Kolte-Patil Developers Ltd.

Content Index

Kolte Patil - Stock Details

CMP **Rs.106**	**Market Cap** **805cr.**	**Codes** **BSE: 532924** **NSE: KOLTEPATIL**
No. of shares **7.59cr**	**Face Value** **Rs.10**	**52week high/low** **Rs.240/103.3**
P/E **13.4x**	**P/B** **0.95x**	**EV/EBITDA** **5.4x**

**As on 27-01-2016*

Key Highlights of Kolte Patil

Leader in Fast growing City:
Kolte-Patil is leader in Pune real estate market with 13% market share in the city. By leveraging its brand, company is now foraying into new markets like Bengaluru and Mumbai.

Revival in Economic Cycle:
With revival in economic cycle and increase in consumer demand company has enough opportunities to grow in its markets. Recent reduction in interest rates is an additional lever for the real estate business.

Excellent Corporate Governance:
Kolte-Patil has one of the excellent corporate governance which can be observed from its clear corporate practices, customer centric approach, employee policies, transparency in reporting and shareholder friendly nature.

Strong Brand & Execution History:
Company has till now sold more than 10msf in Pune and Bengaluru. Kolte-Patil built its strong brand by bridging the gap between promise and delivery.

Attractive Valuations:
Company which is expected to generate sales value of more than 2x during FY15-FY17 against sales value of Rs.3500cr in FY12-FY14 is trading at attractive valuations of less than 0.9x book value.

Industry Overview

Industry Overview

- Indian Real Estate sector is very well placed compared to the other real estate markets of the world. The main reason for the development of the industry is the market size which is very huge and it is still in the developing phase.
- The market size is expected to grow at a 12% CAGR rate from FY2015 to FY2022.
- Along with market size urbanization is been experienced in India. Due to which the demand and development of lower tier cities are also visible.
- Growing economy, higher disposable income and high proportion of young population are proving to be a helping hand to the industry.
- Due to evident development many foreign players are interested in investing their money in the India Real Estate Space. Due to this the Government of India are also taking needful steps to improve the industry.
- Growing requirements of space from various sectors such as education and healthcare are further improving the growth of the industry.
- Tourism and hospitality segment are also growing and real estate is an underlying requirement for these.

Industry Growth Drivers

- The growth story of Indian Real Estate market is supported by various factors. The major factor is Urbanization.
- Nowadays it's a noticeable trend that villagers are migrating to nearby cities to make their fortunes. The growth of urbanization is approx. 2-3%, on an average over 10 Million people migrate from villages to cities.
- Once migration takes place people earn more have a higher disposable income and eventually the economy grows.
- As there is constant growth in the economy the standard of living increases and better quality of residential places are demanded and benefits the Real Estate Industry.
- Along with it the government are taking serious measures to help the industry grow. Home for all and smart cities initiatives are a major boost for real estate.
- The government have eased out FDI norms due to which foreign players are also willing to invest their money here.
- RBI has also seen that people find it easy to raise capital for buying a new property. It has relaxed various norms relating to home loans given by both Banks as well as NBFCs.

Government Initiatives & Policies

- For any sector to grow at the highest potential it needs support from all the factors and mainly the government which is in power. So with the new government in ruling they are mainly focusing on infrastructure and real estate segments are they are the building blocks of a country to grow.

- Major focus of government is to provide home for every Indian. This will be possible by helping by building affordable house which the middle and the lower class of people can afford. Home for all 2022 project aims to provide 20 million homes at very cheap base as well as interest rate.

- SEBI released draft guidelines for investments by Real Estate Investment Trusts (REITs) in non-residential segment. REIT will open channels for both commercial and infrastructure sector.

- The most important policy is amending the FDI norms. The government has allowed 100 per cent FDI for townships and settlements development projects. They have also changed the provision limits from 10million USD to 5million USD for boosting urbanization.

- Moreover, many new companies are planning a foray into Indian markets due to huge potential and recently relaxed FDI norms. Real estate is the 4th largest sector in terms of FDI inflow.

- As of May 2015, total cumulative inflows in the Real Estate sector accounted for 9 per cent of total inflows in USD terms.

Low effective interest rates

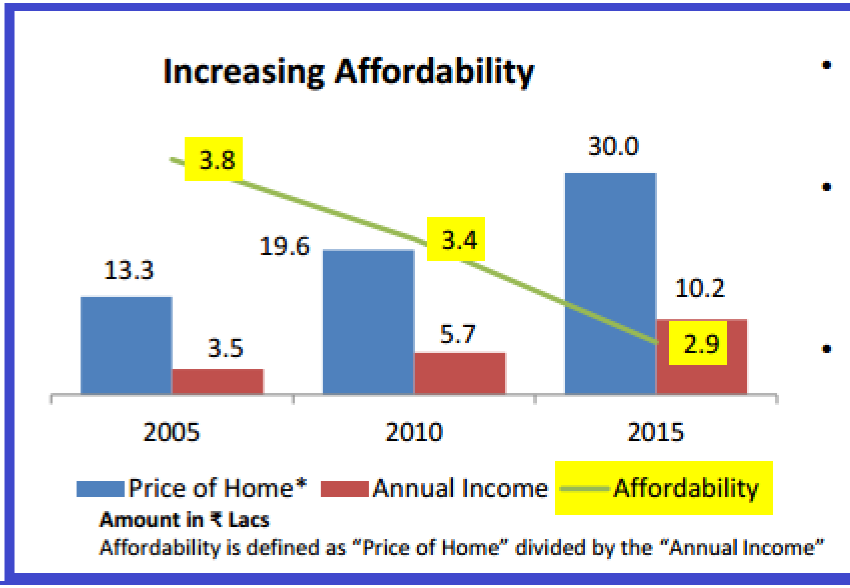
Tax Incentives – Low Effective Interest Rates

