

Operator

Ladies and gentlemen, good day and welcome to Q2 FY13 Earnings Conference Call of Ashiana Housing Limited, hosted by CRISIL Equity Research. As a reminder for the duration of the conference, all participants' line are in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Bhaskar Bukrediwala; Associate Director of Equity Research at CRISIL Research. Thank you and over to you, Mr. Bhaskar.

Bhaskar Bukrediwala

Yeah, thanks a lot. Good evening, everyone. On behalf of CRISIL Equity Research, I welcome you to the Q2 FY13 results conference call of Ashiana Housing. It's a pleasure to have with us the Senior Management of Ashiana Housing presented by Mr. Vishal Gupta, Managing Director; and Mr. Varun Gupta, Whole Time Director.

During the call, they will discuss the main factors that drove the operational and financial performance during the quarter and will also provide insights on the overall business scenario. This will be followed by the question-and-answer session.

I would now like to hand over the call to Mr. Varun. Over to you, Mr. Varun.

Varun Gupta, Whole Time Director

Good evening friends. We extend a warm welcome to you all on the call to discuss the second quarter performance of Ashiana Housing.

First, the second quarter performance was weak on the financial front as anticipated. On the operational front, the company booked an area of 3.38 lakh square feet and constructed an equivalent area of 2.66 lakh square feet. Area booked increased 13% quarter-on-quarter driven by the launch of Treehouse residences in Diwali, and pick up in sales of Utsav in Jaipur and Lavasa. Area booked remained lower than the same quarter last year primarily due to The average realization for the quarter has gone up from Rs. 2,474 in the first quarter to Rs. 2,727 per square foot this quarter; A) because of increase in prices and also increased contribution of higher value products like Treehouse Residences and Lavasa. Gulmohar Gardens, a project in Jaipur has received the conversion order under Section 90-A of Rajasthan Land Revenue Act in this quarter, and the company also acquired development rights in Jamshedpur for a 4 acre parcel with the salable area of approximately 4.22 lakh square feet. We expect to launch both these projects in the current financial year.

On financials, Ashiana reported sales and other income of Rs. 32.22 crores, and PAT of Rs. 6.95 crores. The number in absolute terms are lower both on quarter-on-quarter and year-on-year basis as discussed in earlier forums. These figures will decrease in the next two years because of changes in accounting policy. The Q2 pre-tax operating cash flows from ongoing projects of the company were subdued at Rs. 11.42 crores. We expect the cash flow figures to improve in the second half of the financial year as we launch projects later this year. Again, the point to be noted is that this not a statutory statement, but a modified calculation as per the company. The company will report this number every quarter going forward and a detailed statement annually. The annual report for '11, '12 contains the detail statement of financial year too for reference.

On other highlights, Utsav Bhiwadi won in the best team based township in the non-metro category at the CREDAI Real Estate Awards. In a significant event in the company's CSR initiative, the company also commenced training of the first batch of women masons. On this note, I would like to conclude my remarks.

We'll now be happy to discuss any questions or suggestions that you may have.

Questions And Answers

Operator

Thank you very much. We will now begin the question-and-answer session. [Operator Instructions]. We got our first question from the line of Nasir Khambatta from Securities Investment Management. Please go ahead.

Nasir Khambatta

Sir, thank you for the update. Could you provide an update on the clearances pending for projects in Rajasthan, Vadodara and Kolkata?

Varun Gupta, Whole Time Director

Hi Nasir. On the updates, the first project in Jaipur Gulmohar Gardens has received the NA order. The next steps are getting a layout plan sanction and a release date, further project that is expected to take in the next couple of months and thereafter we will launch the projects. The project in Bhiwadi where the 90-A application is pending, it's been applied for the 90-A. Certain parts of the 90-A process is through. There is one glitch that was pending. We expect the 90-A approvals and the patta, the lease deals to come in the next two months to three months. The Milakpur land is not even been applied for. There is some issues with guideline as has been informed earlier, and we will keep you updated as soon as we get approvals or start the process and approvals on that land parcel.

In Halol, the NA application has been put by the land owner, there the responsibility is with the land owner. We have been guided by him that we should expect the conversion orders in the next three months. We were expecting them earlier, but there has been some unforeseen delays that is there. And in Calcutta again, we have to rely upon the landowners to get their approvals, that we don't have much update on as to what... how long the process would take, not

Nasir Khambatta

Okay.

Varun Gupta, Whole Time Director

And in the Jamshedpur project, the approval that is required is building plan sanction. Building plans have already been put in place for sanction. So we expect sanctions to come in the month next month or so.

