NOTHING IS CAST IN STONE IN THIS INDUSTRY

The Mittals have always been known for creating high quality residential and commercial real estate landmarks without compromising on quality or strength. The Tattva Mittal Group today continues the legacy of Mumbai's leading and pioneering real estate company that is known for making iconic buildings in Mumbai, such as Phoenix Towers in Lower Parel, Dariya Mahal in Napean Sea Road, Mittal Grandeur in Colaba, to name a few. With a belief that 'good living' combines thoughtful locations, efficient design, user-centric facilities, optimization of technologies and real pricing, Tattva Mittal brings to the fore professionalism and innovation with a deep sense of community. **Anand Vilayannur,** CEO and Co-founder, Tattva Mittal Group speaks to **Shashidhar V** about the current real estate market and how they are treading carefully to continue their rich legacy.

What are your views on the Real Estate market today and the key trends in the industry?

Traditionally, the real estate market has been fuelled by a captive buyer, in the sense by those who really live in the homes. And, second, by investors. So, typically, it is these two genres of people who basically create the demand for the market.

Over the last five years, however, what has happened is that the investor market has practically disappeared. And, the end-user market has become very selective because, one, the ranges of the homes have gone through the roof, and second, the mobility of work places has increased big time in a place like Mumbai.

So, today, if you are working in, say, Malad, you don't need to be staying anywhere else. You can pick up a home somewhere closer to that area thereby avoiding travel. And, so, the traditional outlook of suburbs being depressed at, for example, 70 per cent discount to South Mumbai...all that is completely changed. The price of a South Mumbai to a suburb is slowly but surely diminishing.

South Mumbai will continue to have a premium over suburban Mumbai, but the gap is shrinking.

What is happening is supply across Mumbai is increasing, and demand because of the investors, which used to be ~50 per cent of the market, is out. And, the retail guys are either being selective or are looking at the budget and figuring out.

One big dynamic that is also setting out is that India, generally, is becoming mobile. There used to be a time when people from Mumbai used to work in and around the city, while people from Chennai used to work in and around Chennai itself. That is completely going away.

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So, the idea of owning a home in the city is diminishing. The concept of renting a home has started picking up. So, the cost of renting a home is disproportionately lower compared to a cost of owning a home. And, so, all of this collectively has taken a hit on the sales of real estate.

On the flip side, if you were to look at it from a developer community, what has also happened is that, one, supply of money through a combination of the investors has disappeared. Then, cash money in the market has gone away, and lastly, the financial institutions have taken a hit. These three factors have sucked out the supply of money. So, overall, the industry has become a little bit tight.

You say that the gap between locations in the city of Mumbai, for instance, is diminishing. Can you elaborate further, since for a given price, I can still not afford to buy a home in, say, Bandra, but will manage to afford a larger place in, say, Borivali.

Every segment has a market. So, the prices in South Mumbai, from the peaks of ₹60,000-₹80,000 per sq.ft. has now come down to ₹40,000-₹45,000. At the same time, prices in the suburbs of Mumbai have gone through the roof.

I don't mean to say that the houses are coming for a cheaper rate today. What I am saying is that demand has become localised.

Talk to me about the Tattva Mittal Group, and your project profile. You are more focussed on residential than commercial.

We are currently focusing on only residential. But, going forward, we might look up a few commercial projects as well. Having said that, Mittals have done quite a few commercial spaces already. Out of the 4000+ buildings that we have built, roughly about 500 are commercial, while the rest are residential. But, focusing on residential projects for the time being has been a conscious decision.

If you look back a few years, until 2015, there were hardly any takers for commercial. But, post-2015, commercial took a higher trajectory, and residential took a beating. So, it is a cycle.

How has the NBFC/financial stress impacted your company?

Big time! We have been hard hit. I think that has been the biggest blow for developers who are credible and who follow the right ways of doing things. They have been hit hard by the stress in banks and the NBFCs.

