



“Ashiana Housing Limited Q1 FY20 Earnings Conference Call”

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**MANAGEMENT: MR. VARUN GUPTA – WHOLE-TIME DIRECTOR
MR. VIKASH DUGAR – CHIEF FINANCIAL OFFICER**

Moderator: Ladies and gentlemen, good day. And welcome to the Ashiana Housing Limited Q1 FY20 Earnings Conference Call. As a reminder, all participant lines will be in a 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 touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Gaurav Sood. Thank you and over to you, sir.

Gaurav Sood: Thanks, Karuna. Welcome, everyone. And thanks for joining this Q1 FY20 Earnings Call for Ashiana Housing Limited. The results and investor update have been mailed to you. And it is also available on the stock exchange. In case anyone does not have a copy of the press release, please do write to us and we will be happy to send it over to you.

To take us through the results of this quarter and answer your questions, we have today with us Mr. Varun Gupta – Whole-Time Director of the company, and Mr. Vikash Dugar – CFO. We will be starting the call with a brief overview of the company's performance, and then we will follow up with a Q&A session.

I would like to remind you all, that everything said on this call that reflects any outlook for the future, which can be construed as a forward-looking statement must be viewed in conjunction with uncertainties and risks that they face. These uncertainties and risks are included but not limited to what we have mentioned in the prospectus filed with SEBI, and subsequent annual reports which you will find on our website.

With that said, I now turn over the call to Mr. Vikash Dugar. Over to you, Vikash.

Vikash Dugar: Good afternoon, everyone. Thank you for joining us to discuss performance of first quarter of FY20 of Ashiana Housing. I extend a warm welcome to all of you. Sales continued to show improvement in the quarter gone by wherein we clocked 3.54 lakhs square foot, as compared to 2.80 lakhs square foot, mainly due to new projects launched in the quarter. The sales were at 2.83 lakhs square foot in the previous quarter. We handed over 1.55 lakhs square foot in Q1, out of which 1.33 lakhs square foot was delivered in Ashiana Housing, and 0.22 lakhs square foot was delivered in the partnerships. This was against a delivery of 4.04 lakhs square foot in Q1 of FY19.

Revenue recognized from completed projects was Rs. 50.46 crores for Q1 FY20 versus Rs. 52.79 crores in Q4 FY19. Revenue recognized from completed project was at Rs. 124.59 crores in Q1 FY19. Total comprehensive income, that is TCI was negative at Rs. 4.87 crores vis-à-vis negative Rs. 6.25 crores in Q4 FY19. Pre-tax operating cash flows were positive at Rs. 4.4 crores versus positive Rs. 9.95 crores in the previous quarter. Equivalent area constructed was at 2.14 lakhs square foot, which was in line with our delivery scheduled in the June quarter, versus 2.46 lakhs square foot in the previous quarter and 1.63 lakh square foot in Q1 FY19. Our construction has been generally in line with our commitments.

On this note, I would like to conclude my remarks. We will now be happy to discuss any questions or suggestions that you may have.

