



Amey Kulkarni

Founder, Candor Investing





A differentiated Business Model

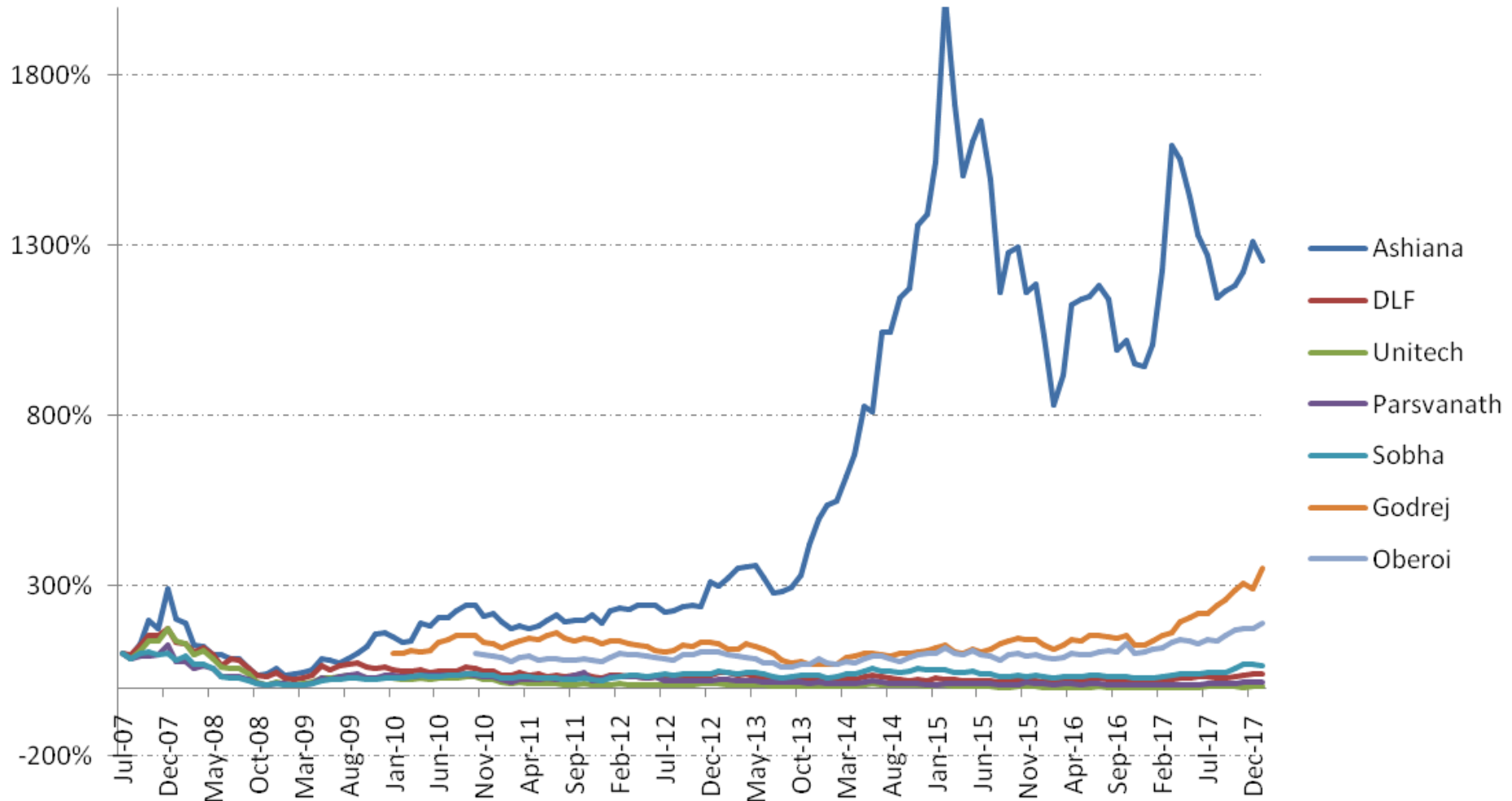
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Amey Ashok Kulkarni

Founder, Candor Investing

amey.kulkarni@candorinvesting.com

Ashiana Housing Vs Everyone Else



Ashiana has out-performed its peers 10:1 in the last 10 years

How does the real estate business work?

