Arihant Superstructures Ltd.

We attended the conference call hosted by Arihant Superstructures Ltd, on 14th August, to discuss their Q1FY19 results.

Arihant Superstructures Ltd., is one of the renowned affordable housing real estate developer, with significant presence in Navi Mumbai Metropolitan Region (NMMR) & Jodhpur.

Hereunder the some of the key quarter highlights and discussions on the call:

- Quarterly sales details
    - 1st quarterly result as per IND AS 115
    - Total Revenue is close to last quarter i.e. Rs. 439.40Mn. Change in revenue mix because of IND-AS 115.
    - 120 units sold during the quarter, of which 94 units are in MMR Region and 26 units are in Jodhpur region.
    - Previous quarterly results are kept unchanged and are not comparable.
    - New standards will provide consistency and comparability, going forward.
    - Implementation of IND-AS 115 would be more advantageous as compared to the previous method
- Effect of IND AS 115 on company revenues
    - Application of IND-AS 115, effective from 1st April 2018, changes the revenue recognition method.
    - The company has opted to apply for the modified retrospective approach and in respect of projects not completed as of Apr 1st, the company has made adjustments to the retained earnings. Accordingly, reversal of sales (Rs. 1521.24 lacs) as well as effect of cost of reversal is Rs. 960.72 lacs. Net result is Rs. 604 from retained earnings. On completed basis, the company has made adjustments to the retained earnings, in accordance with the new standards, due to which a sum of Rs. 604.5 lacs has been debited to the opening retained earnings.
    - This quarter sales reflects the reverse sale entries done on 1st April on account of IND AS. Rs. 115 mn worth of earlier sales needed to be reversed and add on to the present turnover. The actual sales should be Rs. 289Mn for the quarter and this would be comparable from the next quarter onwards.
- Changes in revenue recognition method for the industry
    - Earlier method was 25-25: i.e. a company can recognise revenues subject to meeting these conditions; 25% project cost should have been incurred, 25% of the project should have been sold & 10% minimum amount should have been received.

- New method is 10-10: ie. Company can now recognise revenue with a 10% minimum amount should be received & 10% of project cost should be incurred. No threshold on number of sales. This then triggers the compulsion of entering into a contract with the buyer.
- The new revenue recognition method, post RERA guidelines, would shorten the duration of recognising revenues unlike earlier in which revenues used to take a long time to be recognised.

- On GST implementation
  - Implementation of GST implies that there is a burden of 12% to the sales price, discouraging customers from buying new properties. Secondary market inventory, including projects which have recvd OC or architect completion certificate are seeing good traction
  - Post implementation of GST, RERA and demon, developers are forced to rethink sale strategies. These need to be innovative
  - GST, applicable to most of Arihant's projects (excepting Alishan) are only 8% on account of being into affordable housing. This is lower than the GST (12%) applicable to sales of regular projects. Apartments, which are 60 sq mtrs (600 sq ft, including walls) and below, are categorised as affordable housing on which lower GST is applicable.
- Tax benefits on their projects
  - 80IB direct taxes benefits (no taxes on earnings from affordable housing development) by government to developers, for approvals after June 2017 & before March 2019 with some different criteria like tax exemption, except MAT which will be a part of cash flows.
- Internal developments to strengthen organiation:
  - Mr. Jitendra Mehta, a Chartered Accountant & LLB by profession, looking after operations of the company. CPO, Mr Samir Dhar, was Engineer at Sheth Builders (a renowned name in Mumbai), CSO, Mr. Sarabjeet Kukreja, was India head at Proptiger in charge of retail sales.
  - KPMG has been appointed as their internal auditor.
  - Expansion of workspace, office shifted to a new location of 24000sq.ft.
  - Borrowed Rs. 250 crs, from HDFC ltd for 5 years, for construction of their flagship project. This construction finance limit, with end use restriction, has been obtained @10.7% p.a. This should enable smooth implementation of their flagship project.
  - New event "Dil Dhadknewala scheme" organised. Similar 2-3 events would be planned every month, around the year, for marketing.
  - Fresh 30-35 people plan to be added to the sales team, in addition to the existing 50 member sales force in Mumbai. Jodhpur sales team will be increased to 25 people. This should boost the sales going forward.

- Business model and revenue targets
  - Their biz model is segregated into 3 parts; land acquisition model, JDA/JV model and DM (development management). This ensures that not only does the business become asset light in nature but also eliminates the lumpiness in the business. Some or the other activity (of the 3 parts) would help bring revenues into the company.
  - Target of selling units this Financial Year would be more than last year i.e, 925.
  - Demand in Jodhpur & Navi Mumbai robust. Navi Mumbai has ranks 3rd in terms of Health, Education & Governance. The company has increased their selling prices (across projects) by an avg of Rs. 30/sq.ft every month. This has been well accepted by their customers.
  - New land acquired at Palaspe, Panvel: 7 acres of land purchased at a premium location at a price of Rs. 20 crs, near their flagship project Arihant Aspire is spread over 3m sq. ft. With ~6lac sq ft of saleable area, this project could potentially add revenues of Rs. 300 crs, with EBIDTA margins of 33-35% to the company
  - Status of their premium project in Jodhpur (Arihant Ayati): Price maintained, sales keep happening every month. With 35 units in hand still, the company estimates approx. 12 months to liquidate this inventory.
- On practices followed by competitors
  - Some companies like DLF have resorted to new strategies; sell projects only once it is completed and not under construction. This can be largely explained by the 12% GST (added burden to buyers) applicable to projects which are not under affordable housing. On a apartment costing Rs.10,000/sq ft, the GST burden adds another Rs. 1200/sq ft, which dissuades buyers from purchasing under construction properties. Unlike that, ASL properties are priced ~ @ Rs.4000 / sq ft. With lower GST applicable, this amounts to a even lesser burden to the buyers, not necessarily affecting affordable housing sales. Hence 'build and sell' practise may be applicable selectively (only across projects priced higher), with most projects continuing to observe a 'sell and build' practise.