the situation is still fluid. We have to observe very carefully as to how the remaining part of the crisis unfolds. Whether it aggravates from here onwards or it stabilizes and comes down eventually in the next few weeks to come. Operationally, there have been disruptions, but I think we are very confident about restarting everything. A lot of things have restarted already, and they are working at a decent fraction of what they were before this crisis. All in all, we have quite an upbeat kind of understanding of the situation. Challenge is a part. There definitely will be some opportunities and we are here to exploit all of those and the company is generally very well geared to take these challenges and emerge stronger out of this crisis.

Thanks a lot once again to all of you.

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