

Kotak Realty Fund



Infinite India 2008 Conference Summary



Infinite India 2008 Conference Summary

February 7-8, 2008, The Renaissance, Powai

A Kotak Investment Advisors Ltd. Initiative

Day One, Keynote Sessions

Mr. Prakash Dalal, Head of Kotak Investment Advisors Ltd., delivered the welcome address and introduced the keynote speakers of the morning session Mr. Adil Zainulbhai, Leader of India Practice, McKinsey & Company Inc., Dr. Surjit Bhalla, Director Research, Oxus Investments and Mr. Uday Kotak, Vice Chairman and Managing Director, Kotak Mahindra Bank Ltd.

The first session of the day was dedicated to the Indian economy and entrepreneurship opportunities in the country.

Executive Summary

- India's growth story is a long-term trend. It is also the story about the rise of the Great Indian middle class, which is heavily pro-reform and favours a system of meritocracy.
- The five key drivers of the Indian economy are:
 - Rising consumption
 - Demographic Dividend
 - Large infrastructure investments
 - Strong political intent
 - Large foreign capital inflows
- There may be hiccups on the growth path because of internal and external factors, but it won't bounce the country out of its growth trajectory.
- The real benefit of reforms was felt when interest rates were reduced to 4-5 percent in 2003-04. As a result, growth rate was 8.5 percent. Had there been no interest rate hike after reforms, growth would have been faster and felt earlier.
- By 2020-2025 India and China will account for 40 percent of world's GDP.
- By 2010 China's growth rate will come down to 7-8 percent, India will continue to grow at 8-10 percent.
- Industries will log strong growth rates, regardless of government policies. Investment and savings rates have gone up because of rising affluence across all socio economic groups.
- Indian markets are recently beginning to witness a structural shift from momentum (event-based and sporadic ups and downs) to value.
- Decoupling of emerging markets has led to sustained growth rates despite a fall-out in developed economies,

although growth has slowed down marginally.

- Middle East, Russia, China will witness significant wealth creation. This money may eventually flow into long-term growth markets such as India.
- The speed of momentum money moving out is greater than the speed at which fundamental money is coming in. Hence, markets are witnessing a correction.
- Interest rates are bound to lower as Indian rates at present are higher by about 500-550 basis points compared to other free-market rates.

Crystal Gazing India Opportunities: 2008-2012

Mr. Adil Zainulbhai, Leader of India Practice, McKinsey & Company Inc.



Mr. Adil Zainulbhai

As Leader, India Practice at McKinsey & Company, Mr. Zainulbhai was an appropriate authority to dissect India's multi-faceted growth story, its various sectors and

the risks involved. True to the title of the session, Mr. Zainulbhai gave a macro-economic perspective of the Indian economy for the next five years, and beyond. Through a power-packed presentation, replete with facts and projections, he stressed that India's growth story will continue, and it is a long-term trend.

Mr. Zainulbhai spelt out five key drivers of the Indian economy that will help the country catch up with the developed nations.

- 1 **Rising consumption:** India is a consumption-led economy. It has one of the largest young working populations in the world. Riding on a booming economy, this population is more affluent, and has more means to achieve their ends than any of the previous generations. It is no wonder that the GDPs of India and China form a major portion of the global GDP growth.

However, unlike China, India is not dependent on its exports. India's growth is the result of its younger population, which is earning, spending and saving more. And this trend will continue for the next 20-25 years, which will drive the economy. This consumption is coming from all categories, not just middle class.

2. **Demographic Dividend:** India has the youngest workforce among major nations and that is likely to be the trend for the next 25 years. However, it is a double-edged sword. This vibrant workforce will have to be employed in a productive way or else it will lead to social unrest.

The proportion of working age population of G8 countries has been going down since 2000, especially in Russia and Japan. BRIC nations, typically, have a young working population. China's young work force will peak around 2020 and India's will in 2040. All high growth economies achieved maximum progress when their working population was growing. If India can find jobs for its young people and productively employ them, this will be an important economic driver for the next 40 years.

3. **Large infrastructure investments:** Finally, India's policymakers have realised the importance of investing in infrastructure. While India spends 4 percent of its GDP, China has spent 8-10 percent of its GDP on infrastructure development consistently for 15 years. It will take the nation some time to close the gap, but investment in infrastructure is gathering steam. According to Mr. Zainulbhai's estimates, the country will spend US\$ 500-600 to US\$ 1000 billion on ramping up its infrastructure. If the country can sustain and finance this corpus entirely, it will give the economy a large boost.
4. **Strong political intent:** Irrespective of which Government has come to power in the last few years, it has concentrated on reforms, and becoming part of the global environment. This will continue in the future.
5. **Large foreign capital inflows:** The world has woken up to the power of India. Lately, the country has seen large investment and capital inflows. Roughly a third of Fortune 500 CEOs are coming to India every year to explore business opportunities.

Mr. Zainulbhai, later, gave a presentation on the sectors he thought would do well in the next few years. But a few industries will fare exceedingly well. Following are some of them:

Financial Services:

Financial services will be twice as important to the economy as a proportion of the GDP in the future. He estimated that financial services will outgrow the GNP by a factor 1.5 to 2, unless there are any major scams.

Healthcare:

Currently, India spends roughly 1 percent on healthcare, while

developed economies spend no less than 4-5 percent of their GDP. Undoubtedly, it is a lot less than what it is required for its size and demography. However, this is likely to change in the next 20 years. The country will spend more on healthcare as it gets richer. People will spend and have more access to better healthcare, which will help this sector to emerge as a big industry.

Infrastructure:

Infrastructure is another area where Mr. Zainulbhai felt the country has underinvested. He estimated that underinvestment in Mumbai's infrastructure ran to a factor of 7-8. However, India has underinvested the largest in its urban and rural infrastructure. But the silver lining is that policymakers have finally realised that investing in infrastructure ahead of demand drives an economy. Prudent investments and executing projects on time will hold the key. He also showed concern for the demand-supply mismatch of casual labour in a country of a billion people.

Manufacturing:

Although India's exports are a fraction of China's, Mr. Zainulbhai opined that India will score over the Dragon country in businesses which require higher skill sets as India has a large pool of qualified engineers.

Retail:

The share of organised retail in India is 4-5 percent, and this is likely to go up in future years. Mom and pop stores will gradually disappear, as organised retail is more profitable and efficient. Mr. Zainulbhai predicted the share of organised retail to stand at 10 percent in the next 5-6 years and 15-20 percent in the next 15-20 years. Political intervention and haphazard investments in retail are the only possible impediments to the retail growth story.

Towards the end of his keynote address, Mr. Zainulbhai added that flaring oil prices, financial scams and global slowdown will affect India, although to a lesser extent. Internal factors like undesirable political intervention and big financial scandals might prove detrimental. He also stressed upon the importance of preventing wars to let the growth momentum continue.

Finally, Mr. Zainulbhai gave a caveat that India should guard against letting its confidence turn into cockiness and complacency. He predicted that if India sustains this growth rate for the next 25 years, its citizens will enjoy a higher standard of living comparable to advanced European countries.

India's Rising Influence in World Economy

Dr. Surjit Bhalla, Oxus Investments

Dr. Bhalla comes with a wealth of experience working with renowned global corporations and institutions in diverse roles.



Dr. Surjit Bhalla

An Electrical Engineer from Purdue University, he also did his PhD in Economics at Princeton in 1977. Dr. Bhalla has worked as a proprietary trader, strategist and portfolio

manager with Goldman Sachs, World Bank, Deutsche Bank, and has also taught at the Delhi School of Economics. Presently, he works with Oxus Investments where he directs research and manages Indian equities worth US\$ 25 million.

Dr. Bhalla began his talk on an interesting note when he said that India's growth story can be summed up in the fact that planes cannot land and hotels are not accepting cash dollars any more. He was referring to the burgeoning pressure on infrastructure and the confidence of the Indian economy to hold its own today.

Even though India's rising influence has been taken note of only a few years before, Dr. Bhalla said that it is a story that dates back to the 1980s. For close to three decades, India has been one of the fastest growing economies in the world. The GDP growth from 1980 to 2003 has averaged 5.8 percent while from 2003 to 2008 the figure stands at 8.5 percent. Dr. Bhalla explained that the reforms showed their positive effect within 2-3 years when the growth rate rose to 7.0-7.5 percent. However, India's policymakers mistook it to be a case of the economy overheating. To keep inflation in check, interest rates were hiked to an extent that there was a huge monetary contraction, and the benefits of reforms dissipated. In 1999 real interest rates were 10-11 percent; borrowing rates stood at 14-15 percent and inflation was trotting at 3-4 percent.

In 1999, the interest rate regime began to change. Pressure of globalisation forced policymakers to slash interest rates to an extent that in 2003-04, real interest rates were at competitive levels at 4-5 percent. The result - growth rate was up at 8.5 percent. Despite, there was general skepticism that this might be an aberration. But subsequent years belied this, and proved that it was a long term trend.

At this point, it was pertinent to understand the reasons why international interest started in India only in 2000-01 when we were growing at 5.5 percent for 20 years. Dr. Bhalla attributed

this to the emergence of the Great Indian Middle Class. Explaining the difference between levels of poverty lines in India and the West, he said that India's poverty threshold is US\$ 1 a day whereas in the West it is US\$ 8.

In 1988, the percentage of poor citizens in China and India was as large as 60 percent. As both economies grew, poverty reduced and per capita income rose gradually. Expenditure on food and clothing grew. By the year 2000, 18-19 percent Indians started purchasing international brands and products as opposed to just 2 percent in 1980.

Dr. Bhalla provided an answer to the oft-discussed, but elusive, question Why cannot our Government ramp up infrastructure ahead of demand? The reason is the non-linear growth trend of the middle class. As the economy grows, the share of middle class grows gradually, and then suddenly explodes which catches policymakers unawares. This phenomenon is not restricted to India. It is the middle class which requires infrastructure the most. A few years back, the Indian middle class was a marginal force. But now it stands at more than 30 percent in line with international standards, and that is the reason why our cities are witnessing frenetic investment in infrastructure.

Dr. Bhalla finds the Indian middle class heavily pro-reform and in favour of a system which functions through meritocracy. The reason is that the new generation of Indians has not inherited the mindset of feudal and industrial class. He concluded that the middle class is a cause for growth and not just an outcome.

Dr. Bhalla, then, moved on to forecasting the prospects of India vis-à-vis the world economy. Drawing interesting parallels between Indian and Chinese economies, he said that the relationship between the two Asian giants is a hyphenated one. Like us, even China has a large population. The per capita income of India and China was very similar between 1500 and 1980. The two countries enjoyed a 40 percent share of global GDP. However, due to "revolutionary socialist policies" of both countries, that percentage nosedived to 8 percent in 1980. Striking an optimistic note, the ace economist said that by 2020-2025, if not sooner, both countries will regain that share in world GDP in proportion to the world's population, which would be roughly 40 percent. The power of globalisation is underscored by this phenomenon that the two countries will make up in 45 years what they lost in 450 years.

Talking about decoupling in the real economy, Dr. Bhalla explained that from 1960 to 1980, the share of US in world growth in US\$ terms was 25-30 percent, and that of India and China was 5-6 percent. In 2006-07, share of the US stood at 20 percent, whereas that of China and India was 18 percent.

Terming this transformation as the 'Big Change', he said that China and India are very important for the world's growth. China with 13 percent and India with 5 percent growth rates are showing signs of decoupling from the US economy.

