Kolte Patil

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Disclosure: Have a position in this company

Kolte Patil - about the company

1. 26 million sqft - Project portfolio which are under execution, approval and land bank
2. 75% promoter ownership
3. Incorporated in 91, leading RE player in Pune - trusted brand.
4. It markets in two brands- 'Kolte Patil' (MI segment) & 24K - Premium Luxury
    a. Plays in the MIG, Luxury and Affordable segments
5. Has entered Mumbai and Bengaluru - top 3 out of 4 RE in India
6. Historically has done annual sales greater than 2 million sqft. in the past 7+ years.
7. Ability to drive sales even during the sustenance phase - made it a consistent performer for 7+ years. Years of new launches they have seen significant growth.

Next level of growth

Launch Calendar – Next Nine Months

Pune Projects	Location	Use	Saleable Area (msf.)
Life Republic R10	Hinjewadi, Pune	Residential / Retail	1.4
Giga	Viman Nagar	Commercial	0.60
Boat Club	Boat Club Road	Commercial	0.40
Down Town	Kharadi	Residential / Retail	0.50
Pimple Nilakh	Pimple Nilakh	Residential	0.60
Wagholi	Wagholi	Residential	0.25

Mumbai Projects	Location	Use	Saleable Area (msf.)
Sagar Vaibhav	Dahisar	Residential	0.17
Hari Ratan	Goregaon	Residential / Retail	0.27
Om Shree Gokul	Borivali	Residential / Retail	0.09

Bengaluru Projects	Location	Use	Saleable Area (msf.)
Raaga 3	Hennur Road	Residential	0.25

- Launches planned across all 3 cities of presence – Pune, Mumbai & Bengaluru
- Saleable area of ~4.5 msf
- Aggregate topline potential of over ~Rs. 4,150 crore

Company is poised to break the 3 million sqft barrier with close 4.5 million sqft ready for launch in the next 9 months.

Planning to announce new deals in the next 12-18 months - waiting for the right opportune moment to announce. Project pipeline might reach 10 million sqft

These 4.5 million sqft can generate in the range of 4150 crores in topline and roughly 800 Crores in net cash flows.

Growth in average realizations.

Sales & Collections – Ongoing Projects – Q2 FY21 21

Projects	Location	Area Sold (msf.)	Sales Value (Rs. mn.)	APR (Rs./sft.)	Collections (Rs. mn.)
Life Republic	Hinjewadi, Pune	0.10	496	4,932	697
Ivy Estate	Wagholi, Pune	0.04	177	5,003	180
Tuscan	Kharadi, Pune	0.01	62	6,433	202
Western Avenue	Wakad, Pune	0.01	58	6,830	108
24K Opula	Aundh, Pune	0.02	164	6,996	164
Three Jewels	Kondhwa, Pune	0.02	103	4,565	93
Stargaze	Bavdhan, Pune	0.02	127	5,942	37
Centria	NIBM,Pune	0.02	119	4,989	68
DMA	Wagholi,Pune	0.04	181	4,132	75
Other Projects		0.03	148	5,688	121
Total (Pune Projects)		**0.32**	**1,636**	**5,189**	**1,745**
Raago	Hennur Road, Bengaluru	0.019	94	4,944	40
Mirabilis	Horamavu, Bengaluru	0.001	6	4,986	60
Exente	Hosur Road, Bengaluru	0.010	54	5,329	78
Total (Bengaluru Projects)		**0.030**	**153**	**5,021**	**178**
Jai Vijay Society	Ville Parle (E), Mumbai	0.007	155	23,511	84
Total Mumbai Projects)		**0.007**	**156**	**23,511**	**84**
Total (Pune + Bengaluru + Mumbai Projects)		**0.35**	**1,944**	**5,517**	**2,007**

Note: APR shown is net of Anti Profiteering Benefit passed on to customers per transitional requirement under GST Act ; volume in million square feet is based on saleable area

KPDL Project Portfolio – 30.09.20 22

Higher contribution from Mumbai (redev), commercial projects and mix of Retail w/Residential and luxury projects will increase avg. realizations for the company

10 total projects in Mumbai -

2 projects have been delivered

3 upcoming launches

5 in the pipeline

Business Model

Asset light model:

Partner with Private equity players like KKR, Portman Holdings, JP morgan. Other notable players being ASK, Motilal Oswal and ICICI ventures. These players possess deep financial pockets and knowledge network. For large scale projects, funding helps de-risk execution and upfront funding for projects.