Nasir Khambatta

Okay. Thank you. As per note six in the current results,

Varun Gupta, Whole Time Director

Yeah.

Nasir Khambatta

Employee cost of 107 lakhs have been treated as project expenses.

Varun Gupta, Whole Time Director

Yes.

Nasir Khambatta

Now, if one adds this to the employee benefits expense of Rs. 281 lakhs during Q2, then the total employee cost for the quarter is 388 lakh for this quarter. Could you explain this increase versus the previous Q2, 2011, 289 lakhs?

Varun Gupta, Whole Time Director

289 lakhs, there are two, three things we are at play. One, the overall employee benefits and expenses increasing because of the increasing costs of people, okay. So, an annual increase of about per person cost of inflation plus four percentage, five percentage, I would generally expect that now. And the second is additional people being hired in terms of employees because we... as we now look to launch projects that we have been preparing and gearing up to get more projects through. So when we have to handle more volume, we'll need more people. So they are come in, but the square footage has not started coming in yet. I think next financial year, you will see that square footage also coming in.

Nasir Khambatta

Okay. Could you let me know what the number of employees is this quarter versus last year?

Varun Gupta, Whole Time Director

I don't have an exact figure at the consolidated level, but I think there would about 70% difference like about between 470 and 540, 550 people, I mean that's the difference there, but that's on the consolidated levels. So it would be better if you compare the consolidated accounts instead of the standalone accounts. I don't think the standalone accounts really have that much meaning because employees are also then shifted to SPVs if needed to carry out projects and stuff like that so that they make a difference for that.

Nasir Khambatta

Okay, thank you.

Varun Gupta, Whole Time Director

Thank you, Nasir.

Operator

Thank you. Next question from the line of Sachin Kasera from Lucky Securities. Please go ahead.

Sachin Kasera

Yeah, good afternoon sir. The realization average has moved up in the quarter to 2,745 if I get it right?

Varun Gupta, Whole Time Director

Yes.

Sachin Kasera

This is mainly a measure of change in product mix in the sense side-by-side, or is it also that there is an element of price hike in it?

Varun Gupta, Whole Time Director

Hi Sachin. Thank you. I would... there is an element of both.

Sachin Kasera

Okay.

Varun Gupta, Whole Time Director Sachin Kasera

Okay. And so, will it be fair that on average we had around Rs. 150 of square feet increase in this quarter in the most of the projects that will be sold. Is it fair?

Varun Gupta, Whole Time Director

Yeah. It's fair and a lot of price increases that happened at the end of the last quarter, also started kicking in more in this quarter. You know what I mean, if I increase prices in June, that reflection is really anymore in July, August, September. So I think that's the basic.

Sachin Kasera

Right. I think till the time we get approval for all the other new projects, I think the only large one there that we have right now is Rangoli, if you could give some update as to what is the scene as Rangoli, how is the pricing out there, how is the demand there, and do we intend to open up because I believe there we still have some inventory which is still not yet opened. So what is outlook on that front?

Varun Gupta, Whole Time Director

We are opening the Rangoli inventory as and when we need inventory to sell, we phase it. Okay. The further of the inventory is we try to increase prices in the inventories that we open up, that's the strategy that we follow generally. In that sense, the Rangoli is meeting all its targets in terms of bookings and construction, construction is on track. Phase I is getting fairly well occupied, which was handed over. Phase II seems to be on track to hand over when that is required. So as a project, it's meeting most of construction targets. And on pricing, we are increasing between Rs. 20 and Rs. 50 square feet per month generally, and we are getting the requisite volumes. The volume in Rangoli will trend down, I think from next financial year because we'll still have two years to construct the project, so we wouldn't like to sell the entire inventory out upfront and construct it later. So we might spread our inventory and try and get some pricing over there.

Sachin Kasera

Hello?

Varun Gupta, Whole Time Director

Yeah.

Sachin Kasera

Yeah. What price had we started Rangoli, and where are we currently? What is the type of... from Phase I to II right now, what is the type of...?

Phase I is not comparable because Phase I was a low rise project so we started higher price but in Phase II onwards which were all high rises, we have up prices by about 30% from the launch price to now, and have gotten the requisite volume. So we started around 1,900 and we are around 2,500 and 2,600.

Sachin Kasera

Okay. Thank you so much. That's all from my side.

Varun Gupta, Whole Time Director

Thank you, Sachin.

Operator

Thank you. Next question from the line of Ashok Damani from Ramesh Damani. Please go ahead.

Analyst

Hello.

Varun Gupta, Whole Time Director

Yeah, hi Ashok.