Projecting India's growth for the next few years, Dr. Bhalla predicted that the growth rate of India will exceed that of China in 2010. Industrial production will be the next big story of the Indian economy. Comparing industrial growth rates of 150 countries, Dr. Bhalla had an interesting revelation that the average 10 year growth rate for last 70 years was 6.96 percent per annum in India. Whereas even smaller countries have recorded industrial growth in excess of 7 percent at least once in their 10-year cycle. However, this will change. Industries will log strong growth rates regardless of policies because of pressures brought about by globalisation.

Dr. Bhalla observed that between 1980 and 2004, the investment rate in India varied from 22-25 percent, and savings rate was around 23 percent. Today, the investment rate is 38 percent and savings rate is 36 percent. The investment and savings rates have gone up because of rising affluence across all socio economic groups.

Echoing the views of Mr. Zainulbhai about the importance of India's demographic dividend, Dr. Bhalla talked about another interesting aspect- the increased labour force of Indian women. In 1999-2000, female labour force was only 15 percent; today it is 21 percent. The advancement of women will change the face of the economy and society for the better.

On a closing note, Dr. Bhalla reiterated that India's growth will continue to gallop at more than 8 percent and overtake China by 2010. He did not see any downside to this growth story in the coming 5-10 years. Labeling this phase as 'the sweet spot of growth', Dr. Bhalla said that the country is destined to grow, and no policymaker can halt it.

The Mind of the Markets

Mr. Uday Kotak, Managing Director and Vice Chairman, Kotak Mahindra Bank



Mr. Uday Kotak

Mr. Uday Kotak addressed the gathering with his insights on what he referred to as 'The Mind of the Markets'.

According to him, since the last month, Indian markets have witnessed a structural shift in mindsets. Until a few months back, investors applied for IPOs

without understanding their fundamental value. But gradually, market players have moved back to 'Fundamental Motherhood', which means understanding the fundamental value of stocks. Investors now closely look at fundamental factors such as company performance, sector, management credentials, etc. Though periods of excessive exuberance or desperation will still be witnessed, the overall trend is that of moving away from momentum to value.

Mr. Kotak also talked about decoupling in Indian markets. When a \$14 trillion US economy slows down, it will definitely impact real sectors of other smaller economies such as China (\$3 trillion) or India (\$1 trillion), as they cannot make up for the losses. However, India's real economy will grow at significant levels compared to other world economies. Though rates of growth are debatable, it will grow in excess of 7 percent.

Economic fallout has two effects on markets, according to Mr. Kotak. Firstly, as momentum money from around the world starts shrinking, markets like India will also see a coupling. Secondly, in certain pockets such as Middle East, Russia and China, significant value and wealth creation has occurred, which has led to large pools of money being developed in these markets. Whether this money, on a fundamental basis, will flow into long-term growth markets such as India to nullify slowdown of momentum money will be a key market determinant in the short to medium term.

At the moment, the markets are witnessing a correction because momentum money is moving out faster than the speed at which fundamental money is coming in, Mr. Kotak felt. Fundamental money is choosy, but it will come slow and sure with a longer-term perspective. With the real growth story intact, the mind and heart of the market place will bring market levels to its fair fundamentals.

Mr. Kotak's research estimates suggest March 2009 earnings per share of the Sensex to be at around Rs. 1000, which would create fundamental value. Depending upon one's comfort zone, a PE of 16-17 is where fundamental value begins to look serious. Currently, markets are trading at levels of around 18. If at all coupling with global markets happens, it will happen in a different way, he felt. At some point of time, the growth of countries, such as India, will begin to support some of the developed countries' companies for the level of exposure they have. This will also help these companies to stabilise earnings in their home markets. In effect, we might see instances of reverse-coupling rather than coupling from overseas to India.

Interest rates is another area where India has a huge cushion. Indian interest rates are higher by about 500-550 basis points compared with other free market rates. With that level of

cushioning, India has tremendous ability to bring down the interest rate. As policymakers curb their paranoia about the economy overheating, India will see lower interest rates in the coming 12-24 months. Policymakers will be compelled to reduce the huge gap between Indian and overseas interest rates which are currently rendering our country uncompetitive for business and industry.

Mr. Kotak felt that the Indian financial sector is in a much better shape than many others in the world. Markets have a great way to ensure issuers begin to get more real in terms of valuation rather than asking for phenomenal prices. India is in a cycle of significant investment demand, which many companies have embarked upon. These companies will approach the markets to raise capital. The next 12-24 months will bring opportunities for value-picking as Indian issuers begin to raise more capital in a market where fundamental investment demand is driving growth, although consumption demand will remain sluggish.

Mr. Kotak observes a dichotomous India – one, which is chest-thumping and the other a worried one, which is not able to believe in its high growth rates. There are still concerns whether the economy is overheating and that India needs to slow down. It is this conflicting mindset every Indian is dealing with as he grapples with challenges while reaping the benefits of a growing economy.

Q&A Session

Q) Recent changes in FDI regulations – banning of ECB in real estate was made without consulting the market. Should such moves make the international investor wary?

Dr. Bhalla: Wrong policies have aggravated problems of capital inflows and in order to rectify or contain these problems, we have to resort to sector controls. It's a conflict which policymakers and industrialists are trying to resolve. Over the next few years we would most likely have uniform policies towards FDI/FII inflows with relatively less regulation. At the same time we will have policies to keep the rupee from becoming substantially overvalued.

Mr. Kotak: We have the commercial borrowings door open from where world money will land up here. Also, as fears of economy overheating are high among policymakers, interest rates differentials are higher by around 500550 basis points, especially in the real estate markets. Now, once domestic interest rates are kept high, we have no choice but to control FDI/FII flows.

Q) The recent strengthening of the rupee, fundamental & structural problems of the US, slowdown of growth, deficits,

etc. loom over the world market. On the other hand in India you have high growth rates. How would that affect the real economy and corporate earnings in India?

Mr. Zainulbhai: Modest changes in rupee-dollar exchange rates over time would not affect growth. However, there is a lot of pressure on IT, textile, garments, leather industry, exporters of auto components and others, who were very competitive until the rupee rose sharply. However, the affected sections of the economy have started to adjust themselves to the change. Some sections of the economy got affected mostly as a result of the speed at which the dollar declined, and not because it merely declined.

There were some positives emanating from the dollar decline. Imports are cheaper for an economy which is consuming big. So, the effect has not been very dramatic as it might seem as India is not fundamentally an export-driven economy.

Q) Do you agree that the response to so many recent IPOs, including that of Reliance Power, was based more on momentum rather than valuation?

Mr. Kotak: The challenge for the system comes when investors, and not bankers, become momentum-driven. Issuers might ask that if investors are willing to pay, bankers should not be complaining. Throughout 2006-07, investors made lot of money in markets. Greed got the better of fear while investors lowered their guard dramatically. If investors raise their guard, bankers will find it easy to convince the issuers to be more moderate in their expectations.

Q) In the past 30 years we have read how brokers can play with the market and lose billions of dollars (this happened recently in France). Is there anything happening now in India that would prevent something like that from happening? If not, what would you suggest to the SEBI so that something like that, in an expanding Indian capital markets, does not happen?

Mr. Kotak: In the chase for earnings, the element of greed gets the better of fear and that leads to excessive innovation. Excessive innovation begins to take control without any significant back-testing. The ability of institutions to think long-term at the heart of what they stand for is going to be critical. Also, good old things such as integrated uniform culture, not encouraging things like silos, etc. are some important messages.

The other big issue is the compensation structures evolved particularly in western markets. A lot of earnings are based on risk for which individuals are paid disproportionate compensation. The good news is, on a relative basis, India still has a lot of regulation. For instance, as a commercial banker, my

compensation has to be approved by the regulator, who is very conservative. The board of directors and shareholders alone cannot decide that.

Mr. Zainulbhai: There was a feeling that if broad policies are put in place, one can leave the risk management almost entirely to banks as the role of the regulator was not to actively police the risk but to frame policies. In India, however, fortunately or unfortunately, the regulator believed that if you give someone a chance to commit a sin, they will commit a sin. That is why Indian markets have never reached a drastic position touched by certain other world markets. Having said that, India still witnessed financial scandals and that added another chapter to the learning of our regulator.

Dr. Bhalla: Conservatism has not helped at all times. Momentum will finally come into the markets. Also, in recent times a lot of money has been chasing the rupee. This is because it offers momentum as opposed to neighbouring China, whose regulator does not provide any momentum. However, it is for the investor community to realise that when they buy into the rupee to make infinite gains, thereby pushing it to all-time highs, they are actually killing the goose that lays eggs. This is exactly what happened to the IPOs and the stock markets. While the rupee is appreciating, growth is slowing down.

Q) Insurance, financial services, asset management, etc. can boom, but at the same time a counter-veiling force from Delhi can mar such growth. How quickly the financial services industry and its ancillary areas will truly be liberalised?

Mr. Zainulbhai: The process of liberalisation of this industry has been proceeding at a pace that certain sections of the government feel is perfectly fine. Firstly, to talk about the government is to talk about various sections of the government within the framework of this industry such as the Chairman of RBI, SEBI, etc. and their different views. As the power-play between various sections in this government plays out, one will be liberalised at that level.

Secondly, on many aspects it is easier to do business in financial services in India than in other countries. For instance, if you consider France, which is a fairly liberalised economy in terms of financial services, whose finance minister announced as soon as the industry got into trouble that bids were welcome only from French people.

It took ICICI Bank almost seven years to obtain a branch licence in the US. Similarly, State Bank of India has finally got one after a decade of lobbying. On the contrary, Citibank has around 40 branches while HSBC has around 50 branches in India. Therefore, there is a certain level of protection that will continue

to exist even in open markets like US. We will systematically see parts of this industry being liberalised, although not to the point where each of the MNC bank would assume it as completely liberal.

Dr. Bhalla: I completely agree with the US policy issue on liberalisation. When the US reduces tariff, it is not necessary that we should also reduce our tariffs. Similarly, when we talk of liberalisation, we should rather think of our own benefits than comparing with other liberalised markets such as the US or France.

Speaker Profiles

Adil Zainulbhai - McKinsey & Company Inc.

Mr. Adil Zainulbhai is currently the leader of the India Practice of McKinsey & Company, Inc. He moved back to India in 2004



after 24 years with McKinsey in the United States where he started the Minneapolis Office and led the Washington D.C. Office of McKinsey & Company. Since joining McKinsey in 1979, he has worked for a wide range of companies and industries. While in the U.S. he

worked with companies in telecom and consumer electronics, banking and manufacturing sectors. Much of his work in India has been in three areas:

- Helping Indian companies grow dramatically in India and become successful globally.
- Helping Public Sector Units (PSUs) in India become more efficient and effective.
- Helping MNCs enter India and build profitable and large businesses.

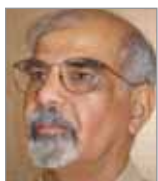
In addition, he has advised various Government Agencies on economic development issues like achieving GDP growth targets, improving rural GDP growth, and specific issues related to the metals & mining, transportation and logistics industries. He has spoken extensively at different Indian and multinational forums like the World Economic Forum summits in Belgium, USA, Scandinavia, Japan etc. He has spoken on the McKinsey study of the Indian consumers' evolution to 2025 and the impact on companies trying to serve those consumers.

Mr. Zainulbhai grew up in Bombay and graduated from I.I.T. with a bachelor of technology degree, with distinction, in Mechanical Engineering. He also has an M.B.A. from Harvard Business School. He is a Board member of the Indian CEO High Tech Council, The Indus Entrepreneurs, the American India

Foundation, Saifee Hospital, the Advisory Board of the Indian Institute of Technology, Bombay and Health Management & Research Institute.