Typically if they agree on a 1 million sqft construction, they prefer to not invest more than 10-15 crores of their own fund initially (NW @ stake).

Redevelopment model: concentrate on ROC and IRR and not on EBITDA margins.

Ranges targeted for:

- Joint Ventures[@] is typically 12% to 15% of top line
- Redevelopment[#] and profit sharing, we are at 20%-22% sort of EBITDA Margins -concentrate on ROC and IRR and not on EBITDA margins
- Pure-play outside model, then we expect that 28% to 32% sort of EBITDA and a 25% to 30% sort of IRR.

And going ahead, I think a mix of all would be the right balance. We will either go into a complete asset-light neither going to a full outright and neither remain sort of a heavy day, we will try to create our own hybrid structure, wherein we will acquire 60% in the form of asset-light model wherever we see that there is a fantastic sales visibility and historic track record.

@ If its outright model or JV/outright model then we use IRR

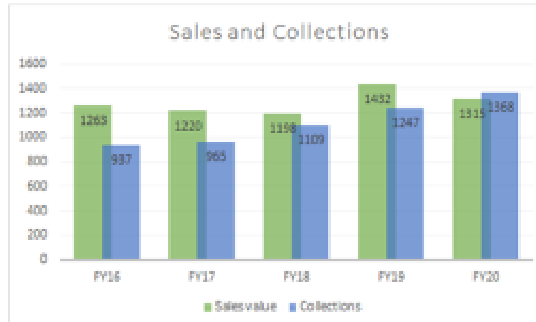
So as far as redevelopment projects we dont use an IRR because maybe some projects wherein we have not invested more than INR 20 crore or INR 25 crore. And if the retails are INR 70 crore, INR 80 crore, the IRR can go to 2-digit, 3-digit also. So I think on a redevelopment front, we consider ROC.

Note: "Revenue sharing model - EBITDA's will be low" per management

Not necessarily a differentiator - but investing in technology - SAP and CRM, virtual tour and dedicated teams for growing digital sales

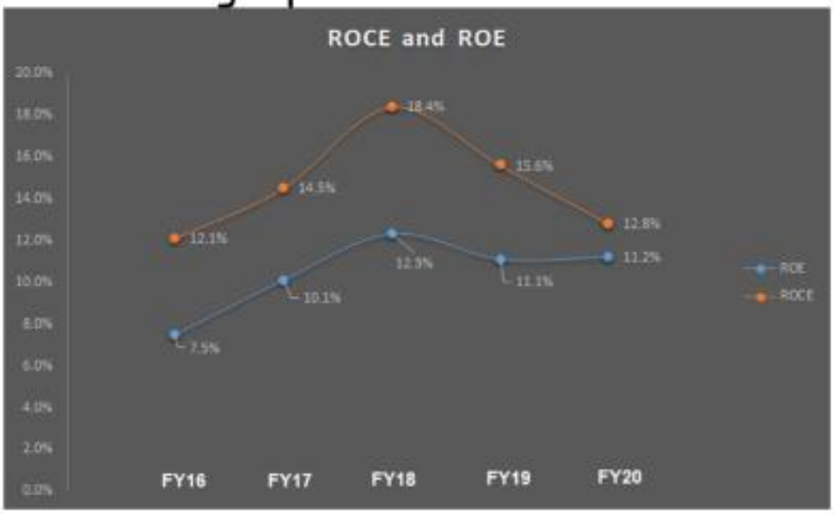
Focus points per mgmt

1. Return on Capital
2. IRR
3. EBITDA margins
4. Controlling balance sheet - not letting Leverage go beyond 0.5
5. Extreme focus on Cash flows
    a. Enable PE exits to increase economic interest in long term projects



Recently they bought out ICICI ventures stake in Life Republic (LR) only through internal accruals at 210 crores. Their ownership increased from 45 to 95% on this LR project.

ROE and ROCE graph



Few quotes from mgmt.

