"Ashiana Housing Ltd. Q3 FY22 Earnings Conference Call"

MANAGEMENT: MR. VARUN GUPTA – WHOLE TIME DIRECTOR

MR. VIKASH DUGAR – CFO

Binay Sarda: Good afternoon everyone. Welcome to the Q3 FY22 earnings call of Ashiana Housing Limited. Please note that this webinar is being recorded and the transcript of the webinar will be made available in a week's time to the call. The results and investor presentation have been mailed to you, and it is also available on the stock exchange. In case anyone does not have a copy of the same please do write to us and we will be happy to send it over to you. Before we begin, I would like to remind you that our discussion today might contain forward looking statements, while these forward looking statements represent our current judgment on what the future holds, they are subject to risks and uncertainties that could cause actual results to differ materially. You are cautioned not to place undue reliance on these forward looking statements which reflect our opinion only as of the date of this presentation. Please keep in mind that we are not obligating ourselves to revise a publicly release the results of any revision to these forward looking statements in light of new information or future events. 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, the CFO. Mr. Vikash will make his opening remarks and then we will move over to Q&A. During the course of the presentation all investors will be in the listen only mode and there will be an opportunity to ask questions once the presentation concludes. With that said, I will hand over the call to Mr. Vikash Dugar. Over to you Sir.

Vikash Dugar: Good afternoon everyone. Hope you all are safe and in sound health. Thank you for joining us to discuss performance of the third quarter of FY22 Ashiana Housing. I extend a warm welcome to all of you. Area booked recorded in Q3 FY22 was 4.21 lakhs square foot as compared to 3.57 lakhs square foot in Q3 FY21 and 4.51 lakhs square feet in Q2 FY22. In Q3 there was healthy booking from Anmol phase II Gurgaon, which was launched in Q3 and Shubham phase IV Chennai. We handed over 1.97 lakhs square foot in Q3 FY22 out of which 1.2 lakhs square feet was delivered in partnerships. This was against the delivery of 3.94 lakhs square feet in Q3 FY21 out of which 2.14 lakhs square feet was delivered in partnerships. Revenue recognized from completed projects in Q3 FY22 was Rs.30.90 crores versus Rs.62.42 crores in Q3 FY21. Total comprehensive income in Q3 FY22 was negative at Rs.3.28 crores visibly positive Rs.13.26 crores in Q3 FY21. Total comprehensive income was negative Rs.6.36 crores in Q2 FY22. Pre tax operating cash flow modified and before any land payment was positive at Rs.29.22 crores Q3 FY22 versus positive at Rs.28.1 in Q2 FY22. Equivalent area constructed was a 3.73 lakhs square foot in Q3 FY22 versus 4.50 lakhs square foot in the previous quarter and the same was 3.54 lakhs square foot in Q3 FY21. There has been delay in some projects due to pandemic and rain the expected completion dates have been revised accordingly and shared in the presentation. On this note, I would like to conclude my remarks and will now be happy to discuss any questions or suggestions that you may have.

Binay Sarda: Thank you. Anyone with a question, request you to please raise your hand. We'll just wait for a moment and then we will begin the question and answer. First question is from a Himanshu Upadhyay from O3 Capital. Please go ahead you

Himanshu Upadhyay: So, the first question is to Varun. We are seeing price rise in various micro markets across the country but how fast or slow is the price appreciation in senior living. So, is it a one to one correlation with our normal housing or it generally takes more time, any idea you can give on that and as it is a bigger proportion of our sales in future when we have more projects on senior living in Chennai and all those markets. Just some idea that would be helpful.

Varun Gupta: Himanshu I would say that they're not completely linked and following each other in a regular basis or something whereby you could say Senior Living prices are following regular housing. In fact, if you would see over the last five or six years we have had a challenge raising regular housing prices across our market but both in Ashiana Nirmay Bhiwadi and Ashiana Shubham, Chennai we have been able to increase prices and quite substantially, particularly in Chennai. So I would say they're not as linked together because I think housing price is driven by supply and Senior Living hasn't had much supplier right now to have driven prices downwards in that particular kind of product, whereas regular housings had a problem with excess supply across the markets. So they're not linked together much in my opinion in terms of cycles. Obviously, prices are linked like if in a particular micro market regular apartment prices are high, Senior Living prices would also be high. But secretly I would say they are not as intrinsically linked as you think.