Dr. Surjit Bhalla - Oxus Investments

DR. Surjit S. Bhalla obtained his B.S. degree in Electrical Engineering from Purdue University in 1969, his M.P.A. in



1972 from the Woodrow Wilson School, Princeton University, and a Ph.D. in Economics from Princeton, 1977. He has worked at the Rand Corporation, Brookings Institution and the World Bank as an economist; has taught at the Delhi School of

Economics; and has worked as a proprietary trader/strategist/portfolio manager at the World Bank, Goldman Sachs, Deutsche Bank and Oxus Investments. Presently, at the New Delhi based hedge fund firm, Oxus Investments, he directs research and manages more than \$ 25 million in the Indian equity market.

While at Oxus, Dr. Bhalla has also served on several committees of the government of India, most recently the committee on capital account convertibility (July 2006). He has also worked extensively with the securities regulator, SEBI (e.g. advisory committee on secondary markets, committee on introduction of derivatives, and committee on portfolio management services). He is on the governing board of India's largest think tank (NCAER), on the governing board of Gargi College, Delhi University, and is an appointed member of the National Statistical Commission of India. He is also a regular contributor, since 2002, to the Aspen Institute program on the World Economy.

He is author of several academic articles as well as three books on globalization and its effects on the world economy: *Imagine There's No Country: Poverty, Inequality, and Growth in the Era of Globalization* (2002), *Stealing Growth: The Road to Mercantilism* (2007), and *Second Among Equals: The Middle Class Kingdoms of India and China* (2007). His first book, *Between the Wickets: The Who and Why of the Best in Cricket*, developed a model for evaluating performance in sports and was published in 1987.

He is also a regular contributor (over 400 articles) to Indian newspapers/magazines/TV on financial markets, economics, politics and cricket.

Uday Kotak - Kotak Mahindra Bank Ltd.

As early as 1985, when he was in his early twenties, Uday Kotak first thought of becoming a banker. Private Indian banks were not even a speck on the horizon at the time. So Uday set up Kotak Capital Management Finance Ltd. (which later became Kotak Mahindra Finance Ltd).



On 22nd March 2003, Kotak Mahindra Finance Ltd became the first company in India's corporate history to be converted into a bank.

In the intervening decades, Kotak Mahindra went about establishing a prominent presence in every area of financial services from stock broking and investment banking to car finance, life insurance and mutual funds. Uday believes it is fortuitous that the bank license came at a time when the group's presence and expertise in financial services can be leveraged to offer total financial solutions than merely be a repository of the customer's savings.

In a landscape of changing interest rates and a dynamic economic environment, customers are seeking their banks to play an active advisory role rather than a passive, traditional one. In that sense, Kotak Mahindra Bank, with its wealth advisory platform is well poised on its journey to growth.

Uday has to his credit many international achievements. He was awarded the CNBC TV18 'Innovator of the Year award' in 2006. He was awarded the Ernst & Young 'Entrepreneur of the Year Award' in 2003. He was featured as one of the "Global leaders for tomorrow" at the World Economic Forum's annual meet at Davos in 1996. He was also featured among the top financial leaders for the 21st Century by Euromoney magazine.

Academically, he has the distinction of two major 'Firsts'. He first topped Bombay University in his B.Com examinations and then went on to top the Jamnalal Bajaj Institute of Management Studies, Bombay, when he completed his post graduation in Business Administration, in 1982.

Uday is on the Board of Indian Council for Research on International Economic Relations (ICRIER), Mahindra United World College of India and the Indian School of Business.



Advantage India

Session Chair

C. Jayaram, Kotak Mahindra Bank

Panelists

Mr. Jignesh Shah, Chairman, Financial Technologies Group

Mr. Sudhir Reddy, Chairman, IVRCL Group

Mr. Rajesh Khanna, Leader of Warburg Pincus, India Practice

Executive Summary

- The focus of post-1991 entrepreneurs revolves on the knowledge/IPR aspects of the business.
- Most Indian entrepreneurs today, unlike in the past, have global aspirations
- Knowledge of mathematics and algorithms among Indian engineers, along with more exposure, has shaped the stories of the new generation entrepreneurs
- The Indian government should invest in education and reduce the amount of bureaucracy to help entrepreneurship grow.
- There might be a growth of 40-45 percent from infrastructure deal sizes amounting to Rs. 25,000-28,000 crore.
- Decrease in migrant labour forces, and attraction of alternate employment options, have led to concerns of timely execution of contracts.
- Aging infrastructure needs to be urgently replaced
- India is becoming a compelling investment destination.
- The concern among entrepreneurs today is less about ownership and more about the value that can be created
- Regulatory challenges continue to remain in PIPE investments, which include:
 - Restrictive pricing guidelines
 - Low shareholding threshold
 - Insider trading implications
 - Restrictions on maximum tenure of warrants and other convertible instruments

Changing Face of Entrepreneurship in India

Mr. Jignesh Shah, Chairman, Financial Technologies Group

Mr. Shah commenced the session by comparing pre and post



Mr. Jignesh Shah

liberalisation entrepreneurs. He said that first generation entrepreneurs were into the trading business. The money came from industrialisation within

India, where the needs of the system were promoted rather than creating the needs per se, due to the prevalent closed economy at that time.

Unlike entrepreneurs of the 1950-60s, the new generation entrepreneurship has not inherited businesses, but has begun afresh transcending from being professionals. The focus for post-1991 entrepreneurs has been more on the knowledge/IPR aspects of the business. A majority of the new generation entrepreneurship stories have emerged from IT, financial services and other knowledge-oriented sectors. There has also been an ownership of brands and business enterprises, either globally or locally, rather than a cost/labour arbitrage model of the past.

Most Indian entrepreneurs today, unlike in the past, have more global aspirations. There is also no apprehension in benchmarking Indian capabilities on a global competitive scale. The unlocking of value, understanding of global businesses and valuation can lead to the development of the new generation entrepreneurs, who are mainly either technocrats or management specialists.

When it comes to acquiring assets, Mr. Shah said that first generation entrepreneurs cannot afford to do so in the developed world. What new generation entrepreneurs should do is use the knowledge to create value and cash flows, and then proceed to build grassroots ventures. This is because assets in developed markets will always be very costly, given the high currency difference.

Every new venture can greatly benefit from the support provided by the governing authority. Sixty years of national investment in education should be converted into assets. The knowledge of mathematics, algorithms among Indian engineers, along with the global media coverage and exposure, has played a key role in shaping the success stories of new generation entrepreneurs. Mr. Shah felt the Indian bureaucracy should also contribute towards opening up the floodgates of entrepreneurship.

Mr. Shah pointed out that entrepreneurship is inherent in Indian genes. If we stop doing business through networking and political connections, India will be able to flourish in leaps and bounds. We, as a country, should also allow innovative ideas and companies, such as Google, to develop.

He ended by stating that the basic definition of an entrepreneur remains the same. While it cannot be quantified on an Excel sheet, it is largely about having a strong gut feeling. Entrepreneurs will continue to chase their dreams with the criteria for measurement not being success but rather the

passion that would be followed by success.

Infrastructure: The Bridge to the India of Tomorrow

Mr. Sudhir Reddy, Chairman, IVRCL Group

After giving a short brief about his company's achievements,



Mr. Sudhir Reddy,

Mr. Reddy said that even while having global aspirations, IVRCL wants foreign companies to come into India. Currently, as observed by IVRCL, companies setting foot

on Indian shores want to partner with domestic companies to bid for infrastructure projects. Till now, foreign companies, rather than Indian, are the ones which have won important bids such as the national highway project.

While comparing water and road projects, Mr. Reddy stated that, there is a strong emotional connection when it comes to water projects due to the impact they have on rural geographies. There is no land possession; instead pipelines are laid about two to three metres underground, which is then subsequently covered. However, when it comes to road projects, matters become more complex as there is a process of takeover of land and property involved. If highways are expanded, houses along both sides of the road disappear, which subsequently means losing vote bank. This makes politicians apprehensive of supporting such projects. ROWs, or right-of-ways, are therefore more difficult to procure for the National Highway Authority.

Mr. Reddy added that IVRCL foresees a growth of 40-45 percent from infrastructure deal sizes amounting to Rs. 25,000-28,000 crore. On a cautionary note, he said that even with this magnitude of growth, the execution of contracts is worrisome, though there is no shortage of engineering talent.

The first part of the problem is that traditionally India has had a region-based labour force. With the high amount of development happening in states like Bihar, Bengal and Kerala, the nomadic nature of the labour force is being curtailed. The second part is the alternative forms of employment now being made available. Jobs of drivers, peons and office boys, which offer better salaries, are also swaying away the migrant labour force.

These issues are forcing companies, such as IVRCL, to mechanise processes. This, however, also brings its own set of problems. The high-end equipment, which could well replace 20-25 labourers daily, needs an engineer to operate it.

Unfortunately, most Indian engineers are not willing to become operators. Paradoxically, if offered the same chance outside India, they would take it up almost immediately. This stops the efficiency factor of the equipment from going beyond 60-65 percent, thus negatively affecting infrastructure expansion.

For each state, water is becoming increasingly important for consumption and irrigation. To take advantage of the country's vast river systems, connecting regional rivers within the states would prove to be beneficial, rather than trying the same on a national level. Andhra Pradesh is the front runner in this aspect with Rs. 40,000 crore being spent on irrigation or multi-purpose water projects. This has effectively reduced migration to cities and urban areas.

Mr. Reddy also raised issues about aging infrastructure, which includes about 50,000 bridges, especially in South Central Railways, which are more than 50-60 years old. They were built to sustain train speeds of 20-40 kph. Today, these bridges are not in a condition to sustain the weight of high speed trains.

According to Mr. Reddy, the aging infrastructure needs to be urgently replaced. He also cited the example of the country's railway stations, where little has been done to develop and improve them. While operations can be made more efficient, there is also potential to have water provision within these stations. A well-executed water project can help save almost 10,000 litres per month, which can then be recycled and used for washing bogeys. In addition, if more focus is placed on conservation, opportunities within the Indian infrastructure would go beyond the value of US\$ 800 billion.

He ended by stating that there should also be a focus on base level projects, such as dredging and quarrying, rather than aim for bigger tenders pertaining to steel or cement. Regulatory interference, the Supreme Court, rising costs of real estate and environmental agencies pose a problem for such industries. There needs to be an organised sector catering to unorganised ones.

India Private Equity Changing Dynamics

Mr. Rajesh Khanna, Leader of Warburg Pincus, India Practice



Mr. Rajesh Khanna

Mr. Khanna began his session by stating that India is witnessing unprecedented economic growth. A GDP of over US\$ 1.1 trillion is expected in FY08, making it the fourth largest economy in terms of purchasing power. The average real GDP growth of over 7.5

percent during 2002-07 is expected to sustain.

Mr. Khanna also talked about other factors that make India a compelling investment destination. These include:

- Fiscal deficit is down from 10 to 6.5 percent over the last five years
- Well-regulated and sizeable capital markets with robust political and legal systems
- Stable government policies
- A deeply entrenched entrepreneurial culture
- Changing demographic profile, which is driving consumption within the country

The workforce population of major regions, likely to enter the economy over the next 5-15 years reads like this - US (199), Europe (264), Japan (84) and China (929). This number for India stands at 700. Mr. Khanna noted that one side of the argument would state that this population is driving the increased consumption within the country. The other would argue that such high workforce levels could result in hurdles such as lower job creation, lack of adequate education and immense pressure on healthcare.

