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"We would prefer to invest in housing for the middle-income category."

- Venkatesh Gopalakrishnan, CEO, Shapoorji Pallonji Real Estate

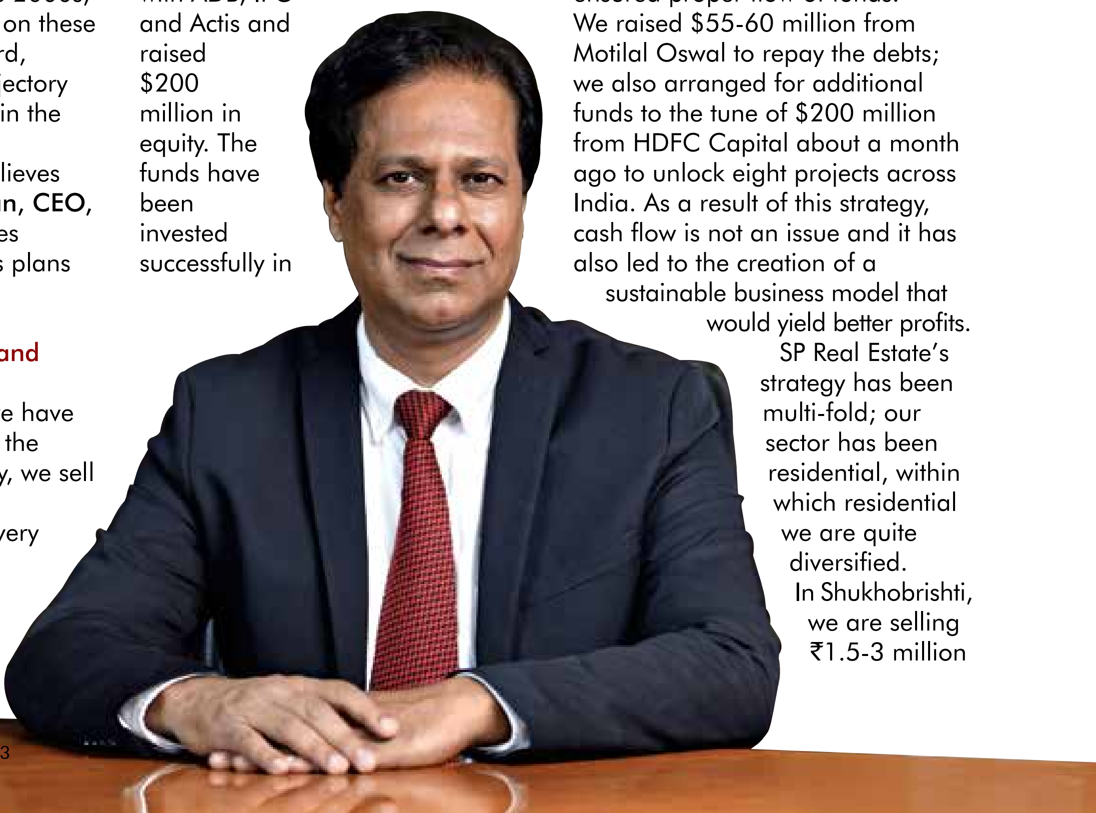
One of the youngest businesses within the Shapoorji and Pallonji Group, Shapoorji Pallonji Real Estate (SP Real Estate) has been in existence for 25 years. The company started off in the early 1990s under the umbrella of SP Info City, which leased out large-scale commercial projects to IT and ITES companies in Chennai, Pune, Manesar and Mohali. Between 2010 and 2017, it successfully exited all these parks by selling them to various pension funds like CPPIB and Allianz. It also ventured into redevelopment within the city of Mumbai, after which it started acquiring land parcels across India – in Bengaluru, Kolkata and Pune. The real traction for the company started in the late 2000s, when it started developing on these land parcels. Going forward, SP Real Estate's growth trajectory will be defined by projects in the ticket size of ₹4-10 million across key Indian cities, believes **Venkatesh Gopalakrishnan, CEO, SP Real Estate,** as he shares more about the company's plans and prospects.

Tell us more about the brand SP Real Estate.

For the past 10 years, we have actually changed gears on the real-estate franchise. Today, we sell apartments worth about ₹35,000-40,000 million every year. We have a huge pipeline of about 120 million sq ft. So, what we are doing right now is just a fraction of what we will do in the next 20 years. We are a fully backwards-integrated developer with a presence across the value chain of real estate. Under the Shapoorji Pallonji brand, we plan to monetise on the land bank we have procured in the next 15-20 years.

What led to the inception of Joyville Shapoorji?

In 2016, while we were still developing the Sukhobrishti project under the segment of affordable homes in Kolkata, we had undertaken a JV company called Joyville Shapoorji to build homes for the middle class. To cater to this new market, we formed a JV platform with ADB, IFC and Actis and raised $200 million in equity. The funds have been invested successfully in eight projects across India, in Pune, Mumbai, Gurugram and Kolkata. Across these cities, we are developing apartments with ticket size ranging from ₹4-10 million. As far as Shukhobrishti is concerned, it is Asia's largest mass housing project in Kolkata spread over 150 acre. So far, we have delivered 12,000 homes on the land provided by the state government; 8,000 more homes are under construction.



How do you maintain your cashflow and which key cities are you investing in to realise your business goals?