Himanshu Upadhyay: So, one just corollary to it is the upside would also be slowly and much more steadier than the regular housing or for us it may be increasing at a faster rate in future or in near future looking at the things.

Varun Gupta: Yes, but Senior Living we are already enjoying very good margins. So I'm not particularly concerned about prices.

Himanshu Upadhyay: Okay. Second question was if we continue to see the improvement in real estate. We have taken seven land parcel ourselves, I am not including Bhiwadi and Kolkata, which have been historical and all that stuff. And we have next phases to be launched. But with the current pipeline of product what we have, do you think we can achieve a sales of 2.5 and 3 million square feet in next, let's say FY23-24 and what type of launches do we require. So if we want to reach 2.5 million square feet, the existing product we have only 1 million square feet of inventory. So how are you looking at it and how confident are we that we have the product run out now ready to launch and reach those targets in FY23 or FY24?

Varun Gupta: Whenever we shall get to that number that you're talking about. Mr. Himanshu, we will need these new projects get launched and new phases of existing projects wouldn't be enough. And therefore I will use and I will also refer to the Calcutta project we do not launch either Calcutta is in a different zone but outside of that the Bhiwadi project also needs to be launched to get to that run rate. In terms of my opinion, to get to about 2.5million to 3 million square foot, we have enough projects now in all micro markets except for Jaipur. In Jaipur we need to sign up I think two more projects over and above to what we have to get to that run rate. We are in the process of dialogue there but just land prices have run up a little bit higher than preferred and just a little concerned about margins there therefore. So, we are looking for transactions where we are able to maintain the margins that we're looking for in Jaipur. And that's the context there outside of that I think we have enough land pipe and project pipe we just need to get them approved and then launch.

Himanshu Upadhyay: Last two last questions. Are the seven land parcels which are for development, I am again not including Bhiwadi and Kolkata, what is the timeline for those project launches means how many of them can be in FY 23 and how many will go to FY24?

Varun Gupta: I will include Bhiwadi in this because from a launch perspective, it does not make a difference whether we got this now or we got this historical. Calcutta we don't have any line of sight. So I will stop talking about Calcutta for now. But out of those eight projects, including Bhiwadi I'm hoping to launch everything by FY24 for sure. Out of 8 our opinion is if we get 6 in FY22-23 will be good.

Himanshu Upadhyay: Okay, and one last thing. See Jamshedpur is one of our very strong position markets. What type of premium, IRR or profitability you are able to get in that market versus Jaipur market and how different can the two markets be.

Varun Gupta: It's difficult to compare both markets we enjoy good premiums, both markets enjoy good returns, but the Jaipur market is far larger. So in absolute terms Jaipur is a far more important market than Jamshedpur but both those markets are such where capital requirements are lower, margins are higher. Capital requirements are lower because more JVs are up on offer. More JV is up on offer because we enjoy a good brand equity and because we are able to charge premium pricing as well. The intent is to get all our markets in that zone in the market where we are. So like Chennai is becoming an interesting play from a Senior Living perspective where we can see margin expansion and a brand premium coming in.

Himanshu Upadhyay: Okay, thank you from my side. I will join back for questions, if I have more.

Binay Sarda; Thank you much. We have the next question from Vivek Chaturvedi. Request you to name your institution if applicable and go ahead.

Vivek Chaturvedi: Hi Varun just a slightly broader picture question since I am an investor over the last year and this is my first conference so I wanted to understand in terms of looking at the whole company from a CEO and a promoter perspective. What do you generally target as kind of the return on capital that the company employs because the accounting in all construction companies and real estate companies is a little difficult to understand compared to the other sectors. How do you internally look at and how do you benchmark yourself in terms of return on capital, IRR combined across different projects?

