

# The executor



PHOTOS: SANJAY BORADE

Patil: strong performance

## Despite the real estate sector in the doldrums, Kolte Patil has yielded good results in the last two years

The last two years has been challenging for the Indian real estate sector. Marked by a slowdown driven by a number of issues like decline in disposable income of buyers, high interest rates, introduction of RERA (real estate regulation development act), demonetisation, and goods & services tax (GST) the pace of growth in this sector has weakened. Against this backdrop, Pune-based Kolte Patil Developers Ltd (KPDL)'s financial performance has been a leap over its peers.

Numbers speak better. KPDL has reported a robust performance in FY18, recording its highest ever annual revenue and net profit in the history of the company. Revenue is up 86 per cent to ₹1,403 crore as compared to ₹754 crore in FY16. The profit after tax (PAT) is up 106 per cent to ₹122 crore (FY18) from ₹59 crore in FY16. During the same period gross debt has reduced from close to ₹494 crore (FY16) to around ₹288 crore (FY18). Thanks to the CRISIL A+/Stable credit rating, the highest

rating accorded by CRISIL to any publicly listed residential real estate player in India, KPDL has furthered its banking relationships and re-financed debt over the last two years. This has led to a significant reduction of 210 basis points in the company's average cost of borrowings from 13.5 per cent at the end of FY16 to 10.4 per cent at the end of FY18, which should start translating into significant savings in the coming year.

Nonetheless, the stock market has also recognised this growth and rewarded KPDL on the bourse with the market capitalisation more than doubling from ₹1,023 crore (share traded around ₹135 in FY16) to ₹2,209 crore (the counter closed at ₹291 on 10 August). The promoters hold close to 75 per cent. While Goldman Sachs owns 4.3 per cent of the equity, the US-based Pabrai Investment Funds has another 4.8 per cent in the company.

"KPDL is the largest real estate developer in Pune, with a presence in Bengaluru and Mumbai. Headquartered

in Pune, the company is engaged in creating realty landmarks driven by the philosophy of seeing not as 'construction', but as 'creation' for over 25 years. KPDL operates on a JV/JD/DMA model over the land banking model, enabling the company higher IRR over its peers. The management's prudent policy to infuse the company's cash towards construction work/working capital requirement leads to better IRR and margins and ultimately being rewarded with a higher cash flow generation. Due to the low debt requirement interest payout remains capped and keeps the balance sheet asset light with a positive higher cash flow," states Abhishek Lodhiya, research analyst at SMC Institutional Equity, who feels KPDL will be the biggest beneficiary with the leadership position in Pune market and diversification in Bengaluru and Mumbai market will further increase the sales visibility and can translate into a bigger opportunity.

"We have undertaken various business strengthening initiatives over the last two years which has started translating into a significant improvement in our financial and operational parameters. During this period, despite a sluggish macro-economic environment, our thrust on execution and timely delivery of projects resulted in 15 per cent year-on-year (y-o-y) increase in our customer collections to ₹1,109 crore. Efficient deployment of capital across our current portfolio



of projects has also driven return on capital employed (RoCE) to 18.4 per cent (FY18) from 12.1 per cent in FY16. We have delivered a strong performance across the board driven by our 360 degree business model and customer-centric approach. We have anchored mutually beneficial financial and strategic partnerships, which have created huge opportunities and have enabled us to gain key business insights, develop greater internal discipline, and improve processes and corporate governance practices, allowing us to operate on an asset-light model, with one of the lowest levels of debt in the industry. At the end of FY18, net debt stood at 0.29 times our net worth, which is the lowest leverage on our balance sheet over the last three years and provides us a strong platform for future growth initiatives,” explains Rajesh Patil, CMD, KPDL, giving an overall view on the company’s transformational journey. Patil has utilised these strong cash flows over the last two years to maintain focus on efficient execution, handing over 3,743 units over the last two years across several projects.

### Domain knowledge

Starting in 1991, Kolte Patil, a small construction business based out of Jalgaon, Maharashtra, started as a family business by Anirudha Patil, the father of Rajesh Patil. The business was then handed over to the second generation: his sons Rajesh and Naresh, and daughter Sunita Kolte along with her husband Milind Kolte. “My father was in the business of real estate in Jalgaon but the scale was small. When I joined the business after completing my studies in civil engineering from the University of Mysore, I found Jalgaon too small for the business and moved to Pune,” recalls Rajesh, who started the business in Pune on a small scale teaming up with local real estate players, unsure as he was on legal matters like land titles. So, instead of venturing into unknown territory, he joined other local developers in the early days. KPDL’s role in the joint venture was construction and sales to gain domain knowledge.

Once it acquired the necessary skill sets, KPDL started acquiring land parcels; the first one in 1991-92 in Yerwada

area. But a turning point came in 1994-95, when it acquired land for a five-acre township project. The rest is history, as Kolte Patil became a name to reckon with in the Pune real estate market. Till then, the Kolte Patil family members were responsible for taking the company to the next level and to the investing public through an equity initial public offering (IPO) in 2007 raising ₹275 crore at ₹145 per share which attracted the likes of Goldman Sachs as shareholders.