- Moderator:** Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Ankur Jain, an individual investor. Please go ahead.
- Ankur Jain:** I have a question on the Anmol project in Gurgaon. So, the sales that we expected in that particular project have not been to our expectations. So, does it change in the medium to long-term outlook that our company has on having Gurgaon as a scalable opportunity?
- Varun Gupta:** Okay, so I will take that question into two parts, one, on this medium outlook on Anmol. I think the context in Anmol could change with occupancy coming in. The project got completed and OC was received, which was just at the end of the quarter, mid-June. And therefore, I think people have started living in there, and I think sales should improve going forward in that, so the run rate should definitely improve from where we were.
- Second, I think Gurgaon is a larger market, I think we see a much larger bit coming in, specifically with respect to the brand getting built in, with the project getting delivered. And now the market becoming more conducive for doing maybe more transactions. So, we are looking actively for land also in the Gurgaon region to do one more project. And just to take some learnings from Ashiana Anmol in terms of product, pricing, location and all that, but also build in on the fact that now that deliveries have come in, we have something to showcase in terms of the high quality work that we do to the clientele around Gurgaon.
- Ankur Jain:** Another question which I had was, we are reading in some reports that land prices have fallen substantially across different geographies. And there are new launches which are happening at considerably lower prices. So, I just wanted to know your perspective. I mean, is that true? And are you witnessing that phenomena in any of the micro markets where our company is operating, that the newer launches in the vicinity in those micro markets are happening at lower prices?
- Varun Gupta:** So, in the markets we are in, land prices have definitely corrected, Ankur. And we have also participated in some of the transactions. I haven't seen a lot of launches in the micro markets we are in anyway, I think overall number of land transactions have become very much smaller than before. So, I am not able to place any significant number of launches in any of the micro markets that we are in. So, would be hard for me to comment on those pricing.
- Ankur Jain:** Okay. Just a follow-up, I mean, since you say that land prices have definitely corrected, so any average ballpark number, I mean, is it 20% to 30% correction what it was let's say three years back?
- Varun Gupta:** I would say it's more like a 30% to 50% correction depending on the micro market.
- Ankur Jain:** Okay. 30% to 50% correction in the land prices?
- Varun Gupta:** Yes.

- Ankur Jain:** Okay. And is it putting any pressure on the phases which we already have, the projects which are already running to reduce the prices there, any kind of pressure you are facing?
- Varun Gupta:** So, in terms of pricing pressure, I think we have faced pricing pressure over the last three, four years significantly, with volumes getting compressed, and the maximum of it being felt in Bhiwadi where we did some price corrections through payment plans and discounts and also not phasing in some benefits of service tax reversals, GST reversals which we would generally do in completed projects. And therefore pricing was discounted. I think now going forward either prices are going to remain stable or they are going to increase, because the supply of real-estate is reduced sharply. And therefore, I think we are entering into a cycle of actually prices moving up on the sales side.
- Ankur Jain:** Okay. Just one more thing on the same note, since you mentioned about the almost bottom of the cycle, but in the last two or three months the economy has started facing major headwinds. So, is there any thought on whether this real-estate cycle which was showing some green shoots, it may actually, the slowdown may again, relapse?
- Varun Gupta:** I cannot comment, and I don't have the wherewithal to comment on it, Ankur, to understand the complexities there. So, in the micro way, we are looking at things. The cycle seems to be turning positive and we are at the bottom of the cycle. Now, if the economic headwinds make it further worse, I don't know. I can't comment on it. Let me put it this way.
- Moderator:** Thank you so much. Next question is from the line of Rohan Advant from Multi-Act Equity. Please go ahead
- Rohan:** I am Rohan here. First of all, I wanted to get some sense on the Bhiwadi market, especially Town. Our momentum there has kind of come down over the last few quarters. So, how is the outlook in that market?
- Varun Gupta:** Rohan, first, the comments on the market itself. I think the market itself has been pretty much what it has been over the last two three years, which has been in difficult scenario overall. In Ashiana Town, I think the first quarter didn't go very well. But the second quarter has started a little bit better. So, July was better than the previous three months and I expect the second quarter to be better in the quarter two itself. If we get this annual number that we got last year, which is about 97,000 square foot, 98,000 square feet in Ashiana Town, I think that's very much achievable in this year as well. So, I think Bhiwadi will remain a stable market as compared to last year this year in my opinion.
- Rohan:** All right. Okay. And in the Analysts Day meet you referred to five projects that we will be launching this year, of which one we have already launched. So, what about the remaining four projects, what are the timelines on that?
- Varun Gupta:** So, we will be launching, I would say, out of our four, three more projects are definitely certain to be launched in this year. For the two more, we have six projects overall and we thought we will be able to launch five, out of which one was launched. And in three projects approvals are clear. So,

launches will start coming in third quarter onwards, and third and fourth quarter we will be able to launch three projects for certain. And we are working on approvals in two more projects, which might get deferred to the next financial year beginning. We will get to know more clarity by the end of this quarter where the two more projects will get launched.

Rohan: Okay. So, which are these three projects exactly?