Varun Gupta: So we are looking at a return on equity post tax of 15% at the corporate level that's what we are gunning for. It's become the golden number internally also to focus on instead of top line metrics or volume metrics or margin metrics, I think we are going to drive the business from this perspective. To internally track whether we are on the right path to reported 15% ROI numbers? We have an internal operating metric and basis where we track whether we are on the right path to get there. I think that's what we are looking for right now. And we have put that thing together, Vikashji has put that thing together with his finance team over the last two and a half years and that's what we're targeting.

Vivek Chaturvedi: Okay. And what would be your cost of capital, I mean, both debt and equity put together it would be in the ballpark range of what about 12-13%.

Varun Gupta: So, Vivek I have no way to really gauge cost of equity or we don't really gauge cost of equity within the company. So it will be hard to comment on that. Vikashji would you like to take the question on the cost of debt capital that we have today?

Vikash Dugar: So the cost of debt capital has progressively over a period of 3-4 full years gradually come down. We are doing project level funding at around 9-10% somewhere in the vicinity of that. And even the larger ticket loans that we have done over the years are in a 10%, so 10% roughly I would say would be the cost of debt that we are hovering at right now. It used to be 12-13% couple of years back even including the construction funding but that we have managed to bring it down over the years.

Vivek Chaturvedi: How do you look at debt equity, I mean do you look at it from an individual's perspective or really you have an individual project debt equity ratio in mind as well as the overall corporate level?

Vikash Dugar: No we look at our overall corporate level and we are quite low on debt. I mean, our borrowing strategy also is counter cyclical in the sense that during upcycle, we prefer to pay off the debt and during down cycle we leverage as and when required. And gradually we are with the concept of this computing returns and looking at returns at a projected location level. We are trying to raise fund wherever required the project level. But then we look at debt equity ratio only at an overall corporate level.

Varun Gupta: I would just like to add that from an ideal perspective we wouldn't want any debt whereby all construction is financed through customer receivables, that's the intent.

Vikash Dugar: So the construction funding is more like a bridge funding as and when required a large project just to add to our overall financing arrangement, but then structurally we prefer working capital funding coming through customer advances primarily.

Vivek Chaturvedi: Just one last question with regards to coming financial year FY23. How much growth in terms of area booked or area constructed are we looking at in FY23 across projects?

Vikash Dugar: Those internal workings are presently going on, can't share any number at this juncture. Generally we don't give guidance also. Varunji if you'd like to add.

Varun Gupta: Yeah, exactly Vikashji. I was going to say we haven't worked those numbers internally I doubt. Again, Vivek internally the larger focus has been what do we need to do to get to 15% ROE, whether it's increasing margins, increasing construction, and increasing sales. We look at whatever needs to be done from that perspective now but we haven't worked those numbers internally yet.

Vivek Chaturvedi: Would you be able to share that with the investors in the next call.

Varun Gupta: We typically don't give guidance on that number. We'll come back to you if we have a sense of it maybe in the next. I think what we will give is a good sense of the amount of area we look to deliver in the next financial year, that we will give a better sense of.

Vivek Chaturvedi: Okay, that's all from my side. Thank you.

Binay Sarda: Before we move to the next question, I'll just take a question from the chat board. So, Devanshu writes, there's been more than one instance of misappropriation of funds one recently and one a few years ago. Can the management explain why this happened the second time and what it is doing to avoid such mishaps going ahead?

Varun Gupta: I will take up what happened and Vikashji may take up what we are looking to do. So the first one that happened five years ago was a significantly smaller figure in size and in that process what we saw is a gap we plugged and we moved ahead. In general processes were fixed but with the decentralized processes in one particular location, I think processes were not followed and overall a little bit more laxity came in during the pandemic, to make things move a little faster in that and our processes and systems just didn't keep up with the size of the company over the last 5-6 years, I think with number of cities, number of locations and as scaling back towards a larger size of revenues over the last few years that did not happen. I think we're taking steps to resolve that this does not happen. Vikashji would you like to share some of those things with them?