Land

- Buy Land / JV with Land Owner

Project Launch

- Sale to customers starts
- Customers pays 20% upfront

Approvals

- Building Plan Approvals

Construction

- Construction Begins
- Milestone linked payments by customers

Completion

- Collect final installment (5%) from customer
- Handover

To summarise; (1) Buy Land, (2) Collect advance from customers, (3) pay for construction, (4) keep balance as profit

Perverse Incentive for the Developer

To summarize

- A well-run real estate operation needs negative capital employed (except for buying additional land)
- Balance of power is with the Developer as customer has already paid a large amount of his net worth before delivery

What is the perverse incentive for the developer?

- In a cyclical up-market, land prices appreciate fast, sales are also very buoyant
- Use the advance from customers to buy more land, launch more projects, accomplish more sales

“Grow faster than what your own resources allow you”

Reputation of Real Estate Business in India

Living in Bengaluru +10

In what different ways can real estate builders and brokers cheat customers?

This question previously had details. They are now in a comment.



Sandeep Pandey, works at SunGard

Answered Mar 20, 2015

- 1) Confusing the buyer between carpet area, salable area etc.
 - 2) Hiding additional charges like VAT, maintenance, etc.
 - 3) Hyping the prospects of the society/locality, like upcoming highway in front of the society or a new IT Park planned very close by.
- There are several others which can be deduced on similar lines.

Source – Quora website - <https://www.quora.com/In-what-different-ways-can-real-estate-builders-and-brokers-cheat-customers>

Reputation of Real Estate Business in India

Rules for you :-

Have a good lawyer beside you. Observe carefully for clues from frauds. Never trust on words. Use your contact. Do background check. Fraudsters won't be first timers and they would have left enough clues for you.

Frauds in real estate that I've faced or heard from near and dear. This list is small

- Collection of booking amount advertising on some very attractive property at a very cheap rate. All they do is advertisement & promise. (People generally loose from Rs.50,000 - 5,00,000.)
- Collection of booking amount of same property from multiple people (people loose from Rs.5000 - 1,00,000)

Source – Quora website - <https://www.quora.com/In-what-different-ways-can-real-estate-builders-and-brokers-cheat-customers>

Ashiana Housing – Business Model



Rangoli Gardens, Jaipur



How does the Industry think about Land Bank?

Sobha Developers – Annual Report 2017

Land Portfolio

Land portfolio is a distinguishing asset for a real estate company. The ability to acquire appropriate land parcels at strategic places and at competitive prices or enter into joint developments for future launches help maximise profits for the Company. The Company, along with group/associate companies, has a land portfolio comprising of 2,444 acres wherein the Company holds an economic interest in 2,358 acres. The major part of the land portfolio has already been paid for. An amount of ₹ 2,522 million is payable as a part of its commitments to acquire economic interests. The overall cost per square feet of the land portfolio is ₹ 231.

How Ashiana thinks about Land Bank?

Ashiana Housing Annual Report 2011

Q. What is your land acquisition strategy? How has your thought evolved on this over the years?

A. We, as a company don't believe in land banking model. Simple outlook is that we want to grow on an average by 25-30% YoY in the longer run. So, at any given point of time, land inventory of 5-7 times execution capability is sufficient enough to achieve the targeted growth in sales and construction. Overall, a project consumes about 9 months to a year in planning and approvals phase and another 2-3 years in construction.