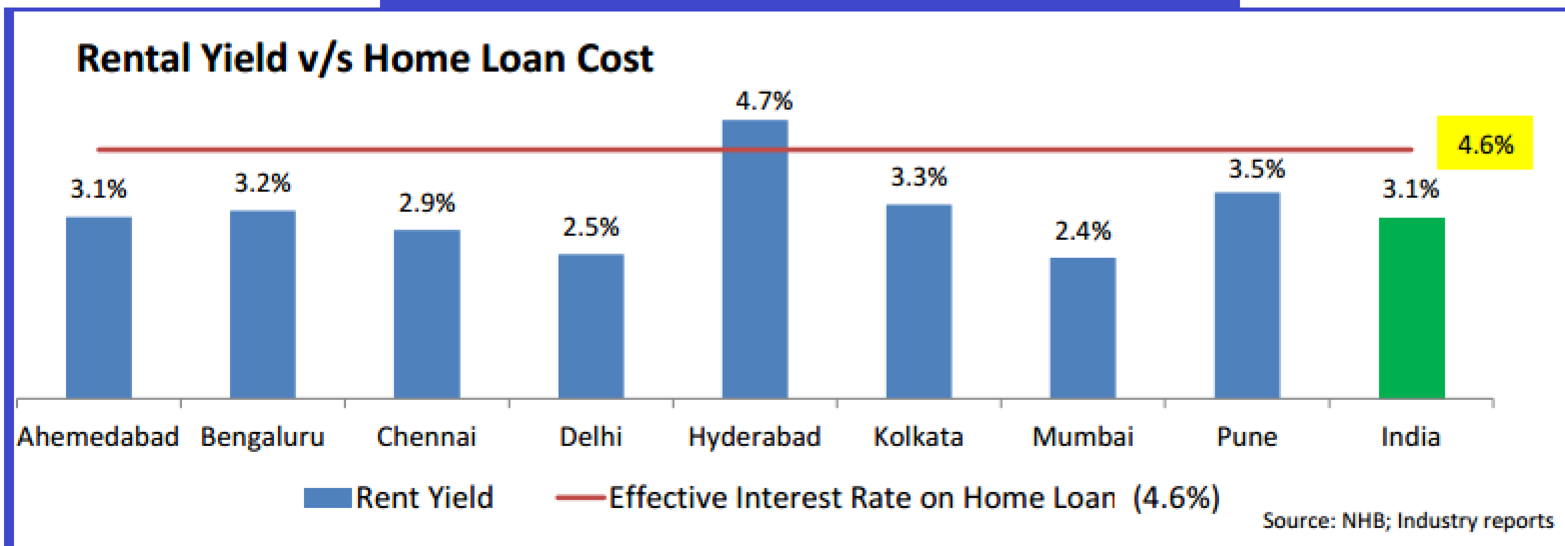
Particular	2015	2010	2000
Loan amount	24,00,000	24,00,000	24,00,000
Nominal Interest Rate(%)	**9.65%**	**9.25%**	**13.25%**
Deduction allowed on interest repayment*	2,00,000	1,50,000	75,000
Deduction allowed on principal repayment#	1,50,000	1,00,000	20,000
Tax Rate applicable	**34.61%**	**30.90%**	**34.50%**
Tenure (Yrs)	15	15	15
Total amount paid per year	3,78,340	3,18,763	3,69,140
Interest component	2,28,340	2,18,763	3,14,777
Principal component	1,50,000	1,00,000	54,363
Tax amount saved	1,21,128	77,250	32,775
Effective interest paid on home loan	1,07,212	1,41,513	2,82,002
Effective interest rate on home loan	**4.61%**	**6.02%**	**11.88%**

Amount in ₹

* Interest Repayment Tax Break: Section 24 of the Income Tax Act
# Principal Repayment Tax Break: Section 80C of the Income Tax Act

Increasing affordability & High Rental yields





Top 10 cities in Indian Real Estate Market

RANK	2009	RANK	2015
1	MUMBAI	1	BENGALURU
2	PUNE	2	PUNE
3	THANE	3	CHENNAI
4	NOIDA	4	HYDERABAD
5	CHENNAI	5	AHMEDABAD
6	BENGALURU	6	THANE
7	GURGAON	7	KOLKATA
8	AHMEDABAD	8	MUMBAI
9	KOLKATA	9	NAVI MUMBAI
10	HYDERABAD	10	GURGAON
11	GHAZIABAD	11	NOIDA
12	NAVI MUMBAI	12	GHAZIABAD
13	GREATER NOIDA	13	GREATER NOIDA
14	FARIDABAD	14	FARIDABAD

GAINERS

LOSERS

Kolte Patil - Company Section

Company Overview

- Kolte-Patil Developers Ltd. is a real estate company incorporated in 1991 by Mr. Rajesh Patil and Mr. Milind Kolte.

- Till now, the company has developed and constructed 48 projects including 35 residential complexes, 9 commercial complexes and 4 information technology parks covering a saleable area (KPDL share) of over 10 million square feet across Pune and Bengaluru.

- The company has also fostered several long-term relationships with major financial institutions like ICICI Ventures and Yatra Capital, development and strategic partners like Portman Holdings, constructions partners like ANC Holdings (Dubai), real estate funds like ASK and individual investors as joint venture partners and co-investors in future projects.

- These partnerships are in line with the core strategy of equity led expansion, improve levels of corporate governance, increase sourcing and execution capabilities, help de-risk large scale project execution and facilitate expansion in newer markets.

- Consolidating its leadership position in the Pune real estate market, the Company is expanding in the high demand Bengaluru market, leveraging 19 years of presence in this market.

- The company has also recently forayed into the Mumbai market where the initial market entry focus will be on low risk society re-development projects.

Leading Player in Fast Growing City

- Company remained a single city focused even after 25 years of getting into the real estate business. This is not the mistake but a different strategy taken by it. Company believed that the market in big cities like Pune is far from exhausted and have enough opportunity to grow.

- This helped Kolte-Patil in building its brand in the city and creating trust among customers. Over the years company emerged as the undisputed leader in Pune and now enjoys 13% market share.

- Company has developed and constructed residential, commercial complexes and town ship projects in most preferred areas of the city. After establishing its presence in the mid income group (MIG), company has forayed into luxury housing market in FY10.