Vikash Dugar: So one thing that we are doing is that we are implementing a new ERP it's called far vision and it's a well know ERP in the real estate sector. So that initiative presently has got kick started, next few months we are targeting a go live date. So that is as a project is going on in full swing. And apart from that we also were a period of time I realized that with the growing complexities, growing requirements in our business the way we have grown over the years, the kind of business controls that we need, we have decided to appoint a one centralized, big internal audit firm who could guide us and hand hold us in terms of you know, further strengthening our internal controls. So Grant Thornton has been appointed, that again is in public domain, we have shared that as an outcome of the last board meeting. So these are the two important initiatives and apart from that, routine kind of changes wherever required in terms of division of responsibilities, the standard internal control practices, SOPs, wherever they're required to be strengthened and our governance processes that we are taking care of any which ways. So those are the initiatives here.

Binay Sarda: Thank you. We have the next question from line of VP Rajesh from Banyan Capital. Please go ahead sir.

VP Rajesh: Thank you. My first question is regarding Milakpur. So, if you can comment on what has changed there that now you are thinking of developing that land?

Varun Gupta: We are not looking to develop Milakpur. Milakpur remains in litigation with the government and acquisition proceedings which have been challenged. The land that was Ashiana Town Gamma, that's been re-planned as Ashiana Advik as a full Senior Living Project and we will be developing and launching it. I think in Ashiana Nirmay we are at tag end of selling out what we had. And this is where we see a larger sort of play for the company in Bhiwadi in Senior Living.

VP Rajesh: Okay, and then Ashiana Town has still has some inventory when do you think that will get exhausted?

Varun Gupta: I knew we were going quickly but last quarter became slow. I am hoping in the next 18 to 24 months we were able to get that, as I said in our return on equity perspective that is drilled down to the branches. One of the things is to ensure that capital is divested which is not producing the returns in commensurate to the capital employed and completed stock generally does not. So, releasing capital from Ashiana Town is a very important step there. I think it was going well and then it got stuck a little bit. I think we're trying new things to resolve that, and I am hopeful that in the next 24 months we should be out of Ashiana Town.

VP Rajesh: **I**f I'm correct, then aside from this Gamma land, there is no other land that you have in the Bhiwadi, aside from Milakpur which is in litigation, but there's nothing else which can be developed over the next 2-3 years.

Varun Gupta: No, we have Ashiana Tarang and that has a lot of room for development. So,I think that will continue as a regular housing. I think we will have close to a million square foot in Ashiana Tarang.

VP Rajesh: Oh, I see. Okay and then all the land that you have purchased this year, by the way, congratulations on that it looks good that you have built up your land inventory. Have you used IFC facility or you have done JDs? You can just comment on that what has been the mix around capital utilized for these acquisitions?

Varun Gupta: So, we have used IFC facility. So I'll walk through, we have done the three projects in joint development revenue share arrangements, one is Jamshedpur, one in Jaipur and one in Pune. So they have very little capital requirements as such compared to an acquisition. We have done one project in Gurgaon, which is with IFC financing a large part of the acquisition costs and some bank debt through ICICI bank as well, they could finance some of the statutory levies that was getting reimbursed. And the last bit is the one project in Chennai which we have purchased completely through our funds right now, there was some regulatory issues for IFC to deploy funds in that, I think by April for sure, but we are hoping earlier we should get IFC share of the capital there and refinance out some of the equity that you've put in that perspective and therefore IFC will finance that as well. That's the Mahindra World City purchase. And one we have purchased with Arihant group jointly. So overall, capital has not been concentrated in a particular project and we have 100% share it’s been spread a little bit.

VP Rajesh: That's good and in terms of the market, you talked about Chennai becoming a stronghold, Jaipur obviously doing well for us. What's the prognosis on Pune and Gurgaon markets?