Analyst

Yeah. I have a question for you. If you observe your balance sheet, the inventory is close to 155 crore versus the sale of 243 crores of last year. Why is the build up of inventory so high?

Second thing, the net debt on your balance sheet, I would like to know that figure, and what are the reasons of inventory being held up by you?

Varun Gupta, Whole Time Director

Ashok, increasing inventories are largely have been driven by; one, land purchases, okay; and secondly, wherever now possession accounting is applicable, inventories will trend to go up till the shares get accounted for. There are two reasons but primary driver of inventories right now are basically land procurement that happened in that period. So, we had some land procurement in the 12 months between this which is in backdated.

Analyst

Net debt on the company's balance sheet as of 30th September?

Varun Gupta, Whole Time Director Analyst

Sir, I wanted to know how what's the effect of changing an accounting policy since last four quarters?

Varun Gupta, Whole Time Director

In terms of what?

Analyst

You changed your accounting policy last year right, from percentage of completion basis to a percentage of contract basis.

Varun Gupta, Whole Time Director

Yeah.

Analyst

I am correcting that, what you call reading of...

Varun Gupta, Whole Time Director

Don't have an exact impact on profits. We are not calculating that.

Analyst

So how has that affected our results till... since last two quarters?

Varun Gupta, Whole Time Director

I don't know the exact figure Ashok, but the impact will generally be happening in two or three projects which are specifically the Amarbagh Phase V, VI the last changes of Brahmananda and Rangoli Garden. So, to tell you in exact impact on profitability I am not so sure and we are not calculating that impact on profitability. Internally, we are... we don't look at it.

Analyst

And if I'm... will this changing policy's effect wave off after the Q4 result?
Say that again please

Analyst

The change in accounting policy, will it go up after the Q4 results or like it will be there, the impact will be there in the...

Varun Gupta, Whole Time Director

Impact will be there this through these results. And then we'll have another six quarters to eight quarters when the results will be subdued because A) the change in accounting policy coupled with launch of projects which are let's say now happening now, okay, we will be launching projects in the next three months to six months, we expect to launch between two projects and four projects in the next six week, next six months. Now all those projects and the project that was launched in previous quarter, the revenues from that and all that will not flow in for probably 24 months from the date of launch. So there will that impact that is there. But once that happens, we will start having I would say, regular handing over and then the impact would be gone completely.

Analyst

Thank you.

Varun Gupta, Whole Time Director

Thank you.

Operator

Thank you. [Operator Instructions]. Next question from the line of Neha Kaushik from Banyan Capital Advisors. Please go ahead.

Rajat Budhiraja

Hi Varun, this is Rajat from Banyan Capital Advisors.

Varun Gupta, Whole Time Director

Hi Rajat.

Rajat Budhiraja

Yeah. I have a question on the Rangoli Gardens which you were explaining it to the previous guy. I'm just looking at the numbers for the previous quarter and a few quarter that you've got and there has been an increase of 1.87 in the area launch. Yeah.

Rajat Budhiraja

And in terms of area booked, this is 1.95. So whatever you have launched, you have already booked. So I just want to understand the difference between the area launch that is inventory, that is salable, and the kind of bookings you are having. So, what is the response of buyers over there?

Varun Gupta, Whole Time Director

In Rangoli Gardens, you are booking like 1.5 lakh to 1.80 lakh every quarter, okay. So that's the basic run rate that we are looking at and we are getting that run rate in general. So, people seem to be very happy with the project our construction is. You can look at the progress reports on our website to see the stage of construction. So construction is on schedule. And Phase I handing over has created decent occupancy already, in general response of the buyers are good. Rest you can gauge by calling other people in Jaipur and getting an independent opinion, which we have to look at it.

Rajat Budhiraja

What is your plan for the next two phases Rangoli Gardens?

Varun Gupta, Whole Time Director

In what sense?

Rajat Budhiraja

When will you launch the new area is...

Varun Gupta, Whole Time Director

We should be launching them in the next, you expect about whatever we are consuming every quarter to get launched every quarter. So in the next, let's say nine months we should be through with launching the entire project, or 12 months we will launch the entire project out.

Rajat Budhiraja

Okay. And Gulmohar Garden in Jamshedpur you are saying you are going to start in current financial year.

Varun Gupta, Whole Time Director

Gulmohar Gardens is in Jaipur. And there is another project we are taken up in Jamshedpur called Anantara. Right. So what are your plans for the different phases you are going to launch it in different phase for the current financial year or may be for the next six months. What is your plan in terms of area launched?

Varun Gupta, Whole Time Director

We should launch about 2 lakhs square feet in both of them.