Varun Gupta: The one in the pipeline to get launched for certain are Ashiana Daksh in Jaipur, Ashiana Amantran in Jaipur, and Ashiana Aditya in Jamshedpur. And the Kolkata projects we are still in the midst of approvals.

Rohan: Okay. And so even with these three projects getting launched this year, along with what we have, you are still confident of maintaining the 2 million guidance that you give out earlier?

Varun Gupta: I would not like to use the word guidance. I would use the word aspiration. But yes, 2 million is something that we are aspiring for and striving for at this moment in time as well. Let's say, at this point of time a clear line of sight to 1.5 million, 1.6 million, and a stretch to 2 million. And if we get our act together correctly, I think 2 million is definitely possible as the way we looked at it, when we gave sort of the number out in the annual report at that point.

Moderator: Thank you. The next question is from the line of Rohith Potti from Marshmallow. Please go ahead.

Rohith Potti: My first question is in follow-up to response you gave to Ankur. You mentioned that the land prices have corrected anywhere between 30% to 50% in most of the micro markets. So, just curious to understand, because as you mentioned in the Analysts Day, in the end, even the company has to sort of follow the supply/demand cycle. So, if the supply of land is coming at much lower cost right now, how do we get the confidence of expecting price to increase? If the others launch at lower price, would we not be forced to follow suit?

Varun Gupta: The price of land in my opinion follows the price of apartments, and not the other way around. So, the reflection of a lower land price is capturing the reduction in sales price of apartments that has already taken place. Okay? And as the sale prices of apartments go up, land prices will increase, but with a lag in between, because the supply of land is heavy and the demand for land is very low because the demand of land is driven by developers. And the balance sheet of the industrial developers in general is not very, very supportive of buying more land as of today, given the financial crisis in the NBFC side as well, which has probably made it even more weaker in terms of the ability to procure land.

And on apartment side, because of the problem in the developer side, supply has actually reduced. The reduction in demand took place three years ago, four years ago, and demand is sort of stable now. But supply has been reducing. So, they are behaving in different terms. Once the sale prices in apartments increase to a certain level, land prices will start following suit.

- Rohith Potti:** Understood. That was very nicely explained, it was very helpful. Could you speak a little more on how you see the demand? I mean as one of the previous person mentioned, the sentiment seems to have taken a sudden turn to be negative over the last few months. So, do you see any material change on the ground in your current projects right now in terms of demand, in comparison to what it was? I mean, in comparison to the Greenfields that we have seen over the last few quarters? Or is it business as usual for you guys right now?
- Varun Gupta:** It is business as usual for us. The economic headwinds reflecting into home demand right now, there is nothing visible.
- Rohith Potti:** Okay, great. And the next question I have is on a pre-sale that we have seen, very strong. But I was just curious, if one is to strip out the sales from new launches and new sales launches, based on the existing projects that we have which have been opened a few years or few quarters back, how would you characterize those sales? Are you happy with them or do you think it's something which needs to improve further?
- Varun Gupta:** The sales in general needs to improve further, Rohith. So, I would not categorize the existing projects or new phase launches, or the new project launch itself. I think, all three could have gotten better sales in the first quarter then we did. And we need to continue working on our sales process that we have worked on to improve the sales numbers, given the aspiration of getting to 2 million square feet for the year; 3.5 lakhs square foot we are short on our number. So, therefore, sales process improvement needs to continue further and we need to continue to work on it to fix those processes and the team and getting our act together.
- Rohith Potti:** Okay, understood. And the last question from my end is more of a long-term thing. So, it seems like we are in hopefully in the beginning of the next cycle in favor of the industry. So, just curious, I mean, probably what mistakes, external is obviously out of the consideration, but what internal areas of improvement do you think that you need to work on hopefully so that we will be better prepared for the next down cycle? I don't know, if I was able to convey the questions well.
- Varun Gupta:** So, there were two or three mistakes I think we made, Rohith, one, we lost some of our phasing discipline in Ashiana Town, Bhiwadi where I think we built more completed stock then we needed to if we were a little bit more disciplined. We lost some of our discipline in the way we underwrite projects. And that happened in I think two projects out of probably 12-13 we underwrote, and that hurt us. I think being careful and being a little bit more disciplined is going to be more critical as we go forward. I think that's the mistake we made, and extrapolating the future from the past was also a mistake that we made. I think we will need to see signs when the up-cycle is there, whether the cycle is going to turn south and look at some of those signs as we are also looking for green shoots. As we continuously look for green shoots right now, whether the cycle is turning positively. I think having that discipline at the up cycle to be constantly at the watch whether this cycle would return downwards again, I think that's a very, very hard thing to do. It's easier to say when we are in the down-cycle, that's a very hard thing to implement when we are in the up-cycle. But that's what we need to do probably.