Talking about the private equity industry in India, Mr. Khanna said that it has attracted many players over the last couple of years. Warburg Pincus has been investing in India since 1995. The investment amount has also increased from US\$ 1.7 billion in 2004 to US\$ 14.6 billion in 2007, representing a 204 percent year-on-year growth. Areas of interest for investment, according to Warburg Pincus, include real estate, financial services, FMCG, infrastructure and healthcare.

Roughly half the investments have flown into public and private companies. In 2007, the sector-wise break-up of investments greater than US\$ 50 million in India were:

- Telecom - 29 percent
- Financial services - 24 percent
- Infrastructure, EPC - 10 percent
- Real estate - 5 percent
- IT/ITES - 5 percent
- Media - 5 percent
- Textiles - 3 percent
- Others - 18 percent

Over the years, the positive experiences of companies with various investors have helped the private equity industry to raise more capital. Another change that has helped the industry is the entrepreneurial mindset. Earlier, many entrepreneurs were more eager to have a higher share of ownership in a smaller business rather than a smaller percentage share in a larger business. In present times, the concern has been less on the percentage of ownership and more on the value that can be created. This has resulted in an increase in demand for capital.

Mr. Khanna pointed out that public markets in India are venture capital providers, where company stocks are not very liquid. PIPE investments in public companies are in large positions, and typically aim for a seat on the board, and can influence the management in different ways. This allows the investor to add value, which in turn helps the entrepreneur. There are, however, some regulatory challenges in PIPE investments. These include:

- Restrictive pricing guidelines
- Low shareholding threshold (15 percent) that would lead to an open offer
- Insider trading implications
- Restrictions on maximum tenure of warrants and other convertible instruments (18 months)

Valuation is also another key concern when it comes to sound investments. Public market prices do have an impact on the private side. The challenge regularly faced by investors is that while valuation multiples will be higher in India than in more mature markets in the West, it will be interesting to see how high will they be, and whether there are any cushions for downturns and errors.

Q&A Session

Q). Warburg Pincus has made PE investments in various Indian companies, with one of the last investments being in Kotak Bank. The company had also stated that it would stay invested for up to 10 years. How long does Warburg Pincus intend to stay in the Kotak Bank investment?

Mr. Khanna: Warburg Pincus would like to stay as long as it is feasible. The investment in Kotak Bank in 2004 has worked out considerably well for Warburg Pincus. Warburg Pincus also sees a lot of potential in the banking sector, capital market businesses and in the alternate assets that Kotak is creating.

Q). As an entrepreneur, what were the challenges you face and how do you overcome them?

Mr. Shah: In earlier stages of one's first venture, 90 percent of

the people will not believe you. Maintaining passion is the key. An entrepreneur will not change his vision, and will pursue it diligently.

Q). Globally, commodity exchange volumes are greater than stock exchanges with quicker growth. In India, however, even with the promise, the planned interest in commodity exchanges and trading has not happened. Is it believed that this is inevitable, and if so, why has it not happened till now?

Mr. Shah: Gold futures alone have more volume than the entire BSE volumes traded, but it is not doing more than Nifty and the stock exchange volume. It is, however, a four year old story. While India had completely banned commodity futures in 1969, this has come back after a gap of almost 40 years. Commodities are a larger asset class, and for India it should theoretically be bigger than the equity markets. It is also needed beyond treasury, and, therefore, it is bigger than stock exchange volumes anywhere in the world.

Q). Are there any constraints which you have faced that have hampered growth?

Mr. Shah: In 2007, there was a perception mismatch between policymakers about essential commodities, which led to a slowdown. But in the last four years, Indian commodity exchanges are the fastest growing exchanges in the world.

Q). What will happen over the next 10 years, given the large demand for infrastructure to be built? Considering that India is struggling to build what is needed to do so today, over the next 5-7 years will the inability to build infrastructure become a problem?

Mr. Reddy: There will be a problem, given the labour shortage and current project management skills, where the latter would negatively affect financial and physical milestones. The only way out would be to develop more efficient project management skills and mechanise the process.

The other difficulty would be more from the regulatory side, especially when the right-of-way comes into the picture. This could delay the process and timelines. The existing infrastructure would more likely hamper future projects, but will not completely stop them.

Q). With substantial increase in PE funds seen today, how does a typical PE firm, like Warburg Pincus, differentiate in terms of adding value and keeping the returns expectations constant? Is there a consolidation expected in the PE industry? How will the return profile be going forward?

Mr. Khanna: There is a lot of focus on increased supplier capital. There is, however, not enough data or emphasis on the

increase in demand for capital. With the increasing acceptance of PE as an asset class, and increased ambitions among entrepreneurs, demand has risen. PE players have not driven up valuations; this has been carried out more by the public markets.

Q). On the commodities side, with the growth in the market what are the challenges in terms of delivery and settlements, particularly in the infrastructure for storage? Would this be considered as an area of opportunity in the future? What is MCX doing in that direction?

Mr. Shah: Spot exchanges are for delivery. Delivery issues do not take place in DEMAT and currency exchanges. Commodity markets are going towards the depository and receipt fundamentals, which are not the platforms where delivery should be expected. Derivative markets are mainly for hedging and price discovery. Spot exchanges should be the focus if the area of interest is delivery.

Q). What is IVRCL doing to retain unskilled workers, who in recent times are being seen in the Middle East working on infrastructure projects? What is being done to train skilled manpower? Is the industry doing something for the skilled class for operating equipment?

Mr. Reddy: Periodically, 350-400 people are being trained at various sites more on the equipment and survey aspects and less on the supervision aspect. In the recent past, IVRCL has tied up with a leading HR firm in Hyderabad to identify people and groups of people present around the country. Efforts also include plans to retain them within the particular state rather than moving them to a different site. Employees are taught how to operate and handle, and subsequently clean, for example, the concrete equipment.

Q). How important is water desalination technology in meeting India's urban water needs? Is sea water desalination a commercially viable business without government support or subsidy?

Mr. Reddy: When IVRCL decided to get into the desalination business, technology was not a worrisome factor, given the range of systems available. The main technology comes from filtration, which uses membranes.

With regards to cost, the company is supplying to the government of Tamil Nadu at Rs. 0.048 per litre. In a country where water shortages are becoming the norm and the user is turning into abuser, industries that require water supplies are refusing to pay the full price. Users should come forward more often because the basic material, that is sea water, is continuously available.

Treating city waste water is another area where more focus should be trained. There is a need and opportunity to make coastal cities less dependent on water imports and make full use of water desalination plants to cater to the demand of a city like Mumbai.

Q). During the PE presentation, it was mentioned that public market valuations affect PE valuations. What is the time lag observed in recent corrections in the public market? What are PE funds doing to cope with the challenges faced by entrepreneurs when giving up part of the control over their companies?

Mr. Khanna: When markets are doing well, there is no lag. But when public markets are down, then there is a big lag as entrepreneurs want the valuations that existed two months before. In a booming economy, it would make more sense to have minority investors to grow the business. If an entrepreneur has more than one business, he is left with two choices. One is to sell off one of the multiple businesses to grow the others or own 100 percent of those that have more growth potential. Second is to dilute a little in each of the businesses to fund their growth. Most Indian entrepreneurs are opting for the second choice as it remains unclear as to which line or business would end up being more successful than the other over the next 10-20 years.

Q). Transaction costs in shipping, including those imposed on exporters and importers, are very high in the Indian subcontinent, SE Asia except Singapore and most African countries. What is the percentage of total costs that constitutes transaction costs? Has it reduced over a period of time?

Mr. Jayaram: On a broad level it has come down. India is now a globalised economy with dealings in many countries. All transaction costs have not completely gone away, but the country is moving in that direction where this will become an unimportant component in the larger scheme of things.

Speaker Profiles

Jignesh Shah - Multi Commodity Exchange of India Ltd.

Mr. Jignesh Shah is Founder, Chairman and Group CEO of Financial Technologies Group, a global leader in creating technology centric Financial Exchanges for Stocks, Commodities, Currency and Bond among other asset class.



Mr. Shah is often called as the 'Architect of Modern Financial markets' for his role in creating successful PPP (Public Private Partnership) model for building world class financial institutions like Multi Commodity

Exchange and NBHC (with SBI), Safal National Exchange (with NDDDB), Indian Energy Exchange (with PTC, Reliance, Tata and others), GBOT (with Mauritius Government) and DGCX (with Dubai Government) among others in India, Middle East, South East Asia and Africa.

The exchanges setup by Financial Technologies and Mr. Shah have helped transform lives of common people (aam aadmi) by propagating the benefits of globalization - i.e. price transparency, trade efficiency, risk hedging and structured public finance - to the masses.

Mr. Shah is a recipient of the Ernst & Young Entrepreneur of the Year 2006 award for Business Transformation. He has been recognized by CLSA as among the top-20 Indian entrepreneurs and inducted in their Hall of Fame. He was also invited for a meeting with Senator Hillary Clinton and was honored with the 'USIndia Businessman of Year' award in Washington DC by Senator Joseph Crowley. Mr. Shah has been chosen by the World Economic Forum (WEF), Geneva, as the 'Young Global Leader' for 2007 and has been presented with the 'Global Social Entrepreneur' award for 2007 by Rotary International. He was recently honored with Indian Express Innovation Award for Technology Innovation in Exchanges at the hands of Hon. Shri. Dr. Shri Abdul Kalam, President of India.

Today globally, when countries and government "Think Exchanges", they "Think Financial Technologies"

Sudhir Reddy - IVRCL

Coming from a family of lawyers E. Sudhir Reddy realized early on that he was not cut out for a career in the legal profession.



Instead he started working with his uncle who was a very well known railway engineer and was soon bitten by the infrastructure bug. In 1987, armed with more dreams than money he started his own construction company named IVRCL

In 1992 came the tipping point when the company entered the Water sector for the first time with a modest circulating water pipeline project.

Under the guidance of Sudhir Reddy, IVRCL has undertaken several massive projects, making its mark in virtually every aspect of the nation's infrastructure; roads, airports, water pipelines, buildings and industrial structures.

Today IVRCL has grown from a turnover of just Rs. 10 million in 1991 to a massive Rs. 7735 million in 2004 to Rs. 23464 million in 2007. In the future, IVRCL aims to acquire both domestic and overseas Oil and Gas and Port companies and plans to become a Rs. 100 billion organization by 2010.

Rajesh Khanna - Warburg Pincus, India

Rajesh Khanna manages the Mumbai office and leads the firm's investment activities of Warburg Pincus in India. Prior to joining Warburg Pincus in 1995, he was with Citibank and Arthur Andersen & Co. Mr. Khanna received a B. Com. from Bombay University and an M.B.A. from the Indian Institute of Management, Ahmedabad.



Mr. Khanna is a Chartered Accountant. He is a director of Krizm Hotels, Moser Baer, Max Healthcare Institute, Max India and Max New York Life Insurance.

C. Jayaram

Executive Director - Kotak Mahindra Bank Limited

Mr. C. Jayaram heads the Wealth Management Division for the Group including its international operations. Jayaram has been involved in creating innovative business directions for the Kotak Group and had played a crucial role in the setting up the car finance business. He has steered the businesses of financing against shares, proprietary investments and distribution to a position of strength. He was also the Managing Director of Kotak Securities



for a span of four years. Prior to joining Kotak in 1990, Jayaram worked with ICICI and the consultancy division of A.F.Ferguson. Jayaram, is a postgraduate in business management from Indian Institute of Management, Calcutta (IIMC). Jayaram is also the Vice Chairman of the Financial Planning and Standards Board of India.