Ashiana Housing on Land Inventory

Ashiana Housing Annual Report 2011

****Land Multiple** is a measure which we track internally to predict and maintain the sufficient land inventory to achieve the targeted growth in sales and construction over the years. As a strategy, company focuses on maintaining a land inventory of 5-7 times execution capabilities. Land multiple for any given period can be calculated as:

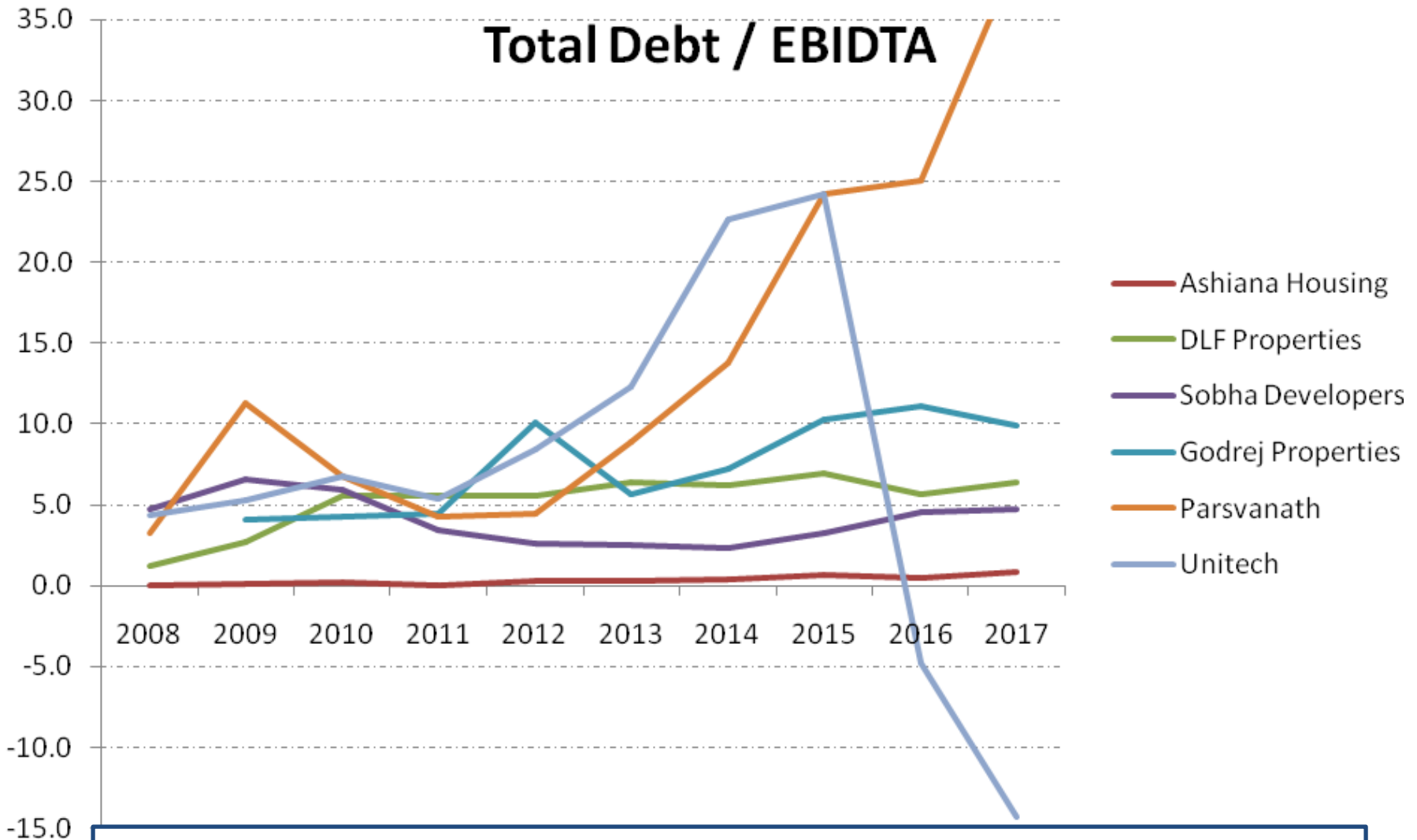
$$\text{Land Multiple} = \frac{\text{Total Developable Land Area}}{\text{Equivalent area Constructed in the corresponding period}}$$