- Moderator:** Thank you. The next question is from the line of Priyank Sanghvi from 5Y. Please go ahead.
- Priyank Sanghvi:** So, my question was, any effect of the budget tax proposal of increase in deduction, so this was for a particular size of affordable housing. So, does our unit qualify for that size?
- Varun Gupta:** There are lots of our units, which qualify for less than Rs. 45 lakhs in affordable housing. So, we do have quite a large portfolio in that. Most of our two-bedroom flats would be less than Rs. 45 lakhs.
- Priyank Sanghvi:** So, clarifications sir, this is regarding the current budget proposal, increasing the deduction limit on interest and was it only in respect to the ticket price or was unit size also part of the definition?
- Varun Gupta:** I am not sure if unit size was part of the definition, it means our unit sizes also qualify. So, I think it's the same one which is in GST as well. So, our ticket sizes qualify, we have lots of two-bedrooms which qualify. But it's too early to say if there is any impact of interest rate reductions at this point of time, it's not been too long since the budget has gone by.
- Priyank Sanghvi:** That's right. HDFC came out with a press release that they have crossed 1 lakh applications on CLSS, so it seems to have picked up. Did we also saw any kind of eventually the benefit of CLSS coming in?
- Varun Gupta:** The CLSS benefit has definitely happened, if 1 lakh applications are with HDFC alone, then it's a large number with the whole institutions. And our flats also qualify for CLSS. For us its just difficult to quantify how much of it is impacting, I can't say whether this is impacted in this significant amount or this is impacted in a significant amount, that's the only thing I cannot say. But all I can say is, things are becoming more positive. And probably all of these things which are happening externally, whether it was CLSS earlier, now the interest deductions for loans, and the overall otherwise the external environment of consolidation and RERA and all are probably playing itself in helping sales move forward at this moment in time.
- Priyank Sanghvi:** My other question was in regards to Gulmohar Gardens Villa. So, how is the response over there? Is that something different that we are doing there from what normally we do?
- Varun Gupta:** It's not different from what we normally do. Gulmohar Garden Villas we sold about 30% of the stock at launch. We are happy with the response overall in Gulmohar Gardens and Gulmohar Garden Villas in general. And we should be able to sell off everything hopefully before we complete the project.
- Priyank Sanghvi:** Okay fine. And is the OC received for Lavasa?
- Varun Gupta:** The OC for Lavasa is under process, we are in the last leg of the OC process for Phase 4 of Lavasa. It can come in at any moment of time.