How have you managed to deal with the situation?

It has been tough. The going is still tough. But, thankfully, we have a credible name in the market and a credible supply of clientele coming in. So, we haven't had a dry month at all. We continue to sell steadily. We have our own equity. Since we are a known and credible name in the market, we have our own equity, our own supply of clients. So, the leapfrogging has not happened.

So, you don't have any debt.

We do have debt. If you were to look at our bouquet...we are a Rs2000-cr company, but our debt is 1.0 per cent. Ideally, we would want a debt-equity ratio of 20 per cent to 80 per cent, or may be 30 per cent to 70 per cent. But, it is miniscule compared to the top line that we have today. And, it is so because debt is difficult to come by. The cost of debt is very high. The cost of money today is extremely high. It is difficult to service that debt.

So, if one were to make a choice between borrowing at a very high cost on the one hand, and giving a discount to a customer and getting the sale through, the latter makes sense.

Do you see the situation improving any time soon?

See, it has been like this for a very long time now. Public Sector Banks have stopped lending for close to four years now. NBFCs were on a rise and did stellar business with Real Estate for a long time. So, my belief in today's situation is that the cycle will not come off in a hurry. It will take another six to nine months for the situation to change and money supply to start coming by. I think that is when we will be able to grow.

The government looks very keen on affordable housing. What about these projects?

We too have something coming up in Titwala, near Mumbai. It is around 6.5 lakh sq.ft project. We should be launching it in the next few months. It is an affordable housing project, with apartments costing anywhere between ₹7.5-lakhs to ₹11-lakhs.

Some developers have moved on to affordable housing altogether to tide over the present crisis in the Real Estate market. But, you have just one project.

True. See, what is affordable? Today, there are mid-level to high level managers who have been working for 15+ years in an organisation, with the spouse too earning. This population probably constitutes about 30 per cent of the country, and they can afford a home in the ₹2.00-₹4.00-cr bracket. That is the space that we have been in the last four years. And, that is a very good space to be in.

We are in that bracket of ₹2.5-cr to ₹5.00-cr homes. We call that affordable.

There was also a time in the early 2000s when builders promised luxurious amenities in the housing complexes. But, along the way, many burnt their fingers. Do you still see those coming back, or still in demand from buyers today?

You hit upon two points there. One, the age-old paradigm of living in single buildings which offer no, or minimal, amenities is out of the door. I don't think those exist anymore. Just the other day, we were looking at the number of clubs coming up in Mumbai. There's hardly been any club that has come up in the last 50 years in the city. And, the reasons are very clear. Housing complexes all across the city have mushroomed which offer these facilities within the complex itself. Be it Mulund, or Thane, or Malad, housing complexes have come up which offer these amenities.

So, even if it is a 500 sq.ft home in a complex, with about 800-900 homes, the basics is that there should be a club house, there should be a swimming pool, a gym, and a children's playground. That has become the norm across the city today. And, that trend is visible in affordable housing projects as well, at least in a city like Mumbai. Our project in Titwala has all these facilities, even though it is an affordable housing project.

Tattva Mittal is largely focusing on redevelopment and affordable housing. But, you are not on large scale development projects. Why is that?

See, our general top line is in the range of ₹500-₹700-crores. A redevelopment project like Dharavi, for instance, is roughly around ₹10,000-crores. That is a large scale development project. The reason why we don't get into such large scale projects is because there are so many changes that happen.

You plan something, and things change. The rules of the land change, approvals change, and all changes happen overnight. In a lifecycle of 5-7 years of a project, you are hit at least 4-5 times with some change or the other.

So, a project that is of about ₹500-₹700-crores, you can still manage the change. You don't get hit hard. But, if a project is ₹10,000-crores, or ₹15,000-crores, if changes happen overnight, as they often do, and it starts eroding your bottom line, then you are finished. It is too much of a risk to take. Nothing is cast is stone in this industry. That is the problem.