This page has been left blank intentionally.



Realty Fund Track

Speakers

Mr. S. Srinivasan, Kotak Realty Fund

Mr. V. Hari Krishna, Kotak Realty Fund

Mr. Vikas Chimakurthy, Kotak Realty Fund

Executive Summary

- Despite rising interest rates, the ability of the home buyer has not been significantly affected due to higher wage inflation.
- Due to rising costs in Tier I cities the IT/ITES industry may migrate to Tier II and III cities, with similar growth in the latter city categories.
- Kotak is adopting a wait and watch approach towards the retail sector.
- Kotak is not in favour of mega SEZs as factors go beyond its purview, besides having greater risks. Kotak is more positive of IT/ITES SEZs.
- Absence of possibility of leverage and foreign debt capital into India's real estate sector has led regulators to believe that this loophole might be misused. Hence, regulators have clamped down on external commercial borrowing in real estate.
- Kotak has US\$ 51 million investment in K Raheja Constructions. Kotak is close to receiving the finished product and have pre-leased most of it to quality occupiers.
- Kotak's investment in Lemon Tree Hotels is performing better than projections. Infrastructure, policy, delays and limited availability of leverage in the market is affecting hotel supply, which will benefit Lemon Tree.
- Kotak has partly exited their shareholding in Sobha Developers, but performance projections for the balance investment look bright.
- The green building space is likely to gain traction because of increased demand from occupiers and investors for such assets. Kotak is in the process of developing a 700,000 sq. ft office facility in Noida, which will be one of the first green buildings in India.
- Kotak has taken a 10 percent stake in Pride Hotels. In order to finance its expansion, Pride has filed for a DRHP to go public within the 2008 calendar year.



Mr. S. Srinivasan

In this session, portfolio managers at Kotak Realty Fund gave the audience an update on the real estate sector in India, and how Kotak Realty Fund has performed

over time.

Mr. S. Srinivasan was the first speaker to grace the podium. He said that among the three categories of real estate, viz. office, retail and residential, the residential sector is currently growing at a CAGR of about 12 percent, and the expected demand in each of these categories runs into 40 billion sq. ft. for residential, 175 million sq. ft. for office and 114 million sq. ft. for retail. This data will vary by 5-10 percent, depending on the source used, but in general this represents the size of the opportunity Kotak will be focusing on. Over the next five years, these numbers would be 2 billion sq. ft for residential, 65 million sq. ft. for office and 37 million sq. ft. for retail. This demand forecast conclusion has been based on detailed market studies with parameters such as income levels, demographic profile, the rate of urbanisation and the nuclear status of Indian families.

Residential Real Estate:

While viewing the residential market, at a headline level, past topics covered include mortgage finance being more easily available. The mortgage market in India has grown significantly due to the decrease in interest rates and the increasing maturity of the market itself. The latter is with reference to the availability of international-style mortgages from 8-10 years ago where one could get a mortgage for 10 years and the loan-to-value would fall within the region of 55-65 percent. Today, the loan-to-value range has scaled to about 80-90 percent, and interest rates have come down from 14 percent to 7.5 percent two years ago.

After analysing what affects the purchasing power of the home buyer, or the EMI (equated monthly instalment), two developments have taken place in the market. One is the increase in the availability of mortgage finance and the decrease of interest rates. The second is wage inflation, which has been at an average of 12-15 percent on a nationwide basis. This brings about a correlation between the percentage of the average monthly household income and the affordability of homes. The current average monthly household income is greater than Rs. 4000, while the wage inflation is about Rs. 14,000-16,000 monthly income. At current interest rates, the EMI roughly translates to about 7.5 percent. This is lower than figures in 2000, which were 14.8 percent. This is one of the key drivers of the growth in home buying in India, apart from the fact that there is a larger volume of capital/mortgage finance available. The affordability has also changed dramatically, and despite rising interest rates, the ability of the home buyer has not been significantly affected with the higher wage inflation.

Banks in India are no more offering interest-only loans and reset

mortgages, but instead have eased the pressure on borrowers by increasing the tenure of the loan.

Mr. Srinivasan then talked about the growth of the market and the current impact in terms of the growth of the residential market, which is reflected in the type of loan mortgage finance disbursements in the market. Even after news of a slowdown in progress within the housing market on account of different factors; the best indicator of the health of the market is from the net loan mortgage disbursements over the past quarters. While on an overall basis the mortgage market has grown at a CAGR of 30 percent, comparing May-07 and Aug-07 data, it shows the slowdown in the mortgage market. However, this market has increased six times in absolute size over the last five years. This shows that it is important to not only look at percentage growth but also at volume growth.

After analysing data covering Pune, Mumbai, Bangalore and Delhi between 1995 till date, the real inflection point is in 2005. From 1995-2005, the economy was growing at an average of 5.5-6 percent. Real estate prices, however, were stagnant. Over the last 2.5 years, these same prices have doubled. From a short term perspective, it may seem that the prices have increased too fast. But from the perspective of a 5.5-6 percent GDP growth rate over a 10 year period, the rise can be explained due to the corrections in real estate prices to reflect the 6 percent year-on-year growth over a decade. The data is based on the number of households, average square footage, average number of people per household, from which is derived the demand for residential space for each household on the assumptions of 8000-10,000 sq. ft. of occupied space. The annual sq. ft. demand is 2,323 million. The current volume of demand that remains to be addressed is significant.

Commercial Real Estate:

The bulk of office space market in India is largely driven by IT and ITES industries. The space required for the IT/ITES industry has been derived from growth projections of these industries, which have been based on McKinsey and NASSCOM studies, in terms of where they are expected to grow and how much square footage will be required for this purpose. For Mumbai, in particular, the rental of an average IT park could be between US\$ 0.80-1.10, or Rs. 67-100 depending on the location. Mumbai is one market which is not dependent only on the IT/ITES industry, at 40 percent of the office rental space. This could be due to either the costs of space in Mumbai or the overall office space demand in the city.

Till some time back, no Indian city compared with global cities when it came to the inventory of Grade A and Grade B office space. This has changed in recent times, with the same slowly

increasing in availability over time. Kotak has also observed some cap rate compression that has been more in line with the interest rates decreasing around India, and that there is more scope of further compression because there are new forms of liquidation of real estate assets that is expected to play a role in the future.

Due to the costs in Tier I cities pushing the limits for the IT/ITES industry, there is a market view that Tier II and III cities will benefit from the migration of these industries, with a similar growth in the latter city categories. There is however, a difference of opinion on the amount of growth that will take place in Tier II and III cities. Other factors, such as availability of manpower, also come into play outside of the real estate prices and the level of migration to these cities.

Retail:

There is a massive build up of retail space in the country. Kotak has been watching the retail opportunities from the sidelines and has not made an investment within this space. This is because it feels that this industry may encounter some kind of a shake-out, where there is uncertainty on what format of retail stores will work in India given the structural differences, along with the infrastructure and transportation challenges in the country.

Through his presentation, Mr. Srinivasan explained the analysis of the average square footage generated within a typical hypermarket, which is generally the anchor market in most of the retail spaces. It has been found that the gross margin, before leasing costs, is about 12.5 percent for a typical hypermarket. Average minimum rentals range between Rs. 53-175 per sq. ft., whereas the leasing costs are only Rs. 35 per sq. ft. This eats away almost 50 percent of the pre-leasing margin of an operator. This has led Kotak to believe that people within this space are either betting on market growth or the average sales growth, or that there will be more rental corrections going forward. Another reason why Kotak has been sitting on the sidelines is that international retailers are yet to make their entry into the country. Kotak will be able to view this space as an asset class when the retailers' credit component changes.

Hotels:

There are 105,000 hotel rooms in a city like Mumbai versus 30,000 in a city like Singapore. The supply has been further complicated by the current trend in land prices, where it is difficult to justify a budget hotel. Most proposals encountered by Kotak are from 5-star and 7-star hotels. The challenge that remains is conducting a single asset transaction in the Indian context where the land vendor is heavily married to the land.

After 5-6 years, even with a well-framed contract, the land vendor might have a high level of emotional attachment to the land and will be hesitant to sell the property. The present court process would also not help Kotak exit in time. This has led Kotak to take on more of a portfolio approach, or entry into portfolio hotels, or a PE style investment into the company that owns and operates the hotels.

Special Economic Zones (SEZs):

There are 529 formally approved SEZ zones, where the smallest SEZ is 11 acres and the largest is 6,000 acres. The map also shows that the total SEZ area approved is 2,051 sq. km. Singapore is 693 sq. km. Hence, India has more than four Singapores as SEZ. When looking at the SEZ in Mumbai, the area is 322 sq. km. How long these large SEZs will take to get built depends on the country's infrastructure.

Kotak has not been in favour of mega SEZs that run into thousands of acres because right from land acquisition, aggregation and execution, it will go beyond the purview of the Kotak Realty Fund, along with having greater risks. Kotak has, however, been more positive of IT/ITES SEZs, which have been located where infrastructure has already been established.

There has been speculation in the press about the Indian Government introducing a minimum alternate tax (MAT) on SEZs, which was supposed to be an erstwhile tax-free development.

At 44 percent multi-product SEZs form the bulk that run into thousands of acres. IT enabled SEZs is about 13.7 percent of the total, but in absolute terms it is a fairly significant supply. The government providing an in-principle or a final approval does not mean that it is the projected supply. This is because the entire SEZ approval application process became a one upmanship show. Land owners began applying for the SEZ certificate without any intention of developing it. The challenges faced when one is underwriting an SEZ in any of the cities in India include the mapping of every SEZ that may have been given an in-principle or a final approval, knowing who are the developers, and understanding whether those developers have the intention or the financial capability of developing it, and then conclude what could potentially be the real supply.

Real Estate Market:

The last topic that was talked about was how the high real estate demand will get funded, where the return on real estate is a function of the leverage available in the market, especially when it comes to more developed markets. In India, the leverage has been restricted and foreign debt capital cannot come into real estate in the country. Regulators believe that if

there is a loophole, there will be a set of people who will abuse it. This has led them to shut down the external commercial borrowing window for real estate. The regulations allow FDI for equity into the country, whereas a number of international investors were leveraging their position overseas and were providing fully convertible debentures, or debt capital on a guaranteed maximum return basis, as investment into Indian companies. It was, therefore, a clear arbitrage between the interest rates that one could generate out of an investment in India versus the cost at which the investor was borrowing in Japan. This is the window that the regulator decided to shut down, as there is a problem when foreign investors want to bring in debt under the guise of equity.

In 2007 the total debt real estate market was about US\$ 11.5 billion with the average year-on-year disbursement roughly at US\$ 4 billion. The limited availability of debt capital is going to restrict leveraged returns in the market. That leverage will find its way to investors or borrowers who have the credibility in the market and have the ability to access that debt. Out of the US\$ 11.5 billion of debt available, almost 70-80 percent of it is available from domestic public sector government-owned banks. In general, these banks are not underwriting the project but the name of the borrower. The reason why a developer approaches a large investor such as Kotak, particularly in leverage-sensitive projects, is that he believes that by associating himself with Kotak, he will receive the necessary leverage to generate the equity returns. This limited debt will, therefore, gravitate to familiar names in the market. One makes the investment on the assumption that there will be a certain amount of investment available. This will dictate whether an investment will work or will generate sub-optimal returns.