In an effort to monetise our existing land banks, we have ensured proper flow of funds. We raised $55-60 million from Motilal Oswal to repay the debts; we also arranged for additional funds to the tune of $200 million from HDFC Capital about a month ago to unlock eight projects across India. As a result of this strategy, cash flow is not an issue and it has also led to the creation of a sustainable business model that would yield better profits. SP Real Estate's strategy has been multi-fold; our sector has been residential, within which residential we are quite diversified. In Shukhobrishti, we are selling ₹1.5-3 million

FACT FILE

Areas of operation: Premium to luxury homes (SPRE) and aspirational homes (Joyville)

Top management:

Shapoorji Pallonji Real Estate
Venkatesh Gopalkrishnan, CEO; Sumit Sapru, Executive Vice President (Business Head); Nirav Dalal, Executive Vice President (Business Head); Saureen Desai, Chief Financial Officer (Finance and Accounts); Sanjay Shenoy, Executive Vice President (Human Resources); Mohan Jacob, Executive Vice President (Architecture); Viral K Thakker, Senior Vice President (Commercial); KV Shreenivas, (Chief Operations Officer).

Joyville Shapoorji Housing
Sriram Mahadevan, Managing Director; Gourav Bhutani, Executive Vice President (Business Development)

Ongoing projects:
18 residential projects


Parkwest is among the largest luxury residential developments in Central Bengaluru.

ticket-size apartments; likewise in South Mumbai, we are selling apartments valued at ₹200-250 million. We are predominantly present in Mumbai, Pune, Kolkata, Gurugram and Bengaluru. In Gurugram, we also built two IT parks; one has been sold and the other is in the process of being sold. In Bengaluru, our project is spread across 46 acre and is located in close proximity to the railway station. It is one of the largest infill development projects in the country. So, we will continue our strategy to be in the top four to six cities right now. As of now we do not have the strategy to go ahead and service the home demand in Tier-II cities.

In how much time do you expect this land bank to get monetised and exhausted?

We put projects built across 1 million and 1.5 million sq ft up for sale every year. Given the demand scenario, we can reach up to 3 million sq ft at a time. Considering this, it is safe to assume that for monetising the rest of the land bank, a period of 15 years is required. Having said that, once we have figured out how to monetise our existing land bank, 24-36 months down the road, we may acquire newer land banks in order to grow. Likewise, if an opportunity comes up that is aligned with our overall objectives, we would be happy to partner with the right set of people.

Going forward as a company, what are your growth plans?

We would prefer to invest in housing for the middle-income category like Joyville. More so as the land is still available at a reasonable price and it is much easier to sell the final product. Such projects are land light and heavy development projects, unlike Mumbai where the capital investment required is high. We have done a lot of good work in Mumbai including in South Mumbai, but we are not keen to invest in newer land parcels in the city. Unlike the standard developer profit margins that stand at 20-25 per cent, we would like to bank on the development of our existing land parcels purchased decades ago. This also makes way for a better profit margin considering escalation costs.

Our international engagements are in Dubai and Kenya. In Dubai, it's a large project that has gone through cycles of demand and we are now on a positive upswing cycle. The project will be completed in about 15 to 18 months. In Kenya, we are building 400 apartments along with ACTIS. As far as our overseas aspirations are concerned, in two to three years depending on

At SP Real Estate, we extensively use Mivan shuttering which comes with a seven or eight-day slab cycle.

the demand, we can take a call.

Hospitality, data centres, logistics and warehousing seem to be enticing propositions for real-estate developers. What is your take?

Although hospitality is an enticing proposition, a certain degree of experience is required in managing such asset classes. We will need a third-party operator to manage that part of the story. The location of our land bank may merit the construction of a five-star hotel and we may even build one, but hospitality, for now, is not a focus area for us. As far as data centres and industrial warehousing are concerned, we are still in the process of evaluating it. More so because that entails availability of land that can be put up for lease unlike our residential heavy engagements that are built to sell. Residential engagements are good for our cash flow, and in trying times the lease model works well, so, yes, we are looking into it. Before the pandemic, we had almost finalised our involvement in a large warehousing portfolio with the necessary funds in place. We are keen to execute the project in the next two years once the demand is right.

How has technology adoption changed the face of real-estate development?

The use of technology depends on the business model one follows to a great deal. At SP Real Estate, we extensively use Mivan shuttering which comes with a seven or eight-day slab cycle. It matches our sales pace. Within that time period, we are able to sell our residential units and chart out a business plan. Let's say there is yet another technology available that can finish the task in three days; it may be better but as it doesn't match up with the pace of sale, it gives rise to a cashflow crisis. However, in case of a redevelopment project, the same technology can be put to effective use as the idea is to complete the project faster. This will ensure that a developer does not have to pay excess rent to tenants who have to be compensated for relocating temporarily. So, the use of technology in building and construction must be made wisely.

Have the interest rate hikes dampened sales of housing units?

The interest rate hikes have not had much of an impact on our sales. In fact, even though we hiked our project prices by 5-10 per cent across different categories, we have continued to witness steady demand. Future price hikes, however, are not going to be easy. Although the interest rate hikes have not dampened sales, they have hampered the possibility of a future price hike.

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What kind of a portfolio do you see for yourself between commercial, residential, redevelopment and new age?

The residential segment dominates the portfolio at 50-55 per cent. Redevelopment, courtesy of the traditional land parcels we own, stands at 25-30 per cent, and I must add that it is all Mumbai-centric. Our involvement in the commercial segment occupies 10-15 per cent and we are slowly getting into the new-age category, which constitutes 5-10 per cent of our portfolio. | CW |

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