- Company started selling its projects to non-Pune customers (Mumbai and neighboring tier 2/tier 3 cities) and NRIs by presenting Pune as preferred residential market. This led to increase in brand visibility across Maharashtra and also India.

- The offline marketing of Nest Fest has attracted customers from 80 cities and from several other countries which shows brand strength of the company. This fest has attracted 30,000 footfalls in just three days and more than third of sales generated from non-Pune buyers.

- Even if the company is present in single city we believe that it has huge potential to grow in one of the largest real estate market. Now, it is slowly entering into other markets which de risks the business in coming years.

How Kolte Patil is Different from other players ?

- There are more than 100 listed real estate players but very few companies are able to attract investors with their differentiated business models and clean corporate governance. Kolte-Patil falls into the same category.

- Company is using Asset light business model by establishing Joint Ventures (JV's) with land owners and by partnering with big financial institutions. Where most of the real estate players have asset heavy business models (buying land with huge amount of capital), that face many difficulties when land prices collapse and suffer to fulfill their obligations.

- The most important thing in real estate market is trust. This can only be built when one can have transparency and customer focused approach. Kolte-Patil has built trust among its customers by delivering projects on time and by taking many customer centric initiatives.

- Corporate governance is a key factor for any real estate company to improve its brand and reputation in the market. Kolte-Patil is following best-in-class practices including fairness in corporate practices, strong internal controls, managerial remuneration closely linked with earnings, maintaining conservative accounting practices etc.

- The customer focused companies can only survive in the toughest real estate market which runs on trust and transparency. We believe Kolte-Patil is one such company which has been through many toughest cycles and stood among best players in the industry.

Asset Light Business Model

- Asset light business model enables any company to scale faster with low cost structure and create value to its stake holders.
- In cash strapped economy like India, where borrowing costs are higher, it is very difficult for real estate players who purchases bulk land with high capital deployment. The cyclical nature of the business creates more problems for these players when there are tough times.
- Kolte-Patil follows asset light business model by doing joint ventures with land owners which eliminates direct upfront costs of purchasing lands. In JV Company develops, constructs and market the product/project. The revenue sharing happens based on pre agreed terms.
- Company also does projects on equity basis by partnering with big financial institutions like ICICI ventures and Yatra Capital.
- The company is following low capital intensive redevelopment model in Mumbai market. The company intends to evolve from complete land ownership to the DMA format, strengthening its asset-lightness.
- Leveraging its strong brand and execution capabilities, the Company signed its first Development Management Agreement (DMA) in Pune in the last fiscal year. During the last quarter (Q1FY16), it has signed second DMA project with saleable area of 0.55msf.
- The asset light model allows company to complete projects in quick time by lowering costs and create huge value for the company. This further leads to high cash flows and enables the company to scale faster.

Strong Brand Equity and Execution History

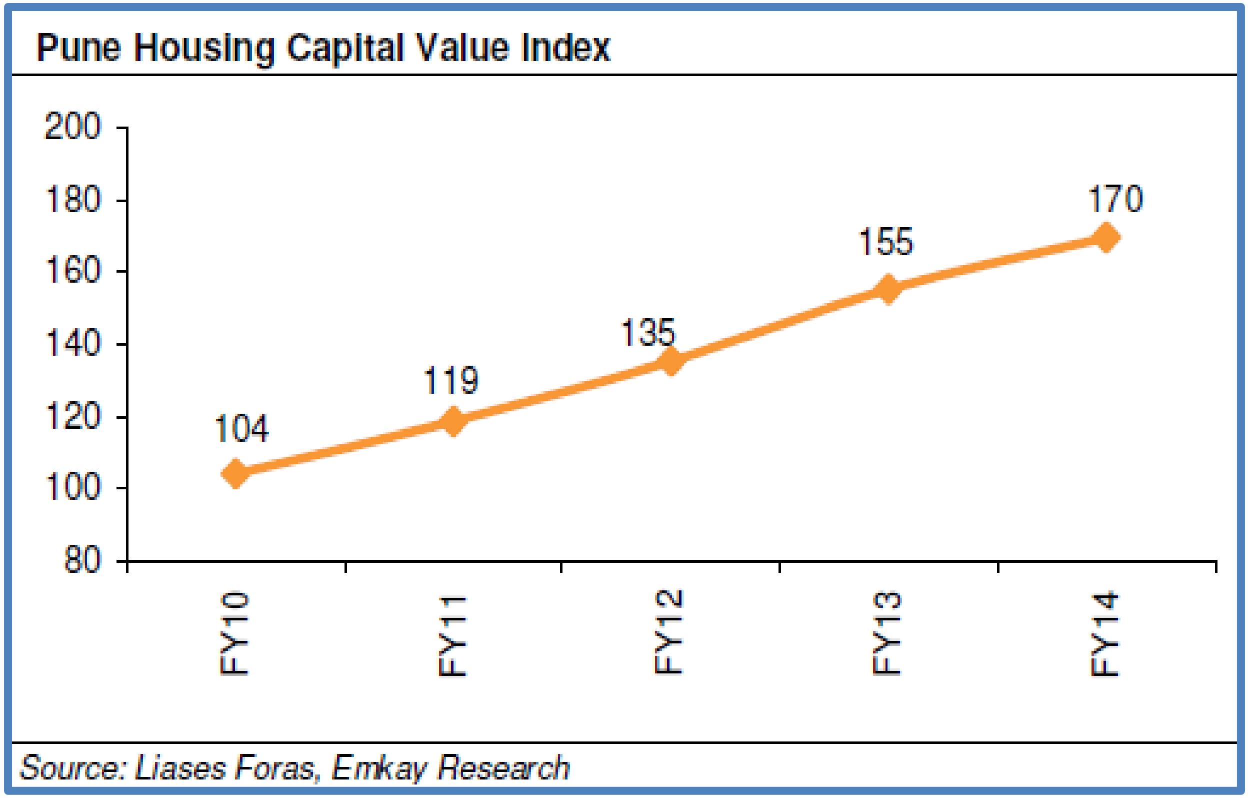
Strong Brand Equity and Execution History:

Kolte-Patil is a noted real estate brand in Pune housing market. Since inception, the company has delivered high quality properties across different segments. Till now it has delivered more than 10 million square feet in Pune and Bengaluru. Company has shown its effectiveness in completing projects and delivering it on time to the customers. This helped company in building its brand and trust among real estate customers. Faster execution capabilities coupled with strong brand enabled the company not only to sell fast but also command premium pricing over its peers. Besides, a growing proportion of company's purchases are made through mobile apps and online platforms.