Land Bank – Blessing or Curse?

| Land Multiple (Years) | 2015 | 2016 | 2017 |
|-----------------------|---------------|---------------|---------------|
| DLF Properties | 75 <i>yrs</i> | 60 <i>yrs</i> | 53 <i>yrs</i> |
| Sobha Developers | 32 <i>yrs</i> | 30 <i>yrs</i> | 27 <i>yrs</i> |
| Godrej Properties | 40 <i>yrs</i> | 40 <i>yrs</i> | 45 <i>yrs</i> |
| Ashiana Housing | 8 <i>yrs</i> | 8 <i>yrs</i> | 7 <i>yrs</i> |

- Ashiana does not have capital tied-up in land banks
- This has a direct impact on financial leverage and operational flexibility

Land Policy → Directly reflects in Debt Levels



Excess debt may even spiral the company into bankruptcy Eg Unitech

Real Estate – Two types of Customers

Consumer (End-user)

- Amenities for comfortable living
- Convenience shopping, Hospitals
- Nearby Schools – Kid education
- Community Living
- Convenient Location for office commute
- Good Quality Construction

Investor

- New road being constructed
- Fast developing locality
- Exclusive Amenities
- Exclusive neighbourhood
- Near to upcoming Office Complex
- Pay 10% now and 90% on possession

Ashiana Housing's Customer

Why Ashiana Housing does not pitch to investors?

- Though sales to investors happen faster in a real estate up-cycle, the end-user demand is always more consistent
- Every sale to a happy customer who stays in the Ashiana Property increases word-of-mouth publicity and brand credibility
- Brand Credibility & Reputation continues to positively impact sales & Business Performance 5-10-15 years down the line

Sales Channel – NO Brokers

In-house sales and marketing

- Instead of broker-driven model, Ashiana has in-house sales and marketing team
- Ensures greater ownership of customers and helps in selling projects to them in future
- High proportion of customer referral sales to overall sales due to established brand and high customer satisfaction level

Words of Vishal Gupta, Whole-Time Director & Promoter

- *“Customer touch-point is most crucial”*
- *“Everything else can be outsourced, not sales or customer service”*
- *“Every interaction with the customer is an opportunity to further enhance our brand”*

Customer Generation – Referral Sales

Ashiana Housing Annual Report 2013

**Referral sales are a big part of your sales numbers?
Could you explain why this is so high & what all
company does to ensure these high rates?**

One of the biggest strength that our company has is the large number of referral sales. The entire ethos of this trust has been built on a philosophy of honest and transparent dealings with customers.

Of our total sales, over 50% are through referrals.
This has been a big differentiator for us and helped us maintain our growth momentum even in markets where overall sales are slowing down.

No Sales Incentives? What the Hell?

Ashiana Housing Annual Report 2013

We understand that the sales process of the company is quite different & not incentive driven? Could you explain the process & the thought process that drives this?

We have built our sales force in a way that there is no sales incentive in making more sales. We feel that if we give incentive, then there is a strong motive for a sales guy to do everything to meet his target. If they are missing targets, they could misinform or misrepresent to customers, which will hit the very foundation of the trust that customers have in the Ashiana brand. This policy has held us in good stead

Accounting – Drives Management Behaviour?

- Revenue Recognition Policy – Real Estate Industry
 - Percentage of completion method
- Leading real estate developer – Aggressive Accounting

In accordance with the aforesaid Scheme of Amalgamation, an amount of ₹ 137.05 crore on account of Goodwill on amalgamation has been adjusted from the General Reserve and Surplus in the Statement of Profit & Loss instead of amortising the same in the Statement of Profit & Loss over a period of five years. The cost and expenses incurred in carrying out and implementing the scheme amounting to ₹ 0.38 crore have been directly adjusted from the Surplus in the Statement of Profit & Loss of the Transferee Company. Had this amount been charged to the Statement of Profit & Loss, the profit for the year would have been lower by ₹ 27.79 crore, the Goodwill would have been higher by ₹ 109.64 crore (net written down value) and the balance in the General Reserve would have been higher by ₹ 9.80 crore and balance in Surplus would have been higher by ₹ 99.84 crore.