- Priyank Sanghvi:** Okay, fine. My last question is, does the ban on subvention scheme by Supreme Court, does that have any effect on us, especially on Town, did we have something there?
- Varun Gupta:** I guess it will be a positive impact for us, because we were not offering subvention schemes. So, hopefully we should get benefit from there.
- Moderator:** Thank you. The next question is on the line of VP Rajesh from Banyan Capital. Please go ahead.
- VP Rajesh:** One question on these completed projects inventory. So, you mentioned about Town that you will get deferred. But I am curious about Surbhi and THR given we had about 1 lakhs square feet of unbooked inventory in those two projects and there was no sale this quarter.
- Varun Gupta:** So, on THR we have had no movement. In Surbhi we get a movement in a quarter and then some cancellations, and then movement again in the quarter and some cancellations. If we look at the quarterly run-rate in Surbhi, we had gone up to 11,000 square feet last quarter and then we got nothing basically because we did get some bookings. But some of the earlier bookings also got cancelled and netted off to a lesser number. I think in quarter two we would be positive in Surbhi, not at a great pace but at least positive to start clearing out there. Tree House Residences has been challenging. We are not able to find a way to get the traction that we need to sell it off over there.
- VP Rajesh:** Okay. And what about Anmol Gurgaon, the sales were again less than what you had in the last two quarters. So, what's the prognosis on that?
- Varun Gupta:** So, Anmol, one of the reasons the quarterly sales were lower than before also was a lot of people deferred their buying decision to the next quarter, because OC was expected to come in and there was a GST relief coming for the buyer. So, all of the bookings that we got was actually in quarter in the last two weeks of June, once the OC came in. Basically, April, May and first half of June was actually very slow, because everybody was deferring their decisions. And now in quarter two, I expect the sales to pick up in Ashiana Anmol as we go forward.
- VP Rajesh:** Okay. And just curious, I know people are asking you about the slowdown. But Bhiwadi being an industrial area, what is your best guess about why you guys are not seeing a slowdown or you think it's like perhaps going to come with a little bit of lag?
- Varun Gupta:** Two, three things. One, in Bhiwadi now senior living makes up a decent part of the portfolio, which is not sort of driven by the auto belt at all. But so the second thing that we have started doing in Bhiwadi is also opening a larger market for people living in Bhiwadi and commuting to Gurgaon.
- VP Rajesh:** I see. So, your traffic in Town is now incrementally more of that nature, is that what you are saying?
- Varun Gupta:** Yes, the Ashiana Town, particularly the traffic is incrementally more of that nature, larger proportion there. So, that, and I think the overall slowdown in development in Bhiwadi in terms

of real-estate development has been very, very acute. So, the decrease in supply is very heavy. And therefore I think we are just getting a benefit of consolidation of the market in our favor. And I think that will continue whether or not there is economic headwinds or not, because a lot of, you know, we are one of the few developers in Bhiwadi who have completed their projects and they are live and you don't have any delivery risk. So, we are getting a benefit of that.

VP Rajesh: Right. And then I was just wondering, given your comment about the land prices, we are sitting on 100 acres of land, what is your best guess about the market value of that inventory given that, obviously, you bought it very, very long time ago, but would you say its still over book value, significantly over book value?

Varun Gupta: This is land inventory?

VP Rajesh: This is your Slide #25, the land that you have for future development.

Varun Gupta: Yes, most of it would be above book value.

VP Rajesh: I mean, I would think the Pune land you bought recently, so that would be an attractive buy, right?

Varun Gupta: So, Pune, Jaipur land was near earlier, Pune is a JV, Jaipur is another JV, Calcutta is a deferred payout we have actually seen appreciation, there we actually went and got valuation done. And the value of the land is significantly higher than book value. So, generally, mostly we avoided buying land during the peak of the up-cycle, right, we did not deploy too much capital there. So, our lands have not had depreciation in value for what we bought them at. So, generally I would say market value of our inventory at book value or higher in general.

VP Rajesh: And Pune you said it's a JV, are you referring to the IFC arrangement?

Varun Gupta: No, it's a revenue share joint venture. It's a JDA, revenue share joint development agreement.

VP Rajesh: Understood. And then lastly then if the prices are so down, what is stopping you guys to become more aggressive in buying land? Given that you do have this partnership with IFC?

Varun Gupta: Land might be cheap, for us to be able to realize return out of it is not some trading, right? We will have to do a development and create returns out of that. So, we just need confidence on the volume front in a particular micro market where we will deploy the capital. I think that is where I think aggression is, we have been conservative overall typically. But see, in lots of active transactions at this time, hopefully we will conclude a couple of transactions in this financial year.

VP Rajesh: Right. And just lastly, Jodhpur, is that becoming a core market or this is like one-off things?

Varun Gupta: No, Jodhpur we launched a new phase, therefore we got this volume. I don't think in Jodhpur we will see this kind of volumes repeating every quarter.

VP Rajesh: Okay. So, your core markets are going to be essentially Jaipur, Bhiwadi, Gurgaon and Pune, right?

