

Land to landmarks

PHOTOS: SANJAY BORADE



*Khetan:
ready to
take off*

(with leasable area of 0.22 million sq ft). Of these, the company is scheduled to deliver another 1.10 million sq ft in the next 15-18 months.

From day one, Khetan has dreamt big and, in line with it, styled his decade-old company. "Sun is the source of energy for earth and, with its strong gravitational pull, is able to control the orbits around it," says Khetan. "SRL is highly inspired by the aura of the sun." He is committed to be a premium real estate player in the country, starting with his biggest project in the upcoming central business district of the country. Khetan had separated himself from his family textile business almost a decade back. With just ₹1 crore in hand, he tried to manage diverse businesses across the capital market. In 1994, he

entered the business of securities and shares, by taking membership of the NSE and also of the BSE. In 2005, he entered the commodity market by acquiring membership of the National Commodity & Derivatives Exchange. Finally, he settled down into the realty business.

SRL started with humble beginnings. It set up business centres in BKC that attracted the largest blue chip companies. In 2000, when MMTC and the state housing finance corporation invited bids to lease out office space at BKC, Khetan bid and won in both these government tenders. These commercial properties, with leasable areas of about 55,000 sq ft which he purchased through his own family funds, triggered the beginning of his journey into the realty business. Soon, SRL had leased the office space to companies like Bunge, Credit Suisse, Logitech, etc. Several MNCs from various sectors looking for a toehold into India were SRL's tenants.

Five years into the business centre activity, Khetan came across a distress sale of land in Vile Parle, a western Mumbai suburb. This was a real break for Khetan. He chanced upon an opportunity to become a developer, when a landowner in Vile Parle wanted to develop his land. Khetan signed a joint development

Smart acquisitions is Sunteck's mantra of success

This year – 2013-14 – has been important (the first ever booking of profits) for the company," says 46-year-old Kamal Khetan, CMD, Sunteck Realty Ltd (SRL), Mumbai. "We are in the take-off stage. From now on, we will be churning in good numbers, year after year." Khetan is satisfied with the numbers and promises to convert more land into landmarks in the coming years. SRL has notched up a total income of ₹938 crore for FY14 (previous year: ₹50 crore), with a net profit of ₹150 crore (previous year: ₹4 crore). "We follow the project completion method of

accounting," adds Khetan, who has completed his flagship residential project, Signature Island at Bandra-Kurla Complex (BKC), and another residential project, Signia Oceans, at Airoli, Navi Mumbai. With this, SRL has completed four projects till date, totalling a delivery of about 1.54 million sq ft.

Currently, SRL is at an inflexion point of growth, given the revenue recognition of its marquee project 'Signature Island'. As on date, it has about 36 million sq ft across 24 projects at various stages of development and four rented assets in its portfolio

agreement (JDA) putting in ₹2 crore upfront and spending another ₹15 crore to develop the project – Sunteck Centre, in which Sunteck owns 50 per cent of the constructed space, which earns it rentals. Sunteck invested ₹17 crore in this project which, at current market price, is easily worth over ₹200 crore.

He turned into a developer, with a clear vision of being recognised as professional, transparent, credible and quality-conscious. Today, as the company's flagship project (on BKC plot) Signature Island is nearing completion, this success is testimony to the company's conviction and belief. Over the past few years, the company has focussed on building distinct equity brands created to cater to different segments of upmarket real estate. "The 'Signature' brand defines the marquee residences in marquee locations, the 'Signia' brand lends itself to all premium residences, 'Sunteck City' is for large format developments and township, while 'Sunteck' is for all commercial offerings," explains Sonal Seth, GM, marketing.

Top of the list

Khetan, as a stock market enthusiast, always wanted to list his company. So, in 2005, Manisha, Khetan's wife, through an open offer, took over Insul Electronics, a BSE-listed company, which was then reverse-merged into Sunteck in 2007. Currently, it is one of the top listed entities in the real estate space on the Bombay Stock Exchange – one of the few companies to have negligible



Singh, Poopal & Mishra: team Sunteck

debt and visible strong cash flows. The share is actively changing hands at about ₹300, accounting for a market cap of ₹1,900 crore.

One of the keys to SRL's success is its decision not to give in to the fad of amassing a land bank by paying a huge cost for acquisition. It started by bidding for a residential property in commercial real estate-dominated BKC. Towards the end of 2006, when a government-owned two-acre plot in BKC was put on sale, SRL emerged the highest bidder, offering ₹140 crore. With the capital in hand being a meagre ₹7 crore, Khetan roped in the Ajay Piramal group and the land was acquired through a JV special purpose vehicle (SPV), equally owned by India REIT (Piramal's real estate fund) and Sunteck. Then, at the peak of the recession when many players were cold to acquisitions, SRL set out to expand the company's portfolio by opportunistic land purchases and added 23 million sq ft to its Mumbai-centric portfolio, funded through equity and structured products. So also, in October 2007, when the 'no competition' clause with the Ashok Piramal group ended and the Ajay Piramal faction decided to re-enter the real estate market, it joined hands with Sunteck to form Pirmal Sunteck Realty.

A year later, prior to Sunteck's QIP of ₹150 crore in 2010, Khetan got the domestic real estate fund, Kotak Realty, to pick up warrants. In

October 2007, Kotak Realty took a 10 per cent stake in Sunteck for \$29 million through a combination of equity and convertible preference shares. Kotak Realty routed the investment in Sunteck through its investment fund – Kotak Alternate Opportunities India Fund. This was one of the first investments of Kotak Realty in a listed realty firm.