"If you look at our peers, I think most of our peers are in the range of 3% to 7% ROC and ROE, while we are continuously maintaining 15.5% as an ROC and 11%, 12% sort of ROE."

DMA's directly add to other income, nothing to charge against and accrues to PAT. This increases profitability on PnL and thus the ROC can actually jump from 15 to even 25%.

"Deals are coming on a asset-light model, why to encash the platform? By March '22, we expect FCF of INR 550 crore to INR 600 crore sort - if there are business development opportunities under outright model to the tune of INR 100 crore to INR 300 crore or INR 400 crores, I think that can be managed by us with our own capital."

Buy, Construct and Sell at a faster pace with a manufacturing mindset - we would love to work like a manufacturing company, a service provider rather than running behind margins.

On Price slashing by competitors: one has to also focus on cash flows and margins. So each of the payment needs to be assessed in a manner that either you should win in cash flow or margin. So simple idea to manage the business is that you have to assess your all payments, all decisions in a manner, either you are winning on the cash flows or you are winning on the margins. let assume for the next 1 year, even if we are going from 26% EBITDA to 22% EBITDA, but we are able to bring back the liquidity cash flows and overall volume to the system, I think it's a fantastic parameter.

Covid Advantages

Revenue-sharing perspective:

- People were asking 40%, 60% on the revenue sharing percentage that those kind of transactions are available at 34%, 35% because the land owners were unable to manage the working capital cycle. So there, we can see some sort of 12% sort of price negotiation in our hand from the peak 40-60 transaction.

Profit sharing transactions:

- 40% goes to the developer and 60% to the landowners. With a miniscule investment, those transactions are in the range of 50-50, they are easily accommodating.

Outright Transactions:

- Land prices pre-COVID versus today, I think, 10% to 15% discount, everybody is ready to consider, if we are seeing a down payment.

Underlying theme

We see the structural demand theme of the sector developing on the back of several drivers. A combination of:

1. Lowest inflation-adjusted home prices in many years,
2. Sharp decline in interest rates and
3. Stamp duty cuts

have considerably improved affordability and overall consumer sentiment

Covid impact - Govt. Initiatives
GST reduction: The government announced a reduction of GST on the housing properties - ~1% in the affordable housing segment and ~5%for other categories.
Additional deduction on interest: The government announced an additional deduction of upto C1.5 Lakh on the interest paid on loans that were borrowed until 31 March, 2021.
Alternative investment fund: The government set up an alternative investment fund of C25,000 Crore for projects that had been stalled.
Concession to real estate transactions: While taxing income from capital gains, business profits and other sources in respect of transactions in real estate, if the consideration value is less than circle rate by more than 5%, the difference is counted as income both in the hands of the purchaser and seller. The Government increased the limit of 5% to 10%.

Catalyst for rerating - Data points for post Covid recovery

- In the month of October - saw registrations equal to pre-Covid levels. (Nov 6th,2020)
- Mgmt guidance is H2 will much stronger than H1.
- Collections in Q2 FY'21 is nearly double the Q1 level and better than what we had envisaged earlier.
    - In the month of October has seen us reach pre COVID levels of business and execution with collections crossing INR 110 crores. We are expecting to sustain this momentum and report strong collections for the remainder of the year.
- Approximately 3 million to 4 million square feet of business development announcement will happen before March '21
- Next 3-5 years target is to do 4-5 million sqft every year, breakdown:
    - Pune - 3.5 million sqft (70%)
    - Mumbai - 0.5-0.7 million sqft (10%)
    - Bengaluru - 1 million sqft (20%)

Risks

1. Labor and construction activities starting to come back to pre-covid levels - any adverse changes due to new strain of COVID - further lockdowns - might impact timelines for thesis to playout.
2. Mgmt has been hinting at demands and collections levels reaching Pre-Covid times - if this does not play out, might delay sales and corresponding growth in collections
3. Majority of sales comes from Pune - impact to "brand" or geographical risk - might adversely impact investment thesis
4. Deals not materializing or deals falling through - Next level growth might be pushed out further, causing delays.
5. Interest Rates have trended lower - any meaningful increase in rates might impact demand.
6. Economic slowdown may affect demand