Rajat Budhiraja

Okay. In current financial year for the first phase.

Varun Gupta, Whole Time Director

Yeah.

Rajat Budhiraja

Okay, fair enough.

Varun Gupta, Whole Time Director

Around that plus minus 10%, 15%.

Rajat Budhiraja

Okay. And my last question is I just want to understand your average cost of construction in this quarter?

Varun Gupta, Whole Time Director

I don't know my average cost of construction in this particular quarter across a weighted average. But general construction costs are now trending upwards in general expectations are now that they will be between Rs. 900 a square foot and Rs. 1,300 square foot going forward depending on what's the kind of construction that we do in terms of you know G+2, G+4 or Stilt+12 and the location that we are in, but that's the general expectations. We're doing somewhere between 900 and 1,300.

Rajat Budhiraja

Thanks for taking my question, Varun.

Varun Gupta, Whole Time Director

Thank you, Rajat.

We have a follow-up question from the lone of Sachin Kasera from Lucky Securities. Please go ahead.

Sachin Kasera

Yeah, hi. I think you are looking at adding some one or two new locations. What is the progress on that? I'm not talking of new cities basically that we are looking.

Varun Gupta, Whole Time Director

Yeah. Couple of new cities there, there has been progress at that. We would once something really concrete happens, we will put it up. I'm hopeful that we will put some information out on one city this particular year itself, we'll have an information of one more city that we will add and launch of project in booking.

Sachin Kasera

And second thing is hopefully once we get the approval for all these lined up projects in the next three months to six months, this year obviously we are going to be more like flattish to little declined compared to last year, and our target is try and be close to around 20% CAGR. So you think over a period of next two years you will be able to ramp up, and so that over a period of FY12 to FY15 or '16 when you see, we are able to achieve about 20% CAGR in area booked?

Varun Gupta, Whole Time Director

We are hopeful of the same. It depends on again. If the approval we are planning to get in two and four, if we get all four in this

particular financial year where it will certainly create the pipeline for next financial year and the growth going forward. So we are hopeful. Approvals are generally moving now. So, a year ago we had a status where things were not moving at all. In most projects, approvals are now moving and we look to get launches through so.

Sachin Kasera

Okay. And one related question. One of the reason I think we got really hit badly was that three of our key sites Jamshedpur, Jodhpur, and Bhiwadi are part of Rajasthan. You did mention that you're looking at adding one more city. Do you think we need to look in terms of fast tracking and to diversify the risk from a single state like Rajasthan so that we something... because, right now I think we are too dependent on one single state.

Varun Gupta, Whole Time Director

We are of the view that we might need to diversify on a regulatory perspective from a state, but like the markets are more city specific, so as long as we enter cities, other risks do get diversified except for the regulatory risk. As and when we enter more states and cities, that will happen, so we are obviously looking at cities, but that said, we are looking at other cities in Rajasthan as well to expand into.

Sachin Kasera

I was talking more from the regulatory perspective since we had three large locations in Rajasthan itself. So, when we hit a regulatory hurdle, it really impacts the one year performance. So should we look in terms of derisking from state

Varun Gupta, Whole Time Director

So on the two things, on the regulatory front yes, we need to... regulatory risk if diversified, would be happening though states. But the slowdown is I think, can not state specific. The slowdowns are expected driven by more job creation in that particular city and so may not need to go to more states to diversify the slowdown risk. The regulatory risk, yes, the idea behind to get to Gujarat and Kolkata was that unfortunately we haven't been able to get projects through to there and we are looking actively at other states to add cities to our... But that said, that doesn't stop us from looking at more cities in Rajasthan itself. The regulatory we have actually already felt the pain of it and we are going through with it. So things seems to be resolved at this moment of time on the 90-A front.

Sachin Kasera

Surely. And on this six, seven projects which are now lined up for approvals and we are ready for launch when we get approvals. Have we done any sort of pre-marketing or any feel from the, any feedback from the market that once we get the approval we are able to launch, is the demand strong enough for these projects that we may be able to sell and make up for the losses?

Varun Gupta, Whole Time Director

Yes. What we do is collect an active database of all our prospective respective customers in these projects. General feelers of demand are good, okay? And when it happens we'll see. So a general view now on the demand in real estate seems to be good in these new launches.

Sachin Kasera

Okay. Thank you so much and wish you all the best.

Varun Gupta, Whole Time Director

Thank you, Sachin.

Operator

Thank you. [Operator Instructions]. Got our next question from the line of Arpit Ranka from Tactica Capital. Please go ahead.