Accounting – A Strategic Advantage

- Revenue Recognition by Ashiana Housing
 - On Project Completion

Dear Shareholders,

Looking back at the year gone by, we realize it was an interesting and eventful one. We had many firsts to our credit. It was the year with the highest ever execution, area delivered and Profit after Tax (PAT).

We had taken HAPPY **HANDOVER** as central theme for last year. The idea was to make the possession process memorable for the customer. We are pleased to share that we achieved KHUSHIMETER (a Net Promoter Score measurement index) score of 68% against a target of 60%. The initiative increased customer engagement and enriched us with new learning and insights.

Wealth Creation – Ashiana Housing

Ashiana Housing Stock Price



Ashiana has gone up more than 1000 times in the last 17 years

Is it still a BUY?

Ashiana Housing – Key Metrics

| Ashiana Housing | FY07 | FY08 | FY09 | FY10 | FY11 | FY12 | FY13 | FY14 | FY15 | FY16 | FY17 | 9MFY18 |
|----------------------------|------|------|------|------|------|------|------|------|------|------|------|--------|
| Area Constructed (Lac sft) | 6 | 7 | 9 | 10 | 11 | 15 | 12 | 18 | 23 | 23 | 17 | 6 |
| Area Booked (Lac sft) | 4 | 7 | 5 | 7 | 14 | 18 | 19 | 22 | 18 | 9 | 7 | 5 |
| PAT Margins (%) | 28% | 30% | 23% | 34% | 40% | 36% | 23% | 17% | 26% | 26% | 24% | 26% |

- Ashiana Housing makes more profits for every additional sq. ft. of homes constructed
- A black swan event : Demonetisation in Nov-16 has made the sales velocity run over a cliff

What is changing in the Industry?

Real Estate (Regulation & Development) Act approved in 2016

- Real Estate will be **regulated for the first time** in India

Main Provisions of the Act

- **No Sales without getting all required approvals**
- (building plan, environment, land, municipal etc)
- **70% of cash flows from the project to be kept in Escrow a/c** and to be utilized only for that project (construction, FSI, statutory levies etc)
- **No change in Development Plan** without the consent of customers who have bought apartment in the real estate Project

Likely impact on the Industry

- **Consolidation** – financial muscle power will become more important
- **Brand Reputation** – which already impacts sales velocity, even more so now
- **Trade slow down** after the Black Swan - Demonetisation 2016 will wipe out many
- **Joint Development** - Local Developers/land owners will partner with bigger Developers of repute

Growth Capital

I had two questions. First was the strategic rationale of doing the IFC deal. Is it to get a cheaper debt funding, cheaper equity funding to scale up faster? That is something which I will be keen to understand?

So the strategic idea of IFC was to basically we believe now is a good time to purchase land to acquire land and get more projects going. So whether we like to do JDA or to acquire ourselves the IFC platform gives us the flexibility of doing both JDA and outright acquisitions. We were not doing outright acquisitions a lot just because they took a lot of capital. And the IFC transaction is also I would not say exactly it is a straight up debt transaction.

Straight up debt transactions have defined repayment obligations and defined rate of interest. Here the return on capital that is to go to IFC is variable dependent on the project performance with no defined timeline of repayment obligations or defined interest obligations as such.

Source – Company conference Call transcript Q3FY18

Growth Capital

So therefore what happens is the biggest issue in real estate as such in terms of capital is providing capital that does not have asset liability mismatches because the cash flows from our projects are inherently volatile and difficult to estimate as to when they will come in, how they will come in.