Keeping it's customers happy:

The Company evoked delight among customers by bridging the gap between promise and delivery. The Company invested proactively in technology with the objective to eliminate errors arising out of human intervention, enhancing customer experience. The Company commenced the marketing of properties only after all municipal and statutory approvals were received, resulting in complete sales integrity. The Company set up an asset management team to extend customer relationships beyond the immediate transaction. The Company's senior management directly interact with customers at least once a month to derive a hands-on perspective of marketplace realities. The company deployed a leasing team that made it possible for those apartment owners not using their premises to generate rental income. Company has launched new mobile app to engage with customers in transparent manner. This will enhance good will by focusing on generally-overlooked post-possession services (plumbing, electrical and mechanical).

High growth Potential in Pune Housing Market



According PropEquity, Pune is the second largest real estate market in India after the Bengaluru. Growth in real estate prices in Pune is expected to be positive as it continues to be an IT, education and manufacturing hub, which will offer significant employment opportunities and keep the end user demand ticking in this city.

Expansion in New Cities

- Company is taking new steps to grow by expanding across different cities. Company has presence in Bengaluru market since last 19 years. Now it is planning to expand into new locations where potential is high.

- The Company forayed into the Mumbai market through a low capital-intensive private society redevelopment model.

- The Company added three projects to its redevelopment portfolio during 2014-15. Current Mumbai portfolio includes six projects in high value locations with a saleable area (economic interest) of 0.6 million square feet.

- The Company looks to leverage its strong brand, execution track record and healthy Balance Sheet to capitalize on the enormous Mumbai redevelopment opportunity.

- Company is also planning to enter new markets like Delhi and Hyderabad in the next three to five years.

- We believe that these expansion plans in the new markets will provide high growth opportunity for the company.

Excellent Corporate Governance

- Corporate Governance is most important thing for any real estate company in order to improve its image and reputation and to become more professional. Transparency and professionalism are key issues namely for listed property companies.

- Though the company was started by promoters, it has become more professional by bringing diversified minds into the company. The company's managing director Rajesh Patil has surprised everyone when he made 28 years old Sujay Kalele as CEO in 2010. This strong decision by the management shows its interest in transforming company into more professional.

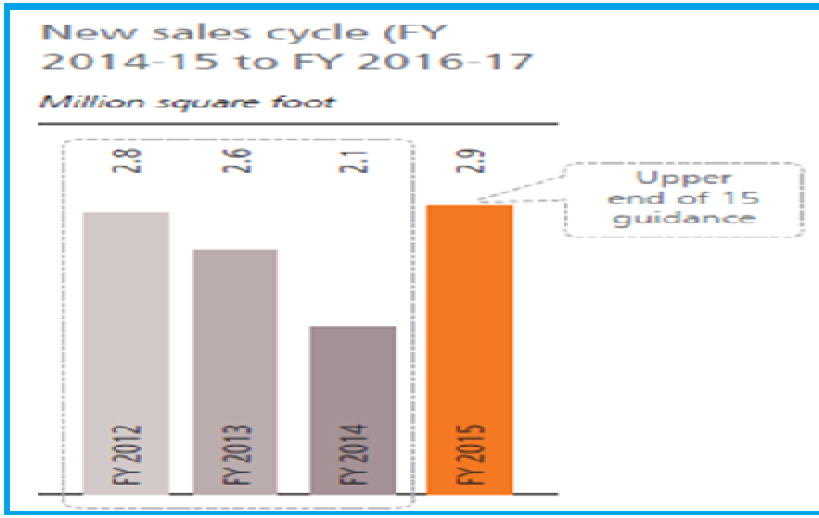
- The real estate industry is mostly involved with political influence and black money. Accounting governance is another important factor to consider. Company's appointment of Deloitte and KPMG as statutory and internal auditors shows its confidence and transparency in financial numbers.

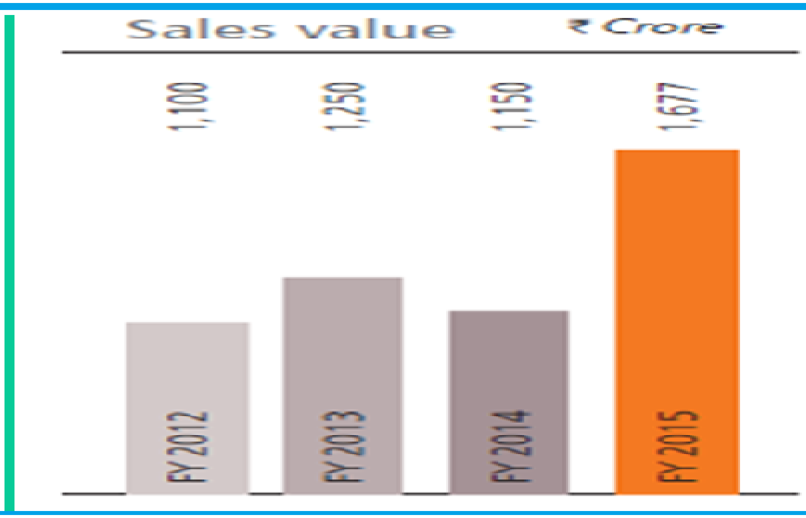
- Company has been guiding its investors accurately and changed its guidance from quarterly or annual performance to three year operational guidance.

- Company has excellent practices across all operations. These include fairness in corporate practices, strong internal controls, managerial remuneration closely linked with earnings, maintaining conservative accounting practices and upholding minority shareholder interest across every decision.