Interestingly, even today although the Patils and Koltes continue to sit on the board of directors of the company and set the guiding strategy, they have handed over the day-to-day management to professionals, headed by 34-year-old Gopal Sarda, designated group CEO. A chartered accountant (CA), Sarda has had a passion for business and has seen the real estate sector evolve over the last decade.

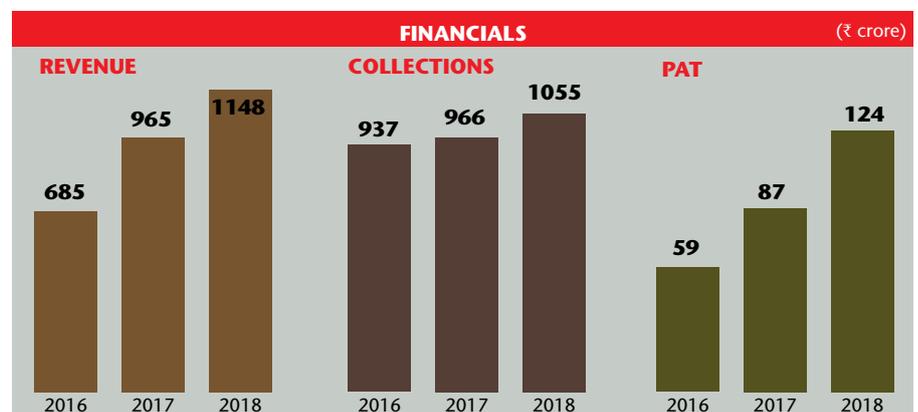
In 2008, soon after he completed his CA, Sarda got into the sector through Marvel Realtors. “Since 2006, from the outside I saw that this sector was getting more professionalised and there was a constant flow of private equity (PE) transactions and other investors making a beeline to this industry. These changes attracted my attention,” explains Sarda, who joined Marvel. After a two-year stint, he joined KPDL in the corporate finance and strategy function. “With access to the board of directors and the CEO besides the CMD, I understood and jelled with them,” adds Sarda, gaining confidence from the top brass as he got promoted and reached the assistant vice-president (AVP) level. In October 2012, Sarda, with a two member team, was asked to move to Mumbai

to start and head KPDL’s Mumbai operations which consisted of three re-development projects. Then in 2015, Sarda was moved back to Pune to the CMD’s office, where he acquired more knowledge to take over as group CEO and is now shuttling between Mumbai, Bangalore and Pune.

“We have always maintained a very strong core of professional managers and outstanding teamwork. By hiring, developing and retaining the best talent and by emphasising teamwork over individual brilliance, we have succeeded in taking our business to the next level of growth,” observes Patil, who believes a professional CEO has fostered an internal culture of collaboration, execution and accountability within the organisation, and instilled the need to operate like a manufacturing or services company, rather than running it like a conventional real estate company.

“We have created a high-performance culture with focus on leadership, innovation, entrepreneurship and realisation of synergies across businesses. Our employees enjoy a greater degree of empowerment, are equipped with the necessary tools, training and management backup, as well as with an environment of open communication and involvement,” he adds.

As Sarda moved up to head a team of professionals, the company formulated its strategy, to de-risk from over concentration in Pune, and extend its presence first to Mumbai and then Bengaluru. Mumbai is India’s commercial capital and India’s largest residential market. This market is marked by formidable entry barriers. Players need deep pockets to buy large land banks. They are parcels that are



not easily available. “These and more were some of the issues listed by KPDL when it looked at entering Mumbai. It is because of these reasons that there is probably no instance of a successful outstation real estate developer, with an established presence in another city, having entered Mumbai and carved out an attractive share,” says Patil, who supported Sarada to take on the challenge and address the prospects of the Mumbai market with a difference.

As it happens, in real estate there are different models like joint venture (JV), joint development (JD), land banking and development management agreement (DMA) which developers follow. KPDL prefers the JV/JD/DMA model over land banking model. So in these models either partner comes with the land or with equity and works on the revenue/area sharing model or the profit sharing model depending upon arrangement. “Instead of the conventional approach of buying into a land bank and waiting patiently for monetisation, affecting the quality of our finance during the fallow period, we addressed this market through an asset-light model,” says Sarada, a person for hard core numbers. Also KPDL’s Mumbai entry coincided with the changes in the development control rules 2013 making it a level-playing field for all developers looking for geographical diversification.

### Asset light model

Thus, KPDL capitalised on the opportunities arising out of Mumbai city’s society redevelopment and no slum rehabilitation (SRA) projects. “This approach addressed two of the biggest challenges in one stroke: obviated the need to invest upfront in any large land parcel and gave it flexibility to enter into multiple project arrangements. At one end, this allowed entry into an asset-light model and scalability at the other end. The rest is that what we would have taken us years to accomplish for a large investment was achieved for a fraction of the outlay,” explains Sarada, who feels with Mumbai being a land-locked city, redevelopment makes it the most preferred mode of development going forward. Till date, KPDL has delivered two projects and within a short period has



Sarada: passion for business

signed 14 redevelopment projects with a total saleable area of 1.4 million sq feet (msf), spread across locations in the western suburbs from Khar to Borivile.