What are some of the pain points for developers like Tattva Mittal?
As I just mentioned, policy changes impact your bottom line. Then, we think that the real estate industry has to be treated like an industry. Imagine a scenario where the government says that banks will stop lending to factories. What do you think will happen? More than 50 per cent of those factories will shut down.
That is exactly what is happening to the real estate industry. You cannot have a Public Sector Bank or a government institution refusing to lend to a real estate industry. You forget that this industry fuels close to 50 per cent of the jobs in the country, and 70 per cent of the economy in the country, directly or indirectly. And, an industry like ours has no support.

Is that (banks not lending for real estate) due to the NPAs, their exposure to the real estate industry in the past where they burnt their fingers?
So, where is the mistake? The mistake, if you ask me, lies in the fact that you are not doing your due diligence while lending.

Where you should have lent Rs1.00, you lent Rs100. That is the mistake that banks have done. And, then, you just can't take a blanket decision to stop lending altogether for real estate projects.

On the flip side, developers too were greedy and used money to diversify into other industries as well where they didn't have much expertise.
You are right, companies did diversify. They wanted to do much bigger and better. Some succeeded, many failed. Take Reliance, for example. You cannot tell them to not diversify. They have diversified into anything and everything today, from telecom to home entertainment, to vegetables, to petrochemicals...

But, Reliance is an exception.
That's what I am saying. Some succeed. Tata is another exception. Mahindra is emerging as one too. Bajaj is another example. So, you have examples of companies who have done it the right way. So, the decision of wanting to do is not wrong. At the end of the day, it all depends on what you are doing, right?

"The age-old paradigm of living in single buildings which offer no, or minimal, amenities is out of the door. I don't think those exist anymore."

So, you think that has been the key to your success?
I guess. We don't over-leverage. Never. For example, 70 years, 4000 buildings is a lot, and yet, it is not as many.

So, would I be right in saying that you are playing it cautiously?
No, we are playing it carefully. We are playing it as it comes. Good projects, don't let them go. Very attractive projects, but even with 10 per cent risk, don't touch them.

Do you see increased consolidation going forward?
Definitely. And, it has to happen. Today, there are over four lakh developers in the city itself. Anybody and everybody with a little bit of pocket change became a developer. But, they can't sustain. Consolidation has to happen. It has to reach a critical number.

But, that doesn't mean there are entry barriers. It also does not mean that there are no new players coming in. It does not mean that leading players today will not be unseated, and some other little known player cannot be a leader developer tomorrow.

Are you looking for stressed assets?
We are, all the time. Very recently, we purchased one which has been in the market for 10 years plus.

What does the road forward hold for Tattva Mittal?
As the CEO, what I would ideally want to do is make this company into ₹2000-cr cycle a year company. That means, every year, we deliver projects worth ₹2000-cr, and ₹2000-cr worth of projects get in. There are different life cycles of my projects. So, at any given point in time, this entire cycle in a project should be occupied. So, I need to have new projects coming in every year, and projects going out every year.

What I would ideally want to be is a ₹2000-cr company cycle every year. That means, I am talking about anywhere in the range of 4-7 projects, some of them in the range of ₹500-₹600-cr, and some of them in the range of ₹150-₹200-cr. I am looking at 5-7 projects, which is of manageable size, and top line revenue of ₹2000-cr with a margin of about 30 per cent, pre-tax. The days of having a margin of 100 per cent is gone.

You said earlier that you are primarily focussed on south Mumbai. Isn't there a limit to Mumbai's growth? It is land-locked and congested already?
I don't think so. For the next 100 years, you still have many projects to work on. Look, there is at least 50 per cent of Mumbai that is waiting to crumble, especially in south Mumbai areas. The buildings in this part of Mumbai are at least 90-100 years old. And, they are crumbling. And, sooner than later, they will all come up for redevelopment. That is a huge potential. So, there is no reason to look elsewhere.