Kolte Patil - Financials

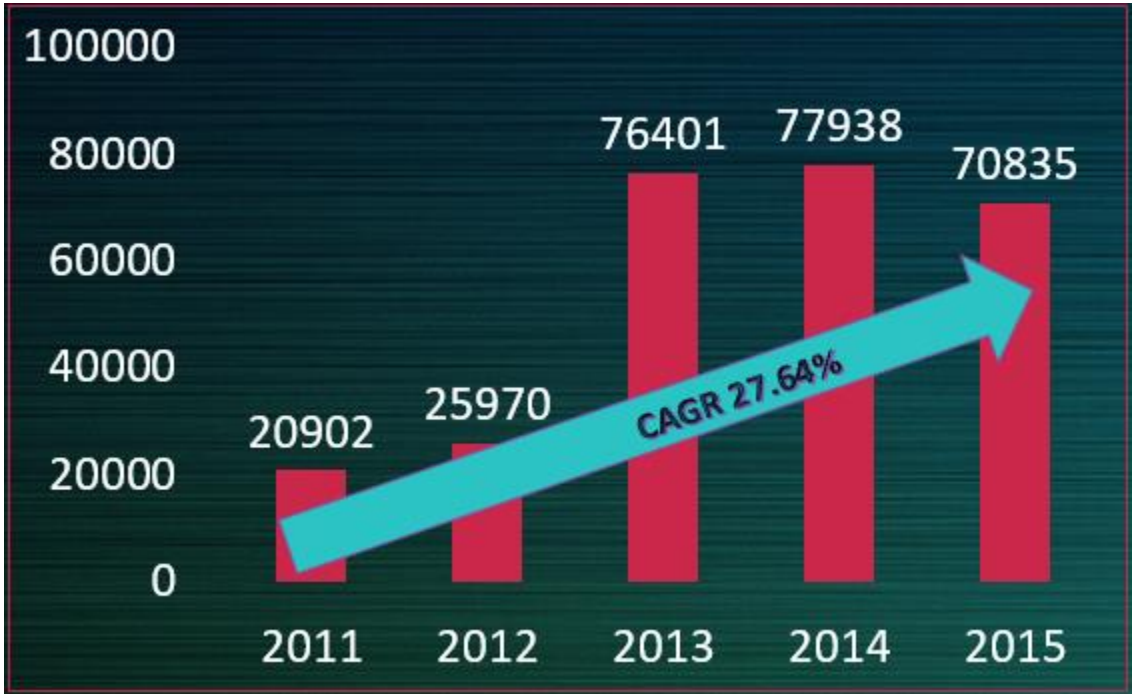
Growth in Sales Volume & Value





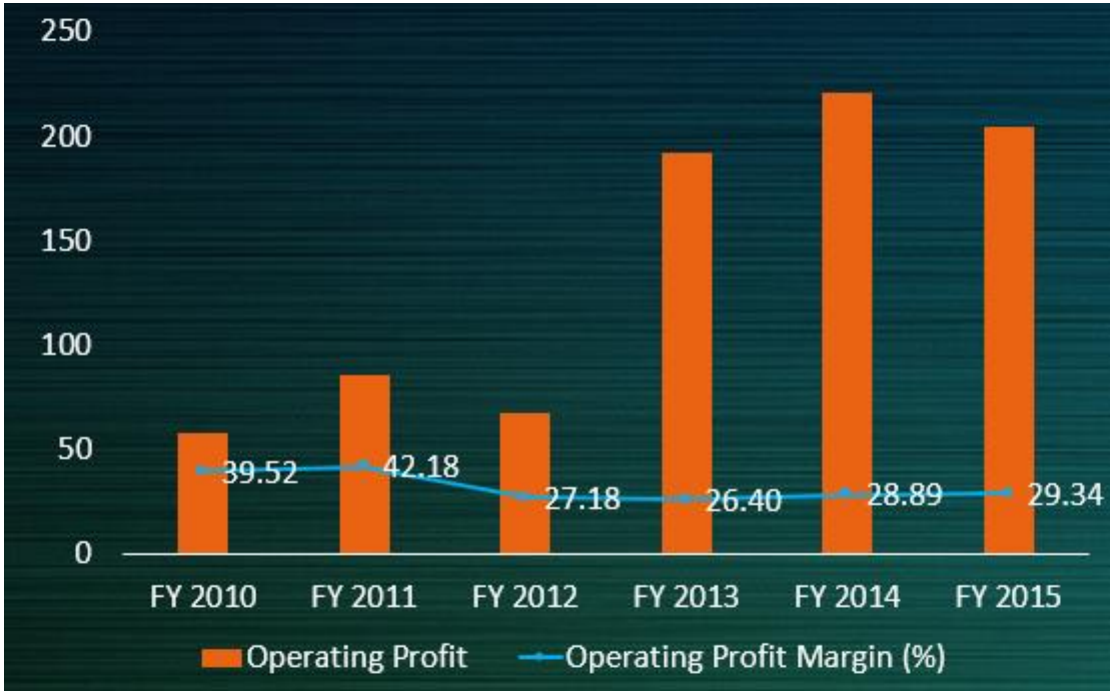
- The Company registered a sales volume of 2.9 million square feet, despite a challenging on-ground scenario in which consumer sentiment continues to be weak. The average selling price was higher by 8% YoY at Rs.5,871 per square foot, translating into a sales value of Rs.1,677 crore in FY15.
- The Company has a broad portfolio with ticket sizes ranging from Rs.30 lac to Rs.10 crore. Majority of the sales were focused towards the middle-income group with an average ticket size between Rs.50 lac and Rs.1 crore, the pulse of the market.
- Company has received terrific response for its 'Nest Fest' which was held during last quarter of FY15. During this fest, it has showcased 13 under-construction and yet-to-be launched projects across 10 locations in Pune and budget brackets between Rs.30 lac to Rs.10 crore
- The fest has attracted footfalls of over 30,000 people and marketed over 900 apartments, significantly higher than the sales generated by all Grade-A city developers put together, reinforcing the strength of KPDL's brand in Pune.
- Company has started new financial year on healthy note. For the first quarter of FY16, the company has recorded sales of 0.5msf. Company is planning to sell 12msf. During the three years of FY15-FY17. We believe that this can be easily achievable with strong pipeline of projects during the next three years.