Varun Gupta: Let me take up Gurgaon first, I think one thing has happened that we had a land in NCR that we could leverage in general from Bhiwadi, the Sohna project is also done well now in terms of sales and getting us a brand it's not making margins or profits but over the last, let's say 12-15 months, sales have picked up and brand has been improved. I think the second project in Gurgaon Ashiana Amara will be a very good project from a returns perspective and brand perspective for us, it's great. We had a lot of time to do a great design. They've done a fabulous design of the project. It's large size, so I have a view that we are doing well in Gurgaon. In Pune it will still be a lot of legwork, the first project in regular housing and we'll have to establish our brand. I said in senior living, I would expect also in Pune that the brand building will be swifter like it has happened in Chennai as compared to the time it took in Gurgaon for regular housing just because this place is not so competitive. And we have a distinct project. And I think we will be able to leverage Lavasa a little bit in terms of database and people knowing us for senior living there. Even though Lavasa as a project has not done well and I think that's more to do with this Lavasa cities issue, which hopefully will also get resolved. But our project and our customers who are living there are happy. So, I think Senior Living would be an easier place to create a brand and margins in Pune.

VP Rajesh: So, between the two cities have you sort of got the sense that which one will be a better market for us in the long term, or is it TBD?

Varun Gupta: I think it is TBD, my view is that good golfer regular housing and Chennai for senior living will definitely be good markets for us in the future I don't see a challenge of that. The Pune regular housing is a is a more of a TBD.

VP Rajesh: Okay, understood and then on the ROE question, when do you see yourself hitting that number is it fiscal year 23 or 24?

Varun Gupta: So fiscal year 23 in my opinion, we will hit 15% ROE on a reported basis. The question is whether it will sustain I think that's the larger bit that's what we're asking. If not repeating in FY24, will it list sustain after that FY25, 26, 27, I think that sustainability question will get answered on operating basis at FY23 as well. So, financial year 23 is key for us on both perspectives. One on a reported basis we have a lot of deliveries coming up, so hitting reported profits and getting to 15% ROI on a reported basis. And getting the operating numbers in that reported ROE of 15% start becoming sustainable going forward. I think it's an important year.

VP Rajesh: What about the economic profits? Are you already there?

Varun Gupta: No, we are not there yet. So, FY23 would be also important basis to get. So, when I said operating that that's what I was telling.

VP Rajesh: Okay. And then just last question, if I look at your land inventory and if I take Milakpur and Kolkata out you have about 7 million developed area potential with you. So over what period do you think this will all get exhausted?

Varun Gupta: A six-year view for all of this and the future projects inventory. So, we have about 7 plus 4 i.e. 11 million square foot plus some million to sell here as well, so I'm hoping that in six years we should exhaust all of this and add more projects and exhaust them partly going forward.

VP Rajesh: Okay, all right Thanks. That's really helpful, appreciate it.

Binay Sarda: We have the next question from a Rohit Potti. Please go ahead.

Rohit Potti: Thank you for the opportunity. So, I have just one question. I mean, so with the upcycle coming we're looking to scale up to the extent possible. I was just curious, given the approach to building that we have in the sense it's more of a full stack model rather than an outsourced model that most of the developers use. How do you see the internal capabilities killing up in terms of the construction capability and selling capability, etc. So, let's say I mean for us to go from 2 to 5 million, do you see us being able to control as much of the process as we do right now, or do you see part of it being outsourced going forward?

Varun Gupta: I don't see construction as a challenge as we scale up. We will have to build sales capabilities. So, we have decided to work with channel partners in Gurgaon and Pune, it is one of those aspects of building capabilities in some markets. So, will we need to build these kinds of capabilities in Jaipur for Senior Living? No, but in Gurgaon and Pune we will have to build those capabilities as we scale up from a sales perspective.

Rohit Potti: I remember that in Anmol we started using channel partners for the first time. So how has that experience been in terms of customer expectations versus how the channel partner sold, etc. So, are you guys happy and is that going to be an important part of the sales channel in Gurgaon even after we established the brand?

