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

By Madhurima Nandy & Hiten Saraf

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 is self-financed over the past few years, is now proving to help it extract maximum benefit from the weak conditions in reality.

In the course of the current financial year, the company has sold office space in the Bandra-Khar (BKC) in Mumbai to Shriram India Ltd for Rs 1,500 crore. It has also sold 220 2BHK apartments in its flagship project, ‘The translated series of Moulsari’s Villa’. It sold 532 2BHK units in ‘The translated series of Moulsari’s Villa’ in November, and entered Noida, a new market for it, in January. In pure financial terms, the Mumbai-based developer clocked revenue of Rs 2,206 crore in the nine months ending December, a 42% rise from the corresponding period the year ago.

In sales bookings (4Q December) stood at Rs 2,427 crore, compared with Rs 2,461 crore in 3Q, 2014-15. Over 90-95% of a year where the company has surpassed Rs 2,200 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 Rs 33,000 crore in 2015-16.

“Today is a good day for a developer like us and we would like to take advantage of the situation by adding more projects to our portfolio, launching projects unstrategically 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 Niranjan Hiranandani, director and CEO of Pashya Godrej.

In its ‘translated series of Moulsari’s Villa’ project, for instance, Godrej sold at an average of Rs 83,000 per sq ft, managing to achieve premium pricing even in a competitive context.

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

The real estate sector has witnessed a slowdown by over two years now, and it is still for growth recovery. Developers with large land banks are selling seasoned non-core assets, selling 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 projects 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 Mukul Arora, national director, residential, at property advisory Knight Frank India.

GPL’s business is based on development management, profit-sharing with landowners, and real-estate management. Even though, it is the GEM’s re-investment and residential development platform, a joint venture with a consortium led by Dutch pension services provider APG which gives it the financial back to play with the big boys.

Though it also has a number of projects on a scaling-down basis, Godrej prefers profit-sharing to ensure that margins don’t come under pressure, particularly in case of cost escalations in mid-summer projects.

“We never believed in land banking and have been following different kinds of partnerships to do projects for some time now. We are using a lot of opportunities from the last 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 projects 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) sales market, adding 5 million sq ft of salable area to its portfolio. For Noida, it tied up with local developer Lotus Green Sports (LGS).

“Over the past several quarters, GPL’s unique asset-light model has enabled it to maintain strong sales and pre-launch momentum across residential portfolios despite market softness. With legacy low-margin projects on the decline, sharp higher realisations from the recent launches should lead to significant and sustainable improvement in margin in the coming quarters,” said DBS Securities (DBS) in a research report on 3 February.

GPL expects its unit to continue in 2015-16. 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 in its joint venture with APG, as well as an expansion in its existing partnerships, including APG. Godrej Properties planned to invest in cement in the transaction.

While launches and earnings have been on track, GPL’s net debt rose to Rs 3,023 crore in Q4 December, compared to Rs 2,870 crore in the preceding quarter. However, its cost of borrowing came down from 13.3% to 13.1%.

“Since the debt was a concern, but even these benefits projects are strong and the collection should improve,” said Mirabai Chatrath, an analyst with Rakesh Securities Ltd.

GPL said during April-November 2015, it delivered about 1.5 million sq ft, which is more than what it had delivered in any full year. GPL shares rose 21.2% to close at Rs 275.60 on the BSE, while the benchmark Sensex gained 1.1% to close at 28,092.52 points and the S&P BSE Realty Index rose 0.8% to end at 7,739.90 points.

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