Revenue growth



- Company's revenues have grown at CAGR of 27.6% from 209cr, in FY11 to 708cr. in FY15. KPDL's performance had dipped in FY15 when its sales booking at Rs 11.6bn increased just by 1.5% YoY. The reason for the same was fall in launches owing to delay in approval cycle.
- The company aims to revive its sales booking trajectory with a target to sell over the next three years.
- We believe that the economic revival, receipt of the approvals for its main projects in Pune as well as foray into Bangalore and Mumbai housing market will help the company to achieve this target.

Profitability



- High operating margins shows the company's low cost model and business efficiency. Operating profit (EBITDA) has grown at 44% CAGR increased from Rs.68cr in FY12 to 204cr. in FY15. Company's operating profit margin stood above 25% even during low cyclical points.
- The Company expects to strengthen margins through increased realizations, larger project throughput, cost reduction, evolution from a fixed to variable cost model and a reduction in the working capital cycle.
- We expect the company to maintain operating profit margin above the 30% with the low cost projects (Mumbai redevelopment and DMA) are being in pipeline.

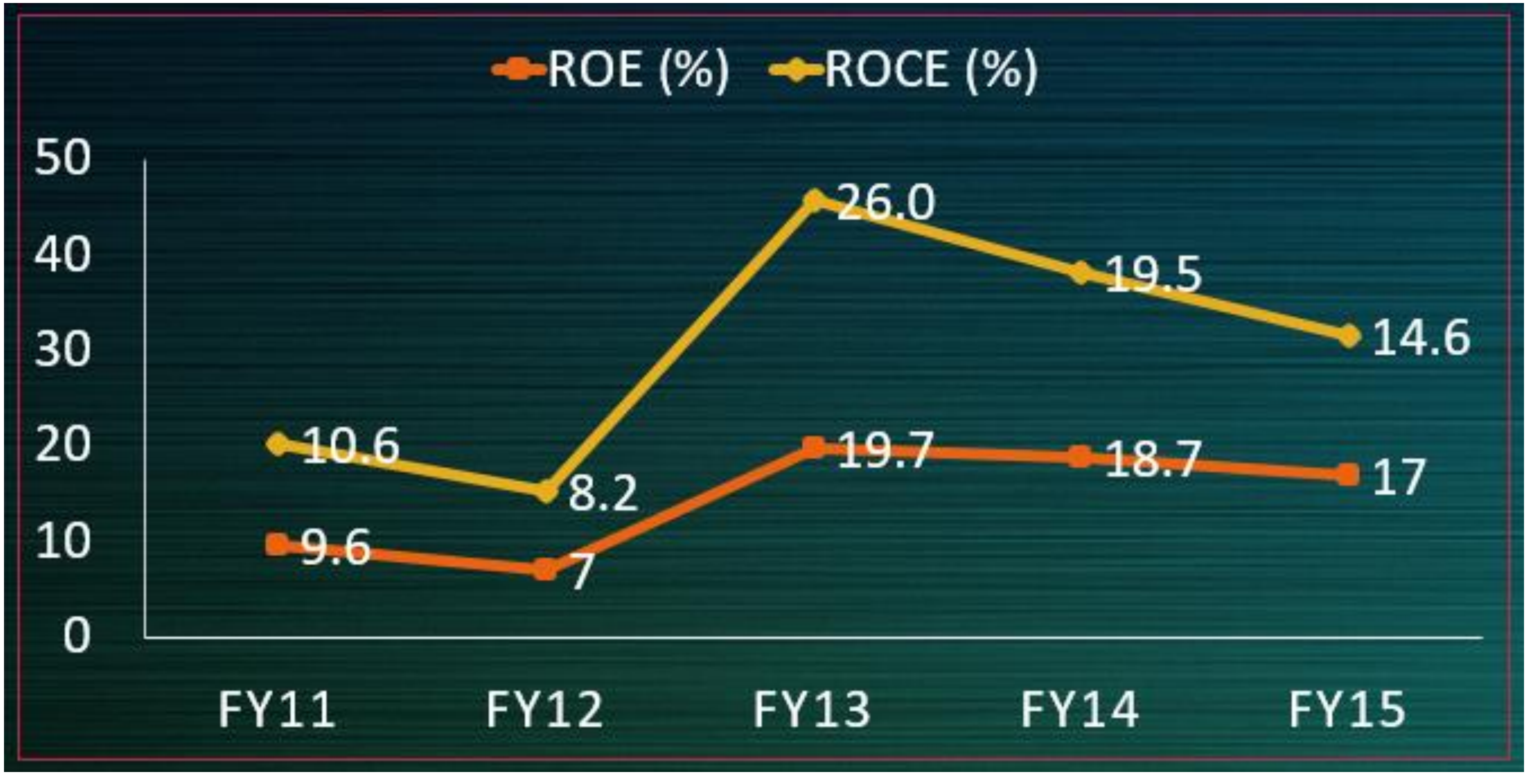
Cash Flow Position Looks Healthy

Focus on positive cash-flows at each stage

Project Stage	% Cost incurred	% Collected
Plinth	8-10%	35-40%
RCC Structure	65-70%	90%