So you need capital that is willing to be sort of patient with the project cash flows, willing to be variable with the project cash flows and IFC capital provides all of that for projects. So it sort of strategically fit well together we do not see it as debt capital that Ashiana is typically generally averse to. Because there is no defined repayment obligations and there is no defined return on capital that they will get.

Ashiana Housing is aiming for growth and is partnering with the right people who can provide patient capital

Valuation – Ashiana Housing

| | |
|---|----------------------|
| 5 year average EBIDTA | Rs 95 Crs |
| Enterprise Value* (Market closing price as on 09.03.2018) | Rs 1409 Crs |
| Earnings Multiple (EV / 5-yr avg. EBIDTA) | =1409/95 = 15 |

* Inventory in completed projects valued at 90% of average realization in last 7 quarters

To summarize

A high quality real estate operation with

- Superior Business Model
- Debt / Equity <0.1 (across business cycles)
- Operating in a rapidly urbanizing country with 275 Mn families
- Favourable structural changes in the Industry
- Real Estate industry near its cyclical bottom
- Focused on cash flow rather than accounting profits

Available at a earnings multiple (EV/5-yr avg. EBIDTA) of 15 is a BUY

THANK YOU

Valuation – Enterprise Value

| | |
|----------------------------------|---|
| Market Cap (09.03.2018) | Rs 1614 Crs |
| Debt (31.12.2017) | Rs 120 Crs |
| Cash & Equivalents | Rs 58 Crs |
| Inventory in Completed Projects* | 9.4 LSft = Rs 267 Crs |
| Enterprise Value (EV) | $1614 + 120 - 58 - 260$ = Rs 1409 Crs |

* Inventory in completed projects valued at 90% of average realization in last 7 quarters

Promoter Shareholding

| Sl. No. | Promoter's Name | Shareholding at the end of the year | | | % change in share holding during the year* |
|---------|-------------------|-------------------------------------|----------------------------------|--|--|
| | | No. of Shares | % of total Shares of the Company | % of Shares Pledged/encumbered to total shares | |
| 1 | Vishal Gupta | 14,034,340 | 13.71 | Nil | 0.0034 |
| 2 | Ankur Gupta | 20,244,825 | 19.78 | Nil | 0.0002 |
| 3 | Varun Gupta | 20,244,825 | 19.78 | Nil | 0.0032 |
| 4 | Rachna Gupta | 6,210,485 | 6.07 | Nil | Nil |
| 5 | OPG Realtors Ltd. | 1,738,285 | 1.70 | Nil | Nil |
| | TOTAL | 62,472,760 | 61.04 | Nil | Nil |

* There was inter-se transfer of 3,510 shares to Mr. Vishal Gupta by Mr. Ankur Gupta (195 shares) and Mr. Varun Gupta (3,315 shares) during the financial year 2016-17.

Managerial Remuneration

A. Remuneration to Managing Director, Joint Managing Director and Whole Time Director (₹ in Lakhs)

| Sl. No. | Particulars of Remuneration | Name of MD/WTD/Manager | | | Total Amount |
|---------|---|-------------------------------------|--|--------------------------------------|---------------|
| | | Vishal Gupta (Managing Director) | Ankur Gupta (Jt. Managing Director) | Varun Gupta (Whole Time Director) | |
| 1 | Gross salary | | | | |
| | (a) Salary as per provisions contained in section 17(1) of the Income-tax Act, 1961 | 60.00 | 60.00 | 60.00 | 180.00 |
| | (b) Value of perquisites u/s 17(2) Income-tax Act, 1961 | 13.14 | 23.32 | 21.90 | 58.37 |
| | (c) Profits in lieu of salary under section 17(3) Income tax Act, 1961 | - | - | - | - |
| 2 | Stock Option | - | - | - | - |
| 3 | Sweat Equity | - | - | - | - |
| 4 | Commission - as 1 % of profit - | 91.34 | 91.34 | 91.34 | 274.02 |
| 5 | Others, please specify | - | - | - | - |
| | Total | 164.48 | 174.66 | 173.24 | 512.39 |