Varun Gupta: Yes, I think that in Gurgaon and Pune, channel partners are going to be an important part of the sales channel even after brand is established. I think the market is very difficult for a consumer to navigate because of the sheer number volume of projects that are there and we lines up at a channel partners doors nonetheless, that said, we have evolved into a model where we control the sales process to a large extent because the entire customer facilitation on site is done by our sales team. So therefore, we haven't had a material issue of customer expectations being different from what we are delivering or promising.

Rohit Potti: Not clear on what you are saying.

Varun Gupta: Okay, so I'll repeat it once more. I said, we haven't seen any conflicts whereby we have seen that customer expectations are different from what we are delivering or what promised to deliver, even with channel partner sales and that's largely driven because we control the sales process at site.

Rohit Potti: Okay, perfect. That's it from me Varun. Thank you and all the best.

Binay Sarda: We have the next question from Apurva Shah. Please go ahead.

Apurva Shah: Thanks for the opportunity. So, I was just trying to understand from a future perspective, the input costs, the margin pressures I think there was margin pressures and going forward how do you see that playing out, in terms of your ability to increase or pass on price increases across projects. If you could throw some lights on that and how will it affect the pricing and how is on ground, in terms of some developers have reported where in price increase have been taken and there has been no impact on the sales volume. How do see that situation evolving?

Varun Gupta: So, for us also we have been able to pass increased prices, if you see our quarterly average sale prices crossed Rs.4000 for the first time. A little bit of that has to do with mix, Anmol contributing a bit of it but we have also increased sale prices across the board. I would expect that sale price increases and there my view has been that real estate is in a bull cycle for a long period of time. And we should be able to increase sale prices. So, in existing land, I think construction input costs increases should more than be covered and margin should expand in the future with sales prices. That's my particular view. Where the challenge is, that land prices have also moved up in a few markets capturing that future outlook in place also and that becomes a little bit of a challenge, so that concern is there. In new project that we pick up, will we be able to find margins and value?

Apurva Shah: So as of now, I know it's difficult to still gauge, but six months down the line how do you see that situation evolving? What kind of price increases would suffice if land prices moved up from here on or we don't get them at favourable prices? And do you see land prices moving up materially.

Varun Gupta: In Jaipur the current land prices are factoring at 10% sales price higher.

Apurva Shah: Okay. So, that should suffice with price increases itself.

Varun Gupta: Hopefully it should. But, you know, construction input costs can go also upright then that becomes a risk. So, we don't want to lock in a land price today generally with a lower margin in place because then you need a sales price increase to cover the land cost. And if that does not happen in construction and input costs don't happen than it becomes a problem. So, construction input costs have gone up already and I am not talking about what is factored in today. But if construction costs would go up further in the next six months that will become a further challenge right. So, I don't know how that play out in the next six months.

Apurva Shah: Okay, thanks.

Binay Sarda: Thank you. We have the next question from Rohit Balakrishnan. Please go ahead.

Rohit Balakrishnan: Thank you for the opportunity. So, I just wanted to understand a couple of things. So, as you alluded to your previous answer in terms of your view of the cycle being in a positive up trend, so I wanted to understand two things. In terms of gross profit per square feet, how do you think that gross margins will sort of trend in the next couple of years or beyond that? And the second question related to this is that are our cost structure below gross margin? So if I look at employee cost or selling costs, our cost prior to even COVID has hovered around 90-100 crores. So, if we were to, say increase our volume by 50-80% from our previous peak of 2 million square feet how will these cost trend which are either fixed or semi variable in nature. So, if you can just talk a bit about that

Varun Gupta: Vikashji you want to give your view. We haven't firmed our view internally, Vikashji can share his view and then I will share mine.

Vikash Dugar: I think, one thing is very clear that as the sales go up, obviously the fixed cost will grow but that that certainly won't be in proportion to the growth in sales for sure because as we add up more projects, the locations become deeper in terms of our presence. We add more manpower, more resources, obviously, the overheads will grow, but certainly they won't grow in the same proportion as sales. Now, having said that, one thing which even Varunji mentioned that in terms of capability building in terms of manpower, beyond the point we might have to add more manpower if required. So that would be one cost which can go up but apart from that I don't see any costs significantly going up as we scale up gradually. So, selling cost again that also will depend on the kind of cities we are present in for example, in case of Pune, Gurgaon we have got into model wherein we have engaged channel partners that will be altogether a different proposition. So, these are certain aspects that we are kind of looking at as far as planning our costs in next few years is concerned.