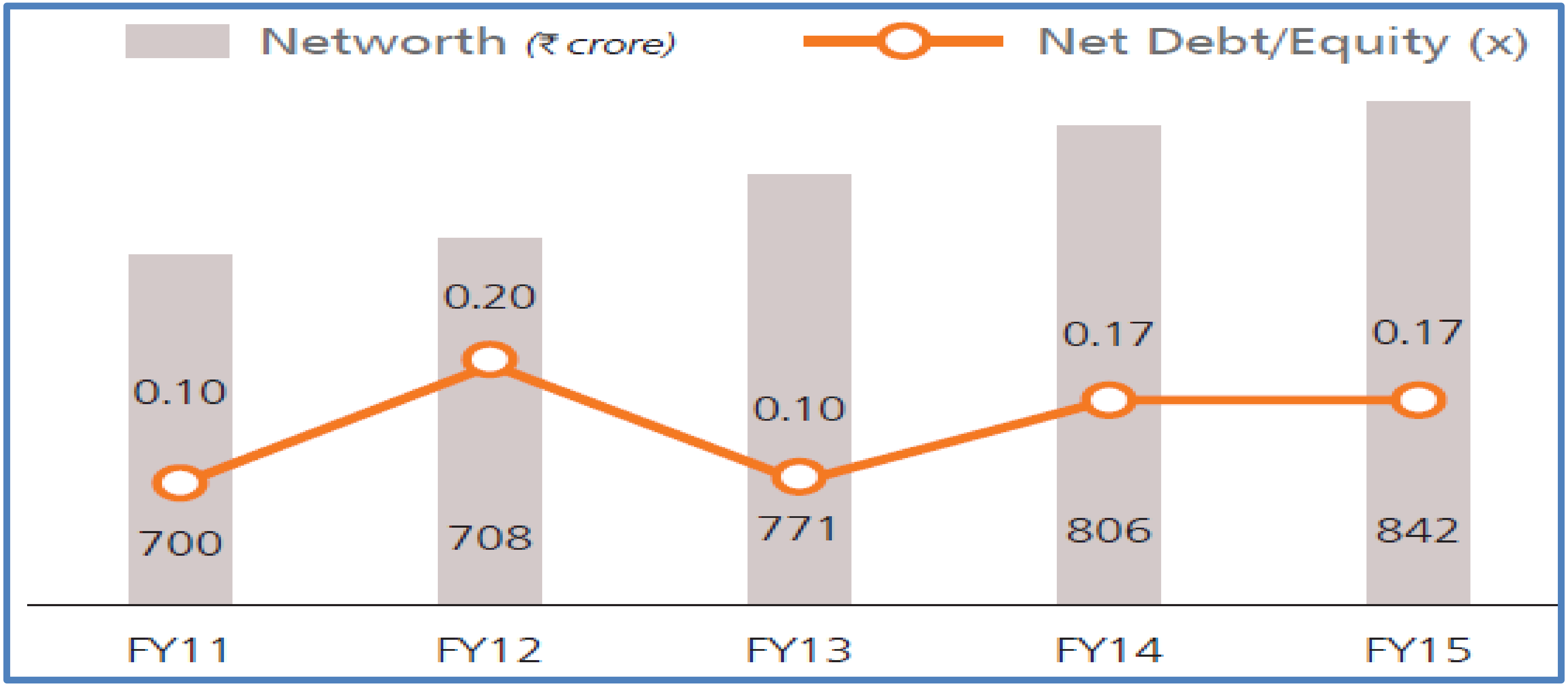
- Cash flow from operations has witnessed growth in the last three years where as there is no growth or fall in revenue. KPDL's cash generation to increase substantially because of growth in sales booking trajectory and low deployment of cash towards land acquisition.
- Going forward, with land bank and launch pipeline in Pune and Bangalore in place and in Mumbai through redevelopment, there would not be significant outflow towards land acquisition. The strategic decision of company moving to DMA (development management agreement) projects in Pune will increase cash flows further.
- Company is focusing on positive cash flows for every project which eliminates the risk of funding for the project. Its cash flow matching can be seen from the above table which shows company is able to collect 35-40% of cash from the customers during the plinth state where costs are only 8-10%. This allows company to avoid debt and improve its profits.

ROE & ROCE



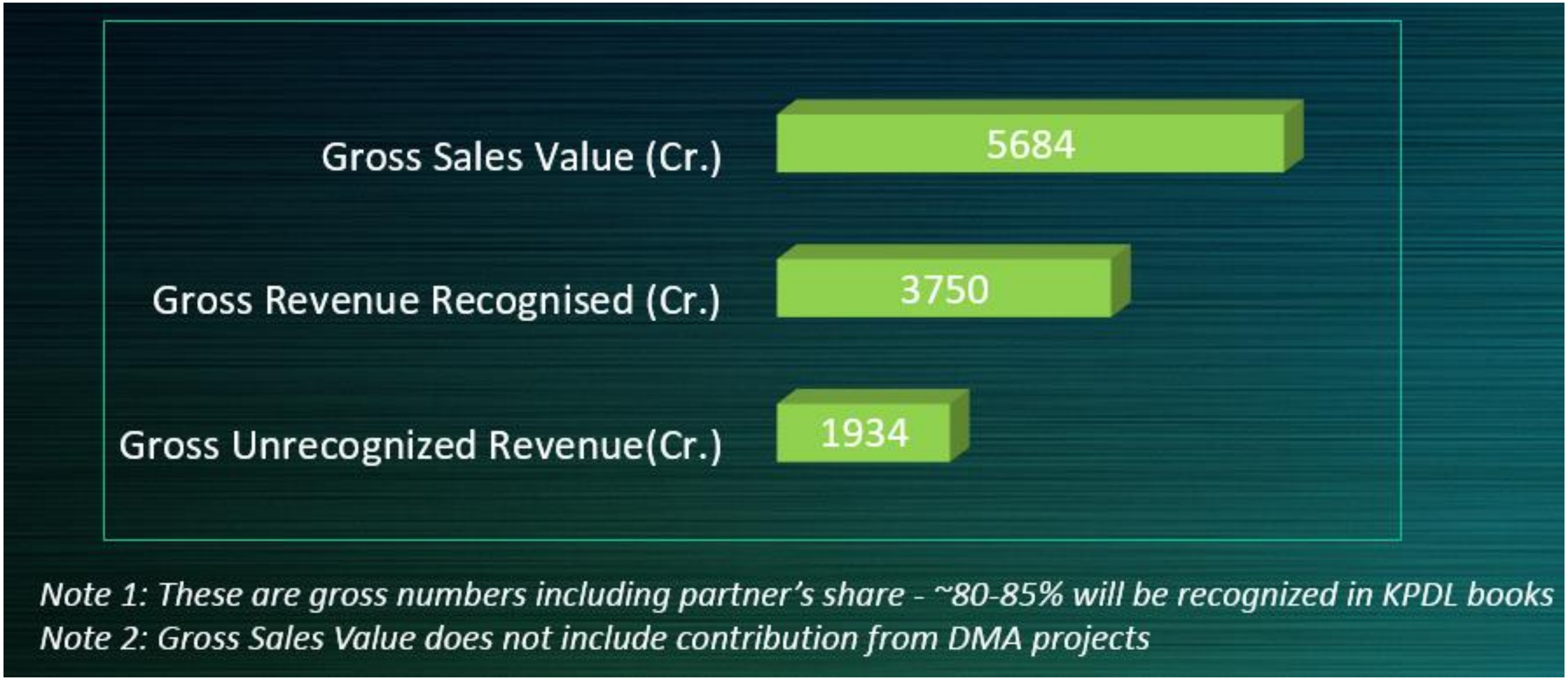
- Due to down trend in the real estate cycle, the return metrics have effected and stood at ROE of 17 and ROCE of 14.6
- We expect the return ratios to improve further with the increase in efficiency of the business and operating margins. .