Vikash Dugar: And Chennai.

Varun Gupta: I think, yes, Chennai is the market which is becoming core. I think if I were to bet where I would see more activity is going to be, its Chennai. Projects are profitable, we are hitting decent volumes now, and deliveries and brand all of that. And then a large market overall in terms of senior living and general housing both, I think Chennai is going to be a core thing that we will focus on along with Jaipur, Bhiwadi, Gurgaon. And Pune has not really become a core market, so we haven't been able to get a project going, honestly. But it's a market that we have continued to look at actively both for senior living and regular housing to get a project going there right now.

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

Bhavesh Jain: So, first of all, my question is, the NBFC crisis which is happening and the liquidity crash which is happening, so two things here. One, are you getting a sense whether the homebuyers are not able to get the loans because of the NBFC crises? And as a company, are we having a liquidity issue that you are seeing?

Varun Gupta: Okay, first on the homebuyer front, most of our buyers are salaried people, and in the mid-income segment. There they are going to either banks or to HDFC as a housing finance company or PNB or LIC, the housing finance companies which are stronger and there the issue of home loan disbursement is not there. From what I hear from other developers, the challenge on home loans disbursement is particularly on the self-employed low income buyers. And there we are not really playing a lot, but that's the market where we hear that people are having challenge in terms of home loans getting disbursed.

And on the second question, in terms of our liquidity, I don't see a challenge at this moment in time in the liquidity.

Bhavesh Jain: Followed by that. Another question that I have is, Chennai, you are saying that it's the new market that we are looking to develop, and in the news what we are hearing is Chennai is running out of water. So, these two are like, you are going in a territory which is by nature running out of water for the drinking purpose. So, do you see any challenge in that?

Varun Gupta: Sure. As a citizen, as a company, we are constantly worried about water, not just in Chennai but in most of the other cities we operate in. So, therefore recycling of water, sourcing of water, because most places we operate in supply water is not available. And those are challenges that we go through. In Chennai particularly, in our project we have not had any challenges in terms of water, in our project whatsoever. In Chennai city in general, what I am reading now that the government has also taking action in terms of putting in more desalination plants to allow a lot more water supply to come in. So, that's what we are seeing as of right now. And again, we will be participating in Chennai where we are looking at are also outskirts of Chennai where the issue

of water is itself less because groundwater is available at decent yields in depth with government permissions also being available to extract it. And therefore I don't see as a challenge in terms of water.

Moderator: The next question is from the line of Priyank Sanghvi from 5Y. Please go ahead

Priyank Sanghvi: My question is, under increasing realization this quarter, so was there anything one-off or something special this quarter for that?

Varun Gupta: The increase in pricing is driven by units mix. If you see this quarter, sales has been driven by Ashiana Sehar in Jamshedpur, Ashiana Shubham in Chennai, and also Gulmohar Garden Villas. All three of these projects were higher priced on a per square foot basis and their contribution has led to increase in sales price. The second bit also is happening that in terms of the new projects which are getting launched, they are getting launched with a lower GST rate. So, the headline sales price number has increased, but there will also be a commensurate increase in construction costs. So, some of that is also in play, but not a large number because, again, that is only in projects which has been launched in this quarter, earlier the projects which were launched earlier continue to be at the 12% GST rate. So, those two things are playing their part in increasing the headline realization number.

Moderator: Thank you. The next question is from the line of Meeshal Mehta from Credit Capital. Please go ahead.

Meeshal Mehta: I have a couple of questions, more relating to annual numbers. Now, if you look at the last three or four years, I think at a gross level, so direct costs level margins have broadly been in line. I mean, last year also you came at about 36% - 37%. But the indirect costs always were below your construction costs. They have ballooned over the last three or four years. So, we have spent about Rs. 86 crores to Rs. 90 crores this year compared to similar costs about Rs. 70 crores two years ago. So, can you shed some light on what is really going on here? Does this capture a lot of these discounts that in one way you are giving where do you see these costs going up in the future? And the second thing related to this is, with this steps that you are taking now, do you expect our gross margin again to be within this 35% to 40% range that we have tried to maintain or higher or lower?