Regulatory Environment:

Mr. Srinivasan also gave an idea about the regulatory environment in India. There were some states in India, such as Maharashtra, that have lagged behind in terms of overall reforms in the real estate. One such draconian act was the Urban Land Ceiling Regulation Act, which was restricting the considerable supply of land in Maharashtra, especially Mumbai. This Act has subsequently been repealed. There is now significant pressure from the Central government on state governments to support the subsidised financing for infrastructure development in each state, which is forcing state governments to get rid of retrograde land control and rent control regulations. Other reforms include the electronic documentation of land reforms and land transfer. Kotak expects such and other land reforms to be fairly quickly implemented across the states, given the competition present between each of them.

Second, the draft real estate investment trust regulations have been put forth by the securities regulator. This is important from the perspective of exit on commercial properties. These are workable regulations. While they present their set of challenges, one main positive component is the tax pass-through. While investing, if 90 percent of the tax is dividend, they are not entitled to pay tax. That is the specific clause that the investors and various industry bodies are lobbying for where there are rumours that this tax break could well come through. If this happens, the compression of the cap rates would be further reduced.

Industrial Park Schemes:

If one is building a property, especially one that is more than 540,000 sq. ft., foreign investors can invest in that property. In general, however, foreign investors can only invest in development properties. One exception is IT parks. Any IT park, which is fully built but is zone approved as an "industrial park" could be purchased by a foreign investor as a stabilised asset. This proved to be a big exception when the players were on the lookout to monetise some of the IT park investments. There has been a recent amendment to the industrial parks scheme where new developments with future potential will no longer include IT/ITES industrial parks.

Q&A Session

Q). We understand that debt market in India for RE is very difficult, what challenges does the borrower face?

Mr. Srinivasan: If you are a borrower in India, it is important from the lender's point of view that the borrower's name and track record is made available to the lender. It is that much more difficult to have an unfamiliar name to get the leverage going.

Q). How does the fund procure debt for its projects?

Mr. Srinivasan: The leverage that Kotak does on an asset level is always re-coursed only to the project. There is no additional re-course to the rest of the capital of the fund. Also, Kotak does not borrow with a re-course to a comfort level provided either by Kotak bank or any subsidiary of Kotak.

Q). It was mentioned that hypermarkets were not feasible business propositions, which was the reason Kotak was not investing in them. Does this extend to malls and everything to do with retail, or only hypermarkets as a business format?

Mr. Srinivasan: Hypermarkets, generally, the anchor tenants of a mall, account for 30-35 percent of revenue. While Kotak does not state that its business model is not workable, the company believes that today many are investing in the business

and consuming the loss for the simple reason of having a presence within a particular location. Malls can, therefore, be leased out at higher rates than one can afford but once the location gets established, rental revisions take place. Footfalls can then be due to the hypermarket, which would lead the owner to renegotiate the rental rates.

At this point, Kotak believes it is better to sit on the sidelines and adopt a wait-and-watch approach before making an investment in this sector.

Q). Does this mean that Kotak is not investing in hypermarkets and malls?

Mr. Srinivasan: Yes

Mr. Hari Krishna: Kotak is not an investor in hypermarkets because the company's primary focus is to invest in real estate, and hypermarkets would not fall within this domain in the PE fund.

Q). What is Kotak's idea on budget hotels and how is funding done for them? What does the future hold for this space?

Mr. Hari Krishna: Both of Kotak's investments in the hotel sector over the past two years have been in the budget hotels sector. Further details would be elaborated in the session after this Q&A session.

Q). There are rumours that standalone IT buildings are going to go unoccupied. What is Kotak's view on this subject?

Mr. Hari Krishna: This is a clear possibility as the net asset value



Mr. Hari Krishna

of the tax break available to technology companies to be located in an IT park is a significant number. Based on Infosys' and Wipro's profitability, this number is US\$ 4.5-

5 per sq. ft per month. This shows that there is a clear risk of the fact that when these leases come up for renewal, especially in the older leases, there is a clear economic incentive for these technology companies to an SEZ than an IT park. This shows a clear risk in investing in IT parks, which Kotak is not looking at going forward.

Q). Is there any instance how the land ownership will be treated if it is reclaimed from the sea? If the land recovered from the sea is done so by a private party, to whom does the land belong?

Mr. Hari Krishna: There has not been any situation like this so far in India.

Mr. Srinivasan: While there is no legislation, land records could show a piece of land being available there but instead being present under the sea.

Mr. V Hari Krishna - Portfolio Section

Mr. V Hari Krishna gave a presentation on the companies in which Kotak Realty Fund has invested.

There have been about 11 transactions done as a team over the last two years since the inception of the fund in 2006. Kotak currently manages about three different funds. One of them is already fully invested, while the other two are more recent. Across these three funds, Kotak has invested in about 11 transactions with diversified asset classes and geographical locations. This session will cover why investments were made in particular cases, and how the company sees them fitting into the marketplace going forward.

K. Raheja Constructions:

One of the first investments in 2006 was in a Mumbai-based location where Kotak entered into a forward-purchase agreement with K. Raheja Constructions, one of the leading development companies in India for one of the business park assets with 5 million sq. ft of space available. Kotak entered into a transaction to buy the first 780,000 sq. ft. from them, where they were responsible for construction and Kotak was for leasing and asset management, with Kotak owning 100 percent. It is a US\$ 51 million investment where Kotak is close to receiving the finished product and they have pre-leased most of it to quality occupiers. These include EDS, AIG and BNP Paribas.

The reason behind this investment was that there was a considerable shortage of office space in the 2006. This was due to factors such as lack of capital, and the office market was one of the worst performers in 2001-02. Most developers were investing in residential areas. This investment has played out in line with Kotak's expectations. The rentals achieved are significantly more than what was underwritten, and the quality of the tenant profile has been maintained as per expectations. The company also believes that there is a strong opportunity for a seeded vehicle for rate assets as and when the legislation is formally in place.

Lemon Tree Hotels:

Another transaction in 2006 has been in Lemon Tree Hotels, which is a budget hotel developing and operating company. At the time of investment, Lemon Tree had two fairly small operational hotels, both located in Gurgaon with less than 150 rooms each. At the same time, the company had development

sites in Bangalore, Chennai, Hyderabad, Jaipur and Ahmedabad, along with locations in the region of New Delhi. Kotak's investment reasoning was that budget hotels would be the preferred format for investing in the hotel space for different reasons.

One is when looking at the room distribution among the 100,000 available in the country; most of the square footage is either at the premium end or the bottom end of the spectrum. What the market really needs is the mid-range segment that is targeted at business travellers. This is the particular segment that Lemon Tree addresses, which is reflected in their locations. They are either in central or secondary business districts close to the technology hubs in the abovementioned cities. Kotak has invested roughly US\$ 8 million, while Warburg Pincus invested about US\$ 35 million at the same time to provide equity capital to Lemon Tree. After exhausting this equity capital, Lemon Tree will be raising debt capital to undertake further development.

The initial room rate projections by Kotak were about US\$ 100. The hotel is currently performing better than Kotak's projections in terms of rollout and room rates because of infrastructure, policy, delays and the limited availability of leverage in the market, the hotel supply will take much longer than expected, which will benefit existing hotel companies that already have supply in place, such as Lemon Tree.

Clover Golf Community:

Bangalore-based Clover Golf Community is one of the first golf communities in India meant for primary residence and not for secondary living. It is close to three international schools along with the headquarters of leading technology firms. Golf courses are a huge cash flow drag on maintenance on a long-term perspective. Kotak is not an investor in the golf course itself but rather the real estate alongside the golf course. This will have 140 homes that will be ready in the next 2-3 years, with pre-sales numbers showing at US\$ 0.5 million per unit. The predominant audience is the senior level technology professionals.

Sobha Developers:

In 2006, Kotak conducted a pre-IPO transaction in Sobha Developers, a listed hotel development company with a market cap of more than US\$ 1.5 billion. It has two main business verticals, residential or home-building, and the contracting business. It is currently one of the leading residential developers in southern India with scope of expanding into cities such as Pune and Delhi. Within the contracting business, Sobha is one of the largest construction companies, which provides all the real estate and office space requirements of Infosys, which is a

10 million sq. ft contract.

The second business line provides a good amount of stability to Sobha Developers' top line and bottom line because the contracting business is more predictable than the residential business. Since the pre-IPO transaction, Sobha has gone public with successful stock trading. Kotak has partly exited their shareholding in Sobha and currently holds the balance.

Pentamedia Graphics:

One of the key components of Kotak's investment strategy is to invest in distress assets. This essentially revolves around working with a parent bank, which has access to many non-performing assets. Kotak will then invest in these assets that will enable the bank to foreclose these assets and develop it in the future.

Kotak bought out distressed loans belonging to Pentamedia Graphics, a Chennai-based animation firm. This asset was acquired at about 25-30 percent discount from the market value, with the acquisition being leveraged for the first time in India. Kotak raised mezzanine debt with embedded equity kickers to finance the transaction. The subsequent floor space index in the area has increased from 1.8 to 2.5. Kotak is currently in advanced stages of discussion with a set of international developers who would be buying into their equity at a premium to what Kotak had come in with for future development. This is aimed to be developed as a residential community catering to the technology companies' employees who are working in the area.

3C:

Kotak has similarly invested in the NCR suburb of New Delhi where they partnered with 3C, which is a specialised IT park office space developer that operates predominantly in Noida. 3C has had leasing relationships with key occupiers such as CSC, Hewitt Associates and Sapient. Kotak is in the process of developing a 700,000 sq. ft office facility in this location, which will have the recognition of being one of the first green buildings in India. This is expected to generate significant energy-efficient savings for occupiers. Occupiers are keen on assets of this nature because of the potential in the reduction of operating costs. This is reflected in Kotak's pre-leasing some of the space to Sapient. Going forward, the green building space is likely to gain traction not only because of the increased demand from occupiers for such assets but also from investor demand for such assets.

NDR Warehousing:

Kotak is also excited about the logistics and warehousing space in India. Historically, the supply chain was not very efficiently organised in India due to the lower quality road network and

each state having its own sales tax structure. Two years ago, the Government consolidated all these taxes into a single value-added tax mechanism, which has led to the potential of having a hub-and-spoke model in the supply chain. This is why larger distribution centres are getting developed. The individual tenant requirements, which used to be 30,000 sq. ft. are now 300,000-400,000 sq. ft. At the same time, third party logistics companies, especially global companies such as DHL and FedEx, are entering India. This is, therefore, one of the few asset classes where the capital and occupancy are coming in at the same time.

Based on this, Kotak invested in NDR Warehousing, one of the largest developers and owners of warehousing space in India, with a portfolio of 4 million sq. ft. spread over five different locations around the country. They have leased this space to tenants such as Lenovo, DHL, Reliance and Pantaloon. NDR also has a strong pipeline of assets, and are also acquiring larger assets in other locations to continue the growth.

In logistics and warehousing assets, foreign investors are allowed to buy existing income-producing assets, which is an exception. Kotak believes that this particular asset class will see better yield compression and exit opportunities as compared to office space.

Pride Hotels:

Another transaction in Fund I was in a company called Pride Hotels. Price is an owner and operator of 3-5 star hotel properties across 4-5 different locations, viz. Pune, Nagpur, Ahmedabad and Chennai. There is another property under construction in Bangalore and other locations, including Mumbai. The company has historically acquired its assets through distress purchases. For example, Pride bought out an under-performing hotel asset in Chennai, and subsequently refurbished it with successful operations following it. A similar model was followed in Nagpur as well. Kotak has taken a 10 percent stake in Pride Hotels. In order to finance its further expansion beyond its current pipeline, Pride has filed for a DRHP to go public within the 2008 calendar year.