Rohit Balakrishnan: So, currently, what is the fixed cost that we have in the system? I mean, in absolute terms.

Vikash Dugar: So, other than sales and marketing which also to great extent depends on the kind of sales that we clock year on year overhead would be somewhere in the vicinity of I would say 65 to 75 crores roughly.

Varun Gupta: I would say Vikashji more in the line of 65 crores including finance costs depreciation, everything put together will be closer to 65. Just to add to what Vikashji was saying let's exclude selling expenses for now on general administrative, one thing that is happening as we grow, our growth expectations will come from going deeper into the market instead of opening new markets. Therefore, the addition to fixed costs would be lower and it will not be in proportion to the increase in sales volumes. I think sales volume will increase at a faster rate than increase in fixed cost on a percentage of sale value basis, I think that is one piece of it. The second piece of it, where I would come from is on the sales and marketing costs. So one thing that happens as Vikashji said as we have moved to child partners, some of the cost is getting higher but as brand is getting built in certain cities and we go deeper for every unit of sale the per unit selling costs should come down. And therefore again the sales costs should not increase in the same proportion. I would give an example is Chennai. Chennai in the beginning our selling cost was about 8% points of sale value and it's come down less than four. Is it sustainable at the current level of close to 2-2.5 where we are in Chennai? No. Will it start increasing beyond four? I think not. Similarly, in Gurgaon, in Sohna absolute selling cost has come down whereby even though sales volume have increased and percentage selling costs have come down significantly in Sohna over the last 12 to 14 months and the new Gurgaon project we would expect that to come down. The only place where selling cost might start creating a little bit of a challenge is Pune because that will be a completely new market for us. But outside of that I don't see a challenge also on the sales and marketing cost of the next 3-4 years.

Rohit Balakrishnan: Got it and if you could answer on the gross margins.

Varun Gupta: So, I will tell you where we are right now. So the historical projects gross margins are what they are, some projects we enjoy very good margins like Ashiana Nirmay on the gross level. Some projects are very tough on the gross margin like Ashiana Anmol in Sohna and the older projects are hovering around at a gross profit margin of about 25-27% somewhere here there on an average basis. Our thumb rules generally has been 30% here and what happened land cost was expensive, sale price came down, construction costs were either same or went up and we had a margin squeeze at the GP level. A new project that we have signed up in 2021, so this excludes Ashiana Malhar in Pune, which was also signed up in 2017 first bid, outside of that whatever project we are signed up in 2021 we have done very good on the land price side, and we should enjoy 30% gross margins on an average basis there for sure if not more. So that's that and I would expect on a general basis whatever we sell now in the future, GP margin should be better than what they were historically because sale prices on an overall basis has increased more than costs right now. Costs have gone up but sale prices have gone up more than that according to me. And coming back to the point that the new project that will take up that we're going to sign up right now, we are figuring out how to ensure that we don't have to compromise on margins given land prices have gone up there to pick up a project and we're looking for what I call pockets of value whereby Ashiana is able to make a project work which other developers are not so excited about those are the things we're looking for. So, future projects as we take them up will give a better sense of the commentary on the gross profit margins.

Vikash Dugar: And I think also with the concentration and mix of Senior Living where also we enjoy substantial significant pricing power, I think there also by it should be margin friendly.

Rohit Balakrishnan: Sure, that's very helpful. The other question I have was, I joined a bit late and sorry if this was already answered. I am actually caught in between your answer so I just wanted to clarify this thing that you are saying that in FY23 on reported basis you will do 15% ROE is that what you said?