Net worth & Gearing



- Company's net worth has grown from Rs.700cr in FY11 to Rs.842cr in FY15.
- Company is maintaining net debt/equity below the 0.2x. With its strong cash flow generating capability and low capital infusion company will be able to manage its debt.
- Low debt levels and consequently lower interest costs means that whatever operating cash is generated, major portion of the same would be available for the equity shareholder a phenomenon which is rarely seen among the listed real estate players.

Strong revenue visibility



- Company has a strong visibility with a portfolio that has over 20 msf of projects with key approvals in place. It is planning to activate these projects in the upcoming quarters, including the subsequent phases of Three Jewels and Life Republic along with Corolla Phase II, will be the key volume drivers for the company.
- Company's sales growth to be very high with the large line up of projects expected to be launched in the upcoming quarters. We believe that the company will be able to execute its strategic vision of achieving our FY15-17 sales guidance of 12 msf.
- Company has Rs.1934cr of unrecognized revenue of which 80-85% will be recognized in KPDL books.

Strong revenue visibility

Projects (Rs. Crore)	Cumulative Revenues Recognized (FY12 – Q2 FY16)	Cumulative Sales Value (FY12 – Q2 FY16)	Gross Revenue to be Recognized
Life Republic - Phase I	1,088	1,493	406
Corolla	583	907	324
Tuscan - Phase I & II	243	304	61
Margosa Heights I & II	276	372	96
Downtown - Phase I	457	599	142
Jazz I & II	56	201	146
Glitterati 24K	217	241	24
City Bay	46	52	6
Giga Residency	42	148	106
Green Olive Venture	48	51	3
Three Jewels	115	331	216
Rutu Bavdhan (Stargaze)	13	153	141
Other projects	567	830	263
Total	**3,750**	**5,684**	**1,934**

Note – These are gross numbers including partner's share - ~75% will be recognized in KPDL books

Launch Pipeline

Projects	Area to be launched (net of pre-sales) (msf.)	Expected launch timeline	Remarks
24K Province	0.73	Q3 FY16	
Life Republic R1 Sector	1.00	Q3 FY16	
Giga Residency	0.32	Q3 FY16	
Mumbai Projects	0.19	Q3 FY16	Subject to approval
Wakad	1.22	Q3 FY16	
Life Republic - Phase II	2.00	Q4 FY16	Expected approval of 6.9 msf.
Total	**5.46**		

Significant proportion of the area to be launched will be in the below Rs. 1 crore ticket size

Pune:

Company is planning to launch many projects in the upcoming quarters, including the subsequent phases of Three Jewels and Life Republic which, along with Corolla Phase II, will be the key volume drivers for the company.

Mumbai:

Tenants were vacated at Link Palace on Khar-Linking Road (first project); the company is in the final stages of receiving Commencement Certificate.

For the Jay Vijay Society in Ville Parle East, the Company received all concessional approvals and is presently awaiting environment clearances for the project.

The Company strengthened its Mumbai portfolio by adding three more society redevelopment projects during the last financial year

Risks & Concerns

- Real estate players have to go through many statutory approvals before commencing the project. As the government processes are very slow, any delay in the project approvals will affect the company's sales volume.
- Slowdown in the real estate market where company has significant presence will affect the company's revenue growth.
- Any sharp increase in the execution costs will increase the construction cost-to-value ratio. When the housing market is under pressure, it is difficult for players to pass on increased costs to the customers.
- Risks may arise from property price fluctuations leading to a decline in realizations and sales.
- Company's geographical concentration in the single city will affect the business adversely when there is any down turn in the market.

Conclusion

Real estate industry is going through tough time presently. This is being reflected in listed real estate players, whose shares are trading at very cheap valuations. **As the time came to real estate cycle to move up, we have looked at many listed companies but few are only very attractive in terms of their differentiated business models, debt position, market opportunities and valuations.**

Kolte-Patil is the one among few players which falls into our bucket list and has huge opportunity to grow. Being the **leader in Pune**, company has enough opportunities to grow in the city. **Low capital intensive models such as redevelopment model in Mumbai and Development Management Agreements (DMA) enables company to scale fast and improve its profitability further.**

Company is expected to grow its sales volume from 7.6msf in FY12-FY14 to 12msf during FY15-FY17. Value is going to be more than 2x during the same period from Rs.3500cr in FY12-FY14 to Rs.7200cr during FY15-FY17.

Company's revenue visibility to improve further with a portfolio that has over 20 msf of projects with key approvals in place. With very low net debt/equity of 0.17x company is trading at EV/EBITDA of 5.4x and P/E of 13.4x. Alternatively, company is trading at less than 0.9x book value which we believe is very attractive to take position where risk reward is clearly in favor of investors.

THANK YOU