Varun Gupta: Let's take this part by part. One, indirect expenses are little fixed in nature, right, mostly. So, as a percentage the decrease has been driven by decrease in the top-line number. And the increase in indirect cost on an absolute front has been driven by two or three things, a large part of it, I believe, is the increase in selling expenses as well. We have had to spend more money to get more sales, which has been reflecting here. Second, some of it is also inflationary in nature. And third, we have had to borrow.

Meeshal Mehta: I am leaving financial costs completely out of that.

Varun Gupta: Yes, leaving financial costs out. So, large part of it is, and there is another cost that comes in our books is when we have built inventory we have to pay for its maintenance, proportionate common

area maintenance cost. They also come in when you hold inventory. And a large part of it is also increase in selling expenses. I don't have the exact breakup of the numbers that you gave to me for us to be able to discuss with you.

Meeshal Mehta: I can just read out a few headline numbers if you can throw some light.

Varun Gupta: Yes, can you read out how have selling expenses changed between the 70 to 86?

Meeshal Mehta: So, your selling expenses last year for 2019, and everything is consolidated, is about Rs. 26 crores; 2016 was Rs. 4 crores; so 2017 was Rs. 16 crores and then Rs. 28 crores, then Rs. 26 crores. So, that has been a significant ramp up.

Varun Gupta: Correct. Here we have to spend more to get more bookings, as simple as that.

Meeshal Mehta: Okay. So, where do you see this going in the future? Do you expect this ramp-up to increase? Or now since the market seems to be selling better, do you expect this to stay where it is? Because at a gross margin level it's been okay, I mean, profitability has taken a hit mainly because of these items.

Varun Gupta: So, on an absolute number basis, I think the selling expenses will increase a little bit going forward, but not at the pace it has increased earlier, and then sort of stabilize a little bit. We will continue to spend a little bit more money particularly on the Kid Centric side, because we want to build sort of as an investment to build a brand around Kid Centric Homes. And therefore, it is requiring a little bit more expenditure. And second, I think the overall cost of advertising online, which has been our bread and butter in terms of advertisement to generate inquiries and sales, has also gone up significantly. And that is also hurting a little bit. But on a per square foot number, we expect this to decline because sales and our overall volume should go up.

Meeshal Mehta: Okay. So, sort of per square foot and percentage number should decline because your ramping up of volumes are going up.

Varun Gupta: This would not get reflected though for this and the next financial year because our deliveries are going to be muted, it is going to start reflecting in financial year 2021, 2022 in terms of reported numbers. In terms of the gross margins, I expect gross margins for 2019-2020 and 2020-2021 to decline, particularly on the back of Ashiana Anmol in Gurgaon which is a low margin number project overall on the gross level for us. And that is hurting the gross margin number for the rest, in a reported basis for the next 24 months, particularly in 2019-2020.

But now on an operating framework, on an economic basis we are seeing gross margin numbers also expand. I am seeing prices have bottomed out, new project that we are launching where we are able to price the product correctly, we have gotten a Villa project in, Jamshedpur project in, which are higher numbers in terms of gross margin performance. And I would expect that gross margin numbers also from 2021, 2022 and maybe 2022-2023 definitely onwards, gross margin also should come back to this 37%, 40% levels hopefully after decline. We underwrite projects at

the 30% gross margin level, so from 30% to 40% we have seen some inventory gains in our projects which have started reflecting in that margin. And some reversion is expected down to 30% gross margin.

Meeshal Mehta: So, on an economic basis even at a gross margin level and at these indirect cost levels things are changing? Although I understand reporting will take a couple of years to catch up?

Varun Gupta: Yes, economic basis its changing.

Meeshal Mehta: Okay. And just one last thing, the selling expenses, because there is no breakup given of this, can you highlight like what are the larger chunks out of this Rs. 26 crores odd, what kind of money goes in kind of expenses within this?

Varun Gupta: Most of it is generally advertising and a large proportion of it is online.

Meeshal Mehta: So, the manpower expense, the marketing expense that doesn't come into the selling expenses at all, right?