Varun Gupta: I am hoping that we will get there, we haven't crunched the numbers fully but the thing is a lot of the deliveries are getting bunched up. So deliveries are good and we should be able to hit 15%

Vikash Dugar: So, in our presentation we share our scheduled delivery dates. In fact, we share two set of dates, one, of course is RERA and we keep some kind of headroom for any kind of contingency. So, we give our internal timelines also which will give a sense as to what exactly is lined up for deliveries in a particular year. So, you can get a fair sense out of that.

Rohit Balakrishnan: Okay, so basically, our networth is around 50 crores so we're looking at around 120-130 crores on a reported PAT basis. I mean, I'm just doing broad numbers if you're saying 15% and then work backwards for topline and cost.

Varun Gupta: So, I don't think we'll hit that kind of PAT numbers exactly, but we are also going to do our workings in there but I hope that we will hit the 15% ROE next year. So, but we are 2-3 weeks away from doing internal projections.

Rohit Balakrishnan: So, my other question was sir, in a sense we have always been backward looking in our business, so just wanting to understand from pre sales point of view, next year or the year after how are we looking at, I mean our previous peak was 2 million. I mean, in the past you have alluded that we want to definitely cross that and probably reach that number should be a sustainable number and reach a new peak. So, possible to do 3 million square feet, let's say two years down something which is very audacious number.

Varun Gupta: Rohit, it is possible. Somebody else had asked, I think launching the projects we have signed up in this financial year and before that is going to be key to get there. I think if we do that, I think that number is definitely possible.

Vikash Dugar: Rohit, significant launches are planned in FY23. So, the key to achieve that kind of number will heavily hinge on timely launches. So, the likes of Ashiana Amara in Gurgaon and the projects in Pune that we are looking forward to launch should actually help us a lot.

Rohit Balakrishnan: This is very helpful. Thank you for your detailed answers. I join back in the queue if I have more questions. All the very best.

Binay Sarda: Thank you. We have the next question from Himanshu Upadhyay. Please go ahead.

Himanshu Upadhyay: So, my question was, with so much of completions happening in FY23 what type of free cash flow do you expect and what is the constructions spend pending to complete the undergoing projects? Can you just elaborate on that?

Varun Gupta: The free cash flow and lot of the cash flow is already front loaded for a lot of these projects. We have received a lot of cash and as you have seen, even though we have had reported losses this year, free cash flows have been positive, they were significantly more positive also last year as well, we had great cash flows both those years and they helped us deploy into more land and growth. So, cash flows have been definitely positive. So, I think reported earnings will have nothing to do with our cash flows in the way because of our operating cycle being so long. So, the cash flows have been very good and steady that they've been reported on a quarter on quarter basis. With remaining construction costs that needs to be incurred, I don't have an exact number on my plate, but I believe we have about 18 lakhs odd square foot left to construct on equivalent basis for the amount of area that's under development, is what I remember.

Vikash Dugar: Yes around 17 lakhs.

Varun Gupta: So, I would expect about anywhere between 300-320 crores odd that we might need to spend on this. We're averaging at about Rs.1800 a square foot of construction costs, probably at this point of time given the type of construction.

Himanshu Upadhyay: Thank you for my side.

Vikash Dugar: Just to share one piece of number that we put in our presentation is if you look at ongoing projects, whatever booking we have done, we have logged in there is approximately 370-380 crores that we are yet to recover on that front. I'm talking only about the booked unit and similarly on the ongoing projects, whatever balance construction is to be done that is around 310-320 crores. So, from a cash flow comfort perspective you can compare the two numbers we very comfortably cover the construction required to be done through the already logged in cash flows. I am not at all including the bookings for the balance part. So, that's how the numbers are stacked up as far as cash flows are concerned is to get a sense.

Binay Sarda: That was the last question for the call. I would like to hand it over to the management for closing comments.

Vikash Dugar: We would like to thank all of you for being on this webinar and so patient with all the questions and answers. If we are unable to take any questions, please feel free to write to us directly or reach out to us directly. And with that we'd like to conclude the call. A lot of the material we've spoken about is posted on our website and you can also email your queries for any further clarification. Thank you once again for taking the time to join us on this call. Thank you