Arpit Ranka

Hello?

Varun Gupta, Whole Time Director

Yeah hi Arpit.

Yeah, hi Varun. Just a quick question. Early in the call you had mentioned that there has been a price hike since launch from 2,000 odd books to 2,600 in Rangoli Gardens. So is this primarily driven by a cost escalation or it gives just away you run through your projects that you keep that buffer?

Varun Gupta, Whole Time Director

As we are driven more by market demand, if we are getting our set of volumes that we want on a monthly basis and we see demand higher than our set of monthly volumes, we'll look to increase prices and we look to increase prices slowly over the period, that's the strategy. But yes, cost escalation has also been driving the price up across locations.

Arpit Ranka

Okay.

Varun Gupta, Whole Time Director

General across projects, not our projects, but yeah, there is a cost escalation factor that's been there, both on the land costs side and on the construction costs side. So costs generally have been escalating and that's been, now most projects we don't think of anything except 2,000 now doing a project...

Arpit Ranka

Okay, okay. And secondly, if I just looking at the target for the current financial year, though we understand that there is a lot of uncertainty sort of surrounding this, but I just wanted to get your thoughts as to currently we have done about 6.5 lakh bookings in the first half of the financial year and the target breaks 16 lakh square foot. And given that approval has been hard to come by, can you just help us understand what's your rationale behind the 16 lakh figure in terms of break up or even a broader sense as to what comprises that number?

Varun Gupta, Whole Time Director

I wouldn't be able to give you a big composition of what's comprising that number right away. But, in general now, as Sachin had asked on the new project launches and what's the sense you're getting from the markets, we are getting very positive sense.

Arpit Ranka

Okay, okay. No the reason I'm asking because you are already in November, and probably it will take us a month before we launch new project. So it will leave us with four months, five months in the current financial year. So even when we had Aangan up and Rangoli next Phase I and early Phase II, we are doing about 4 lakh and max 4.5 square foot a year, a quarter. So I was just trying to understand this. Demand-wise, things have improved since then which should be a bit surprising given the general state of affair around. So, I was just trying to infer that through your reasoning.

Varun Gupta, Whole Time Director Arpit Ranka

Okay.

Varun Gupta, Whole Time Director

So, we do expect them to book that is there. We have a somewhat belief in our brand that if we have a land and we are launching soon, there would be people who would wait a little bit, give some time just to get in to our projects.

Arpit Ranka

Okay, okay. Okay. So good to hear that, let's hope that we do, magnitude tap into that pent up demand then.

Varun Gupta, Whole Time Director

Yeah.

Arpit Ranka

Yeah thanks Varun.

Varun Gupta, Whole Time Director

Thank you.

Operator

Thank you. [Operator Instructions]. We are going to take our next question from the line of Kamalanand from Ernst & Young. Please go ahead.

Analyst

Yeah hi. I see that we have about close 100 crores in terms of liquid assets, and compared to last month we have increased our debt from I think close to 0 crores to 12 crores. Any rationale for availing that facility?

Varun Gupta, Whole Time Director

Hi Kamal. We basically had a refinancing of our loan on our hotel. So that was already there. The only thing that happened in the last quarter was we paid out the other bank at the end of the last quarter and drawn the money out during this quarter. So that's why that aberration just kind of exists, but it's 15 crores of debt that we have is long-term that we wish to have as a liquid, we are a company which likes to have liquid cash on its books in general from a cyclicity prospective that real estate has.

We don't know when the cycles will turn down. So cash gives us a good cushion if things are going wrong. So, that's one rationale on just having cash. And a lot of cash has just been sitting, waiting to be deployed into transactions. And we have been working on those transaction and one thing that has happened is it has become more difficult and competitive to find transactions which are more viable as the markets have become more competitive, so that's being taking sometime, but as we have worked through the last six months to nine months, I think we will deploy that cash out soon.

Analyst

Okay. Thanks.

Varun Gupta, Whole Time Director

Thanks Kamal.

Operator

Thank you. [Operator Instructions]. As there are no further questions, I would now like to hand the conference to Mr. Bhaskar Bukrediwala for closing comments. Thank you. Sir? Mr. Bhaskar?

Bhaskar Bukrediwala

Yeah. Thank you for all attending the conference call. Also, I would like to thank the management team of Ashiana Housing for participating in this concall. CRISIL Equity Research has published Independent Equity Research in Ashiana Housing and the report is available on our website. Thank you once again and have a good day. Thank you, sir.

Varun Gupta, Whole Time Director

Thank you.

Operator

Thank you. On behalf CRISIL Equity Research, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.