IVR Prime:

A recent transaction took place in Chennai, where Kotak has partnered with IVR Prime. This home-building company is a subsidiary of IVRCL with a market cap of below US\$ 1 million. The partnership has taken place in Sriperumbudur in Chennai, which is the designated electronics manufacturing district in India. Currently Nokia, Flextronics, Dell and Sony Ericsson are operating in this area. The partnership involves putting together the 700 acre land parcel meant to provide entry-level, or affordable housing, at US\$ 35,000-40,000 per apartment unit,

for employees working in various handset manufacturers in the area. There is currently no residential supply in this location, which has compelled employees to commute over long distances in Chennai.

With reference to the residential space, Kotak considers townships or master planned communities are good options because of the chance to create fresh developments that are in line with international standards. Even so, Kotak is aware of three factors. One: Does the location have existing employment? Two: Is the infrastructure already in place? Three: When aggregating locations of this size, one needs to be in markets where there are no other oligopolistic developers who control the land market.

The Sriperumbudur area has existing employment, which works for Kotak as the company does not fancy being present in locations that are speculative in nature. Chennai has good quality infrastructure in place already. The city also does not have any one company or developer who has 100 percent charge of the land.

Divyasree Developers:

Similarly, Kotak partnered with Debrashrey Developers to create a residential community in Chennai. Debrashrey is a leading south Indian-based development company with significant record in technology parks and residential spaces. This partnership involves the development of single-family housing units in Chennai.

Sunteck Realty:

Finally, one of the other transactions Kotak invested in is the PIPE format. Sunteck Realty is a listed company. Kotak has invested roughly US\$ 35 million. Mumbai-based Suntec has most of its assets/NAV at BKC (Bandra-Kurla Complex). Since this company is listed, Kotak performed a PIPE transaction where Kotak has taken almost 10 percent stake in Suntec. The opportunity that Suntec provides is to gain access to the commercial and high-end residential markets in Mumbai, which continues to see a good amount of growth.

To summarise, most of Kotak's investments are geographically diversified across different asset classes. The latter includes hotels, IT parks, logistics and warehousing and residential areas. Going forward, Kotak's intention is to partner with high quality developers who are in a position to not only provide the execution bandwidth but also the ability to sustain across market cycles.

Q&A Session

Q). What would be the typical return profile of the projects that Kotak is pursuing?

Mr. Hari Krishna: When Kotak looks at transactions, the company looks out for those that are likely to generate an IRR of 25 percent over Kotak's investment horizon.

Q). Of all these investments, what are the realisation levels?

Mr. Hari Krishna: Most of the realisation is expected to take place within the 2008 calendar year. This is because eight of the investments have reached a stage where the construction and leasing are completed and are eligible for sale. Even in Kotak's enterprise-level transactions, including Lemon Tree and Pride Hotels, there is secondary interest from other PE investors to come and add valuations at higher levels, about 35-40 percent, than Kotak has invested. Hence, potential liquidity will be more likely created within the 2008 calendar year.

Mr. Srinivasan: Just to put things into perspective, for example in Pride Hotels, Kotak's investment is about seven months old. Prior to the company going public, another institutional investor has taken a stake in Pride at a price that is 35 percent higher than what Kotak had invested. Exits are going to take place going forward, given that the first 18-24 months was the investment period with investments close to maturity. Kotak has made a small exit in Sobha Developers, with close to a 40 percent return on the investment.

Q). The presentation has shown Kotak to have mostly invested in Tier I cities. It was also pointed out that the growth in Tier II cities would be increasing in the coming years. Any prospects in the pipeline?

Mr. Hari Krishna: May be in enterprise-level situations. Going forward, Kotak believes that most amount of liquidity for residential space lies in Tier I and II cities. Kotak does, however, observe more opportunities getting created in Tier III cities with developers moving into these areas.

Mr. Vikas Chimakurthy: One fundamental challenge with Tier



Mr. Vikas Chimakurthy

III cities is that the size of the transactions is not very large. This poses a problem from the monetary perspective.



Panel Discussion IT Parks / Office

Panelists

Mr. Vincent Lottefier, Jones Lang LaSalle India

Mr. Vidur Bharadwaj, The 3C Company

Mr. Santosh Martin, DivyaSree Developers

Executive Summary

- India's real estate market provides plenty of opportunity to investors.
- A gradual shift in business model from build-sell to build-hold-lease would play a pivotal role in the entire value chain of industry players.
- Developers to focus on maintaining existing clients, along with attracting new clients.
- Ever-rising real estate prices to ensure developers shift operations to Tier II and Tier III cities.
- REITs to rule the roost in the future as plausible exit strategy.

The panel discussion on IT Parks was one of the first in the series of panel discussions on individual asset classes at the Infinite India 2008 summit. Some of the largest companies and leading opinion-makers participated in these sessions.

Among them was Mr. Vincent Lottefier, Managing Director and



Mr. Vincent Lottefier

Chief Executive Officer at Jones Lang LaSalle Meghraj, one of largest property consultants in India and the world. Having spent a considerable amount

of his career in the Asia-Pacific region, Mr. Lottefier expressed his opinion by giving a macro-economic perspective about the capital market in general and real estate market in particular. Other panelists included Mr. Vidur Bharadwaj, Co-founder and Partner of The 3C Company, a specialised development company of IT space offices and Mr. Santosh Martin, Chief Executive Officer of DivyaSree Developers, South India's leading development company with considerable focus on development of software parks.

Mr. Lottefier took the podium and presented the findings of a Jones Lang LaSalle Survey. As per the survey, the global commercial real estate market size is US\$ 23 trillion, institutional investment stands at US\$ 9 trillion, while listed real estate amount to a mere US\$ 1.8 trillion, excluding residential. The interesting part is that listed real estate fund is growing at a much faster rate than the other two, thus infusing more liquidity in the real estate market. The global capital market has been dominated by the US with more than 50 percent market share. At the same time, the Asia Pacific represents 22 percent of the listed assets, and this proportion will continue to grow. At the moment, it is predominantly Japan and Australia, which

hold the bulk of listed assets in the Asia Pacific.

Also, in terms of transaction volume, Europe continues to be more "international" of all the markets, which indicates that more foreign investors are investing in European countries. In this regard, the Asia Pacific market looks more similar to the US market, which is effectively "domestic" in nature. This is mainly because the Asia Pacific market is represented by Japan, which on its own is a very domestic market. However, over a period of time, this scenario would change. As emerging markets like China and India would play an important role in transforming Asia Pacific towards becoming an "international" market, these emerging countries would also help the Asia Pacific region to raise its volume in the capital market.

India is still considered to be a small player with the total size of capital market activity amounting to mere US\$ 3 billion. Compared to other world markets, India is small and yet to mature. But the rental yields indicate that there is plenty of profitable opportunity present in India's real estate market. However, Mr. Lottefier warned that even though during the due diligence stage the project might look profitable, investors should be careful as there would be pockets across India in the next 2-3 years, which will experience a lot more supply and have an impact on rents. But India is still the most profitable market in Asia Pacific, considering the fact that there are far more dollars chasing very few deals.

According to Mr. Lottefier, despite the sub-prime crisis, there is plenty of untapped opportunity existing in India. With increased weight of foreign capital chasing Indian real estate market, yields are expected to compress, providing significant capital appreciation. Indian markets, which work on sentiments, might have a marginal impact on the sub-prime crisis that took place in the US market. But the base is so low that there will not be significant change in the appetite for Indian capital market. On a more positive note, India is moving faster than China in the Jones Lang LaSalle Transparency Index. This will ultimately help to increase liquidity in the market.

Many developers in India have a huge business model which comprises of different asset classes, along with a wide geographic presence. But Mr. Lottefier asserted that in order to attain sustainability in the real estate business, people will have to focus on specialisation. Mr. Lottefier put forward a question to Mr. Martin that should developers in India adopt specialisation as one of the components of their business model?

Mr. Martin echoed Mr. Lottefier's views that specialisation is a sustainable option. He added that different geographic regions come with their own set of challenges. The regulatory issues

and approvals vary from market to market. Mr. Martin emphasised that the major hitch in today's environment is the lack of resources, which is not only restricted to steel and cement but also human resource. At present, the challenge is to build projects on time, within the allocated budget and maintaining the same level of quality. Venturing into new markets, without having adequate knowledge, would make the task of the developers difficult.

Mr. Lottefier, then, put forward a question to Mr. Bharadwaj. Since corporate clients are becoming more demanding about developing grade 'A' buildings, how are developers coping with these requirements? As a practicing architect himself, Mr. Bharadwaj mentioned that the client's perception of grade 'A' building is different from what it should be. Corporate clients in India define grade 'A' buildings in terms of aesthetics, like glass façade, granite lobbies and fancy lifts. He asserted that developers, here, do understand end-user requirements, and try to give them the best.

Mr. Martin seconded Mr. Bharadwaj's opinion and added that in India developers are trying to replicate projects which are



Mr. Santosh Martin

similar to the ones in the US. However, clients are conveying their requirements to developers who are happy to execute them. But Mr. Bharadwaj stressed

that replicating such projects would not be sustainable in Indian conditions. The definition of 'A' grade buildings in India would differ. It would be costlier to construct, but it could reduce energy costs by 25-30 percent. The builder could recover this additional cost by charging higher rent in the initial years that could be rolled back in the later years once the cost has been recovered.

There has been a gradual shift in the business model adopted by the developers. Earlier developers used to construct a building and then sell it off to end-users. Of late, an apt model is to construct an IT park, hold it and lease the same to end-users. The emergence of IT SEZ has an outright cost advantage over its counterpart IT parks. Mr. Bharadwaj argued that other factors like transportation and infrastructure play a decisive role in leasing a building. He accentuated the point that an IT park, which is located in the heart of the city, would have a definite advantage over an IT SEZ located in an isolated area.

The materialisation of build-hold-lease business model would now urge developers to maintain a long-term relationship with

their clients. Mr. Bharadwaj said that the conventional relationship of landlord-tenant does not hold true anymore. Both parties are now partners in progress. Developers are putting more emphasis on human resources and getting more talent.

Mr. Lottefier also put a question how developers will raise



Mr. Vidur Bharadwaj

capital, to which Mr. Martin replied that they have done a few transactions, which are on project level across segments. They were open to raise capital through

forming joint ventures and other avenues. Mr. Bharadwaj said that more than raising capital, it is important where one raises capital from. One needs to be more careful about capital formation. Money is not an issue, but getting the right partner is important.

Q&A Session

Q). Not every IT company can move into an SEZ because of restrictions. What can a developer of standalone IT SEZs do to have an ongoing relationship with his clients?

Mr. Bharadwaj: IT SEZs and IT Parks will coexist in future. SEZs will lead, but IT Parks will lead because of locational advantages and first mover advantage. The Government will formulate a policy in the coming months. But it would be more of a wait and watch approach.

Q). What is the situation of over-supply and under-supply in different micro-markets?

Mr. Lottefier: I cannot specify about certain micro-markets. It is not a question whether one is in the right city. One needs to have an understanding about location analysis. It is also a question about what the project will deliver. As a corporate, one will be thinking of the importance to finish the project on time. There will be winners and losers, whether SEZs and non-SEZs, there is room to build good offices. However, delivery will be the key.

