

# How Godrej Properties bucked the real estate slowdown

Company has sold office space in BKC, 348 units in 'The Trees' project in Mumbai and entered Noida in Jan

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Real estate firm Godrej Properties Ltd (GPL) has managed to buck the real estate slowdown to emerge as one of the best performing developers in 2015 on the back of multiple factors, key among which are its conservative yet steady expansion strategy and strong brand equity.

Its business model, based on a non-capital intensive strategy that it adopted over the past four years, is now poised to help it extract maximum benefit from the weak conditions in realty.

In the course of the current financial year, the company has sold office space in the Bandra-Kurla Complex (BKC) in Mumbai to Abbott India Ltd for ₹1,479 crore in September; sold 348 apartments in its flagship project 'The Trees' in suburban Mumbai's Vikhroli for ₹862 crore within a month of the launch in November; and entered Noida, a new market for it, in January. In pure financial terms, the Mumbai-based developer clocked revenue of ₹2,200 crore in the nine months ended December, an 82% rise from the corresponding period the year ago.

Its sales bookings till December stood at ₹4,422 crore, compared with ₹2,681 crore in 2014-15, making 2015-16 a year where the company has surpassed ₹1,200 crore in sales in three consecutive quarters. The company has never achieved this level of sales in a single quarter before.

If it keeps up the momentum in the March quarter, it will end up with bookings of more than ₹5,500 crore in 2015-16.

"It's a good time for a devel-



Maximum benefit: Pirojsha Godrej, MD and CEO, Godrej Properties

oper like us and we would like to take advantage of the situation by adding more projects to our portfolio, launching projects strategically and entering new markets. The fact that we sold so well this year can be attributed to our products, (and) the way we price them, but it also has a lot to do with the kind of faith people have in the Godrej brand, especially in such times," said managing director and CEO Pirojsha Godrej.

In its Vikhroli project, for instance, Godrej sold at an average of ₹19,000 per sq. ft, managing to achieve premium pricing even in a competitive scenario.

In May, it sold 200 apartments in about three weeks after the launch of Godrej Icon, a residential project in Gurgaon, a market where some of India's biggest developers are struggling.

The real estate sector has witnessed a slowdown for over two years now, and is still far from recovery. Developers with large land banks are selling so-called non-core assets or seeking help from other developers to develop and sell projects.

GPL's "no land bank" strategy, its joint ventures, development management business model and cautious expansion have given it a unique position in the country's real estate sector.

"Not only has Godrej projects

performed in markets where competing products didn't, the firm has established a record of transparency, financial prudence and given what it has committed to, when many developers indulged in malpractices," said Mudassar Zaidi, national director, residential, at property advisory Knight Frank India.

GPL's business is based on development management, profit-sharing with landowners, and redevelopment. Then, there is the ₹770 crore investment and residential development platform, a joint venture with a consortium led by Dutch pension services provider APG which gives it the financial heft to play with the big boys.

Though it also takes up projects on a revenue-sharing basis, Godrej prefers profit-sharing to ensure that margins don't come under pressure, particularly in case of cost escalations in mid-income projects.

"We never believed in land banking and have been following different kinds of partnerships to do projects for some time now. We are seeing a lot of opportunities from the fact that we have been able to sell quite well despite the market being subdued. And what that has allowed us to do is make a case with other developers that we

can help them monetize their products faster, with greater value to them, which they would not be able to do independently," Godrej said.

For instance, in January, it entered the Noida property market and the Thane (a suburb of Mumbai) micro-market, adding 5 million sq. ft of saleable area to its portfolio. For Noida, it tied up with local developer Lotus Greens Sports City.

"Over the past several quarters, GPL's unique asset-light model has enabled it to maintain strong sales and pre-launch momentum across its residential portfolio despite market softness. With legacy low-margin projects on the decline, sharply higher realizations from the recent launches should lead to significant and sustainable improvement in margins in the coming quarters," an IDFC Securities report on 3 February said.

GPL expects its run to continue in 2016-17. It plans to start construction of its new projects, so that booking revenues come in. It will also probably create a second and bigger investment platform with a consortium of investors, including APG. Godrej Properties declined to comment on the transaction.

While launches and execution have been on track, GPL's net debt rose to ₹2,532 crore as of 31 December, compared to ₹2,230 crore in the preceding quarter. However, its cost of borrowing came down from 10.55% to 10.34%. "Earlier, debt was a concern, but cash flows from projects are strong and the collections should improve," said Adhish Chhatopadhyay, an analyst with Elara Securities Ltd.

GPL said during April-December 2015, it delivered about 4.5 million sq. ft, which is more than it has delivered in any full year. GPL shares rose 2.52% to close at ₹285.200n Thursday on the BSE, while the benchmark Sensex gained 1.14% to 23,649.22 points and the BSE Realty Index rose 0.38% to 1075.96 points.

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