With marquee investors and financial backing, it was easy for Khetan to move forward, but he did it with caution. "We adopted a cautious approach towards acquiring land parcels through outright purchase, closed government tenders, JVs and JDAs in city-centre locations, which has earned the company a reputation for transparency," says Sumesh Mishra, executive vice-president, finance. This is clearly reflected by the number of foreign institutional investors SRL has attracted in recent times. Today, while the Khetan family holds a large chunk of the 73.5 per cent equity stake, other stake-holders include Kotak Real Estate Fund (7.6 per cent), Ajay Piramal (3.3 per cent), the US-based teacher's pension fund TIAA Cref (4.2 per cent) and the Singapore-based Tree-line (1.1 per cent). The balance is with the public.

"SRL has 25 projects covering 28 million sq ft (SRL's share: 15 million sq ft) with an average land cost of ₹1,000 per sq ft. It has consistently proved its ability to buy quality land cheap, amassing 25 million



sq ft of developable area since 2006 at low debt, thus driving margins, IRR and return on equity," says Arun Aggarwal of Religare Institutional Research, identifying the company as a 'cash cow' at cheap valuations, as it expects to launch five projects in the current year, adding to volume visibility.

"SRL has established itself through smart acquisitions and astute usage of cash," says Samar Sarda of Kotak Institutional Equities. "It has consistently invested excess cash in value-accretive projects and we expect it to continue this trend over 2014-15. It has made more value-accretive acquisitions than its peers. However, it needs to ramp up its slow construction."

SRL has strengthened its construction team by recruiting industry experts. "We expect the company to have a shortened project monetisation cycle in future," says Sarda. "We like Sunteck, as it used the cash it raised (in 2006-09). It has also used private equity and structured debt to acquire properties. Then, during 2010-12, it realised cash from pre-sales and debts to start construction and to acquire more land. With no acquisitions in 2012-13, cash realisations from pre-sales helped it to repay debt. So, during 2014-16, it will consolidate most of its high-margin, under-construction projects near completion and stabilise."

Although innovative in its project execution, SRL has always taken the conservative approach towards growth and expansion. The company has been among the few in the industry to take a contrarian call against land banking. It also did not have any pan India aspirations and focussed on land acquisitions in and around Mumbai. "It built its land bank while staying asset-light at low leverage, through private equity, JVs and JDA models. Besides, it customised its product mix to suit the largest market, ranging from super premium customers in BKC to mid-segment customers in destinations such as Goregaon (West) and Airoli. These are SRL's key take-aways," observes Gaurav Pathak of Standard Chartered.



"We see SRL as one of the more interesting business models in the Indian real estate market, especially in the Mumbai Region," says Nitin Agarwal of IDFC. "It has shown dramatic growth in a relatively short period of time since inception and has built a hugely valuable real estate portfolio, without taking too many risks on its balance sheet. The company has also created a distinct luxury brand identity, though it has not delivered too many projects so far. And, as some of its marquee projects begin to get completed over the next 2-3 years, we see a significant enhancement in its brand recognition across the industry. With significant cash inflows likely for the company, going forward, we see it being in an even stronger financial position, to take on bigger and more valuable projects and take the company into a new growth orbit."

No undue risks

Agarwal believes that SRL's success is driven by Khetan's strong understanding of the Mumbai real estate market, which enables him to take calculated risks. "They have had a fairly exemplary track record in terms of land acquisitions, which is a key success factor. And, the management has been fairly focussed with respect to the brand/product strategy too. This further sharpens their focus and enables them to avoid taking undue risks."

Another aspect that differentiates SRL is its premium positioning within the luxury segment of the real estate market. It has built brand 'Sunteck'

to fill the gap of luxury products in various micro-markets of Mumbai. "The company's association with luxury cell-phone provider VERTU to offer 'Signature Concierge services' at the company's marquee BKC project is set to redefine the essence of a 'concierge service'. Through the tie-up, the company's patrons will have access to the concierge service available in 30 countries worldwide," adds Mishra. Similarly, for the company's project Sunteck City in Goregaon, it has tied up with the Walt Disney Company.

"The Indian consumer has reached a point of satiety with monotonous concepts in residential buildings," adds Seth. "The sole thought process behind the company's association with Disney is to offer children an alternative environment to the existing electronic age. Let them enjoy outdoor activities and games in vast open expanses. The company's collaboration with Disney is the first of its kind in India. Disney characters appeal to a wide audience and their charm transcends all ages. Thus, a Mickey Mouse or Spiderman do not only showcase the company's projects, but enable consumers to provide an ideal childhood environment to raise their children."

Sunteck's partnership with Disney allows it to customise apartment interiors, furniture according to customers' favourite Disney stories. The Disney-themed home decor solution spans across bedding, kitchenware and bath accessories.

While the company has picked up momentum over the last few years by creating a wide range of rent-yielding assets that safeguard corporate expenses and will propel the company to further heights, the acid test would be its ability to efficiently manage cash flows from ongoing projects. "Over the near term (five year), SRL shall continue to create value for all the company's stakeholders. We hope to create landmark destinations (like we did at BKC and are doing at Goregaon) in every micro market. Plans are on for large format township projects and a look at select cities across India," concludes Khetan.

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