Varun Gupta: It does come in here, but it's a smaller part.

Meeshal Mehta: And just to get a clarity, which kind of manpower expenses would you club under selling expenses and not under project or employee?

Varun Gupta: So, we have three types of manpower expenses. The manpower in the project, in the four boundaries of the project, who sits in the project and is therefore the construction of the project, that is captured in construction cost and project expenses. The manpower which is dedicated to sell a particular project. So, in the project there will be three, four sales executive, assistant managers which sit in that project and sell, they are captured in the marketing expenses of that project.

Meeshal Mehta: Okay. But its still showing up in the direct costs.

Varun Gupta: No, it would be showing in indirect cost in selling expenses. And it is charged at the time the revenue is recognized, till then it captured as unaccrued selling expenses in the Balance Sheet as an Asset. And the third expense of employees is the admin, so someone like me, people at head office, branch offices who are administrative to multiple projects and are never dedicated to a particular project are charged through the employee benefit expense.

Meeshal Mehta: Got it. So, this is a large number of about Rs. 46 crores, I might be a bit off on that of unaccrued selling expenses in the Balance Sheet. Now, that is all money, I mean, that would again include advertisement, online, offline, plus direct selling expenses for all the projects, right?

Varun Gupta: Yes. And basically, when those projects are delivered and revenue is recognized, proportionately that selling expenses is charged to the P&L account.

- Meeshal Mehta:** Okay. So, just to make this a bit clear, in terms of what are you spending right now in terms of a run rate? So, what's on the books right now is already what is being spent.
- Varun Gupta:** So, a good way to collect, to capture the run-rate would be to see the change in unaccrued selling expenses and add it to the selling expenses charged for the year, if you want to calculate it. And to be it is about Rs. 30 crores a year.
- Meeshal Mehta:** Okay. Last year it's kind of flat, so then it is just what shows up on the P&L basically?
- Varun Gupta:** On the books it is shown up as 25.59, what you don't capture is about Rs. 3 crores, Rs. 4 crores we spend in partnership firms. So, we will be spending about Rs. 25 crores, Rs. 26 crores outside of partnership.
- Meeshal Mehta:** And just driving this home, so this expense you don't expect it to increase over the next three, four years substantially?
- Varun Gupta:** No, we don't expect this to increase substantially. Our annual budget should be about Rs. 30 crores good forward annually.
- Moderator:** Thank you. The next question is a follow-up from the line of Rohith Potti from Marshmallow. Please go ahead.
- Rohith Potti:** Thank you. Sir, again a follow-up on one of your earlier answers. So, just curious if you could share how has been, I mean, you mentioned that you don't see many launches happening in your micro market. So, has the pace of decline in launches, and decline in the number of developers in your micro markets accelerated over the past few months or is it same?
- Varun Gupta:** We don't track it in such a granular detail, months, few months or a few quarters. All I can give you is a general sense that the number of developers in any micro market in the country, what is there today is what was five years ago, the numbers are far fewer today than they were five years ago. And I hardly hear of anybody new joining the business. So, I will not be able to say how much has been declined, but additions have been few and far between over the last four or five years.
- Moderator:** Thank you. We take the last question from the line of Ankur Jain, individual investor. Please go ahead.
- Ankur Jain:** I just wanted to ask about the updates on the litigation that we have on the Milakpur land and also on the hotel project in Jamshedpur, any updates on that?
- Varun Gupta:** No updates on that, Ankur. Both continue to be at the High Courts without any disposals.
- Moderator:** Thank you. Sir, this was the last question. You can go ahead with your closing comments, please.

Vikash Dugar:

I would like to thank all of you for being on this call, and being so patient with all the questions. If we were unable to take any questions, please feel free to write to us directly or reach out to us directly. And with that, I would like to conclude the call. A lot of the material we have spoken about is posted on our website and you can also email your queries for any further clarifications. Thank you once again for taking the time to join us on this call.

Moderator:

Thank you very much, members of the management. Ladies and gentlemen, on behalf of our Ashiana Housing Limited, that concludes the conference call. Thank you for joining us. And you may now disconnect your line.