“KPDL’s financial prudence makes it the preferred choice in the Pune real estate market for investors/private equity/venture capital as it ensures best in class returns/IRR. KPDL recently completed one phase of Margosa Height under the special purpose vehicle name Bellflower Properties Pvt Ltd wherein the company generated 36 per cent of IRR for itself and its US partner (Portman Holdings) which further boosts our confidence in KPDL,” states SMC’s Lodhiya equity report.

The next geographical diversification identified by the KPDL management was Bengaluru city’s residential segment. “The demand is dominated

by an immigrant salaried employee class working and a strong end-user. This ensures a stable market and a volume driven one,” says Sarada, who was the traction to expand KPDL’s portfolio to Bengaluru. Currently the company has ongoing/planned projects to the tune of over 2 msf at prime locations like Hennur Road, Koramangala, Haramavu and Hosur Road. “Our strategic objective is to enhance our presence in Bengaluru thereby further de-leveraging the portfolio concentration.”

In FY16 Mumbai and Bengaluru constituted just 4 per cent each of collections to KPDL’s balance sheet. This has risen to 7 per cent (Mumbai) and 8 per cent (Bengaluru) in FY18, the balance 86 per cent still comes from the Pune region. In fact, a key positive of KPDL’s performance during FY18 was the strong momentum in Bengaluru, which contributed 12.9 per cent of sales volumes in FY18 as against 3.6 per cent in FY17. In another achievement, Bengaluru recorded the highest ever sales and collections in FY18.

“We also expect Mumbai projects to pick up in FY19 with the improving visibility of new launches on the back of government initiatives towards resolution of dumping ground issues, Development Plan 2034, etc. We have already seen a significant uptick of 61 per cent y-o-y in our collections to ₹156 crore in these markets, contributing 15 per cent to overall collections in FY18. Mumbai and Bengaluru have already started to contribute and are expected to be additional growth engines going forward, in line with our vision of diversifying our revenue base with 25 per cent sales contribution from Mumbai and Bengaluru by 2020,” says Patil, expecting to see launches to the tune of 4.4 msf in FY19 across KPDL’s focused markets of Pune, Bengaluru and Mumbai that will further accelerate sales.

“We are focused on diversifying our revenue base. We have a strong pipeline of 1.4 msf in Mumbai redevelopment projects that is a business model requiring low capital deployment. Bengaluru will be an additional growth engine. We have already launched one project, Exente on Hosur Road and will soon launch another project in Koramangala. Across locations and projects, our focus will be on



execution, collections and cash flows,” adds Sarada, who continues to evaluate strategic and financial partnerships that enable KPDL to scale operations while limiting capital commitment. Currently, Sarada and team KPDL are evaluating new acquisitions and partnerships across MIG (middle income group), affordable housing and luxury projects to further fortify its foothold in the Mumbai market. “Affordable housing opportunities will also drive growth for us. We are well positioned for sustained profitable growth and further expansion in return ratios.”

While creating a geographical spread from Pune to Mumbai and Bengaluru has been one of the pillars of KPDL’s strategy to grow, fostering key strategic and financial partnerships has been another key tenet of KPDL’s growth philosophy. “We have had strong associations with marquee names like ICICI

Ventures, IL&FS, ASK Investment Managers and Portman Holdings, US,” rattles off Sarada, who has roped in these financial partners in various projects. For instance, in December 2017, global investment firm Kohlberg Kravis Roberts (KKR) has committed ₹193 crore in R1 sector of KPDL’s flagship project, Life Republic, Pune. “A part of these funds has been received and utilised to attain financial closure at R1 sector of Life Republic, meeting working capital requirements and reducing cost of outstanding debt attributable to the development.”

Earlier in FY16, KPDL had also entered into a ₹120-crore agreement with an affiliate of JPMorgan Asset Management for its redevelopment project, Jay-Vijay Society, in Ville Parle (E), Mumbai. “These partnerships have enabled us to gain key business insights, develop greater internal discipline, and

improve processes and corporate governance practices,” observes Sarada, which allows him to operate on an asset-light model, with one of the lowest debt in the industry, on track to achieve the strategic goals and expect to deliver record sales, revenue, profits and cash flows, better operational efficiency and further improve high standards of customer service.

With this, KPDL seems to be at a stage for the next phase of growth targeting a CAGR of 25 per cent for the next 5 years that should see acceleration in momentum on the back of its 360 degree business model that comprehensively covers the entire spectrum of demand focused on residential real estate across price points in key micro-markets within Pune, Mumbai and Bengaluru.

♦ LANCELOT JOSEPH  
lancelot.joseph@businessindiagroup.com

Get Business India Digital Version on MAGZTER DIGITAL NEWSSTAND BARNES & NOBLE readwhere digitize | distribute | monetize