Q). How can one select the right partner?

Mr. Martin: There are three factors that need to be taken into consideration before selecting a partner: 1). The amount of knowledge the partner has, and the kind of partnership he is looking for 2). His budgets 3). Will the potential partner be able to make quick decisions? Land is at a premium and decisions

option outside and inside India. Block sale is also another option despite some funding problems from banks. But REIT seems to be the preferred exit route in the future.

Q). With the appreciating rupee, do you think there will be a sustained demand from IT and software companies for new offices?

Mr. Lottefier: There is definitely competition for India as costs are going up because of rising rents. At the same time, the value of output per space, and cost of resource has gone up. Sustaining those costs will pose a challenge. But Indian IT companies will have to move up the value chain, and there is definitely high international demand in that area.

As real estate costs in big cities go up, Tier II and Tier III cities will emerge as new destinations for IT companies, and developers will approach these cities. This will result in significant cost savings in terms of real estate and labour costs.

Q). Can emergence of IT SEZ pose a possible threat to IT Parks?

Mr. Bharadwaj: The risk in developing IT Parks is more when compared with IT SEZ. But factors like location advantage and availability of infrastructure could play a decisive role while selecting between the two.

Q). What is the probable time REITs could actually take to become fully operational in India?

Mr. Martin: Like any other regulations, REITs would also take time. But there has been a drive from the Government to push for REITs, and this will enable REITs to become functional in a year or two. Once this materialises, REITs will be the most plausible exit available for commercial IT space.

Q). Is IT SEZ restricted only to convert agricultural land to commercial land?

Mr. Martin: It depends on the SEZ. If the land required for development is more than thousand acres, then the only option available with the developer is to look for agricultural land. But from an IT SEZ perspective, the requirement of land is only 25 acres. So it is not always that people are looking at agricultural land and trying to convert them into SEZ.

Q). In Bangalore, rental yields have stagnated but land prices are constantly going up. How do developers cope up with such a scenario?

Mr. Bharadwaj: This is a continuous process, the land prices go up the rentals stagnate, then the rentals start going up the land prices still continue to go up. This is a phenomenon observed in any developing country like India.

Q). What is the preferred strategy between build-sell and build-hold-lease model?

Mr. Lottefier: In a more mature market like Australia, 65 percent of commercial office space is owned by REITs. This brings more liquidity in the market. In more sophisticated markets across the globe, commercial space is owned by institutional investors and REITs.

Q). How sensitive is real estate market to interest rate?

Mr. Martin: There is a correlation between interest rates and yields. The rent is directly correlated to land/construction cost. From an investor point of view, the spread between interest rate and rental yield plays a more crucial role. But the rent cost is largely determined by the construction cost.

Mr. Bharadwaj: The demand and supply factor plays a more influential role while arriving at rent cost.

Q). What role does a developer play in providing infrastructure for parking and traffic control?

Mr. Martin: In India, there are regulations set in place which ensure that the developer provide parking space for every building on a proportionate basis. Moreover, builders are also responsible to provide access to transportation and control traffic flow within their area of development.

Mr. Bharadwaj: In India, the developer pays external development charge (EDC) for every land he purchases. This makes the state responsible to put external development infrastructure outside the boundary of the development.

Q). How many cycles of boom and stagnation are expected before the market stabilises?

Mr. Lottefier: Supply constraint would continue to persist in markets like Gurgaon and Mumbai. The rents might go down or up over the next five years, but any major bust is not expected in India over the next 3-5 years.

Speaker Profiles

Vincent Lottefier - Jones Lang LaSalle, India



Vincent Lottefier is the Chief Executive Officer of the India operations of Jones Lang LaSalle Meghraj, the largest real estate services provider in India. He is overseeing the strategic mandate of growing the business and building relationships with local, regional and global investors, occupiers and developers in this emerging market.

Previously as Country Head of Jones Lang LaSalle's India operations since July 2005, Vincent was appointed to his present position in June 2007 and leads a team of over 2,800 real estate professionals across 10 Indian cities delivering a wide range of real estate solutions and services, including transaction management, project and development management, facility and property management, research, strategic consulting, capital markets consultancy, and retail advisory.

Vincent possesses over 18 years of experience in the real estate sector and his experience spans diverse aspects of real estate, including strategic portfolio services, business plan integration, M&A, real estate master planning, account management, transactions, project management, valuations, and portfolio consolidation strategies. For a major part of his career, he has been with Jones Lang LaSalle working across different regions. He has worked in five countries outside of India, including Belgium, Luxembourg, Australia, China and Hong Kong. He has held several key positions including director of the Asia Pacific account for UTC, one of Jones Lang LaSalle's largest regional clients. Vincent has also worked in Corporate Real Estate departments of leading corporations, including Level 3 Communications and Nortel. At Nortel he was the Head of Real Estate for Asia Pacific.

Vincent is a BA degree in Urban Studies from California State University (Economic Geography)

Santosh Martin - DivyaSree Developers Pvt. Ltd.



Santosh Martin, the CEO of DivyaSree Developers Pvt. Ltd., has over 11 years of real estate experience and thorough knowledge of real estate markets of all major Indian cities.

Prior to joining DivyaSree, Santosh was the national director at Jones Lang LaSalle, where he worked for 8 years. Before joining Jones Lang LaSalle, Santosh worked for a year and a half as a key member of the corporate real estate services department of CB Richard Ellis in Bangalore, where he gained extensive experience in the leasing and sale market of Bangalore.

At Jones Lang LaSalle, Santosh joined as the head of commercial team in Bangalore and was instrumental in building a team of professionals in the location. He then moved to Chennai to set up Jones Lang LaSalle's fourth Indian office and was successful in turning profits in the very first year of operations. He has been instrumental in setting up a full-ledged team having one assignment for Consultancy and Project Management departments. Subsequently Santosh moved to Mumbai and was responsible for the commercial team. He was

based in Mumbai for 2 year, before moving back to Bangalore. During his tenure in Bangalore Santosh was responsible for leasing and key account management across the country.

Completing a year at DivyaSree, Santosh has paid a pivotal role in setting up a professional team. He is actively planning diversification in DDPL business from office space to residential and hospitality sector with the board. Today, Santosh also one of the key spokesperson at several national and international forums.

A CEO at the age of 33, he is an avid reader and loves traveling.

Vidur Bharadwaj, Co-founder and Partner of The 3C company



Educational background: B ARCH. from Delhi School of Planning & Architecture

Business background: Managing Partner of Design & Development, a consulting firm to IT Companies like :

- Wipro Technologies
- Hughes Software Systems
- Patni Computers
- Computer Sciences Corporation

The firm possesses in-house ability to design wide spectrum of projects such as large IT Parks, hospitals, multiplexes, shopping malls and personalized residences.

Director in Valient Communication Ltd: Public limited company involved in exporting & manufacturing telecom products to Europe & U.S.



Panel Discussion - Shopping Centres & Mall

Session Chair

Mr. B S Nagesh, Shoppers' Stop

Panelists

Mr. Nikhil Chaturvedi, Provogue

Mr. Ajay Khanna, DLF Retail

Mr. Pradeen Jain, Parsvanath Developers

Executive Summary

- The Indian retail pie of US\$ 350 billion is growing at US\$ 24 billion a year. Organised retail forms 5 percent of total retail market, and will not take away business of small retailers.
- Consumption in India is growing as a large population is graduating into the middle class category every year.
- Traditional forms of retail, like family run businesses as well as modern retail are important for overall retail growth in India.
- Indian developers are adopting a mixed model of lease and outright sale of property to the retailers.
- Many models exist globally that suit different locations. Over time, Indian markets, too, will evolve their own models.
- Over a period of time, developers and retailers will agree on a revenue sharing model where developers would enjoy incremental revenues based on footfalls.
- Newer players are essential to keep this industry vibrant.
- The developer and retailer will have to work as partners to grow this industry and create more value.
- Institutions like ICSC and other management institutions are coming up with retail-specific training programmes.

Widely regarded as the pioneer and the face of organised retail in India, Mr. B S Nagesh brought forth his gems of wisdom garnered through years of experience in a highly competitive industry. Mr. Nagesh began his talk about how people had ridiculed his idea of opening what was then a 'mammoth 4,000 sq. ft. store', Shoppers' Stop, in 1991. However, Mr. Nagesh asserted that when everybody says that it cannot be done, there



Mr. B S Nagesh

is always a challenge involved in proving critics wrong. According to Mr. Nagesh, retail in India has reached a level where it is much talked about in investment and consumer circles. And the best part is that there is growing consumption to support this spurt in retail. This consumption pie is growing, anywhere between 8-10 percent, irrespective of the state of infrastructure. Therefore, the Indian pie of US\$ 350 billion is growing at US\$ 24 billion a year. So, organised retail, which now constitutes 5 percent of the total Indian retail

market of US\$ 350 billion, is still not equivalent to the growth of the pie. Mr. Nagesh allayed the fears of the spectre of big retailers eating away at the business of small retailers as large retailers are still not able to get a healthy share of the increase in the pie, leave alone the pie itself.

Mr. Nagesh advised that one has to look at the kind of growth that is happening. While investors must get excited about growth, they must also ascertain whether the growth is good or bad in nature. An investor in the retail sector has much more access to many other aspects which investors in other sectors do not. Hence, he has to look at the nature of growth before investing his money.

Mr. Nagesh said that India has close to 10-12 million retailers. The new shopping centre developments are replacement markets being developed for modern retailing. Even as demand for modern retailing is on the rise, the question is how many of these modern retailing centres will sustain the rapid changes in Indian retail. He cited the example of Shoppers' Stop that with every new store, the previously opened store looks old, while every competitor's new store is making other stores look old.

Therefore, the real challenge for retailers is to maintain this pace of growth while also ensuring that each entity sustains over the long term period of 5-10 years. This is because every investor in retail is looking at long term yield, and that retail investment must be able to deliver that yield through every year of its existence.

On an optimistic note, Mr. Nagesh said that consumption in India is not an issue because of the amount of people rising into the middle class category and spending more. In terms of penetration of modern retail, it is replacing a large amount of traditional retail besides capturing the incremental retail demand. To capitalise on this opportunity, there is a need for modern malls and shopping centres.

At this point, Mr. Nagesh wished to know panelist, Mr. Rajesh Khanna's perspective on the real estate sector, which has witnessed considerable growth and success in this arena. As per Mr. Khanna's observation, two clear segments appear in the retail market one is the shopping center, called so just for terminology purpose, which spans around 300,000 square feet



Mr. Ajay Khanna

of development area. The other is the much larger shopping mall.

Most shopping centres are dominated by domestic retailers and brands and a fair

sprinkling of international brands. In India, in the apparel business, especially in the female apparel segment, people who deal in Indian fashion (sarees, salwar kameez, etc.) are families who have been in this business over a long period and are cash rich. These people prefer to purchase properties rather than lease them. Identically, there are large Indian jewellery segments which purchase properties rather than lease them out, primarily because they are cash rich and because as their families grow, they identify outlets as branches handed over to individual family members. Both these need to run hand-in-hand, opined Mr. Khanna.

He cited the example of DLF which started out with mixed models. The first mall, City Centre in Gurgaon, was a mixed model. Certain area was leased while the rest was sold. The mall did well as the overall retail demand was buoyant but it clashed on certain issues. The ethos or spirit that is being looked at by many domestic brands is at variance with international brands. Their demands, requirements, business models, financing, etc. are totally different. Hence, it was viable to create two separate models one for the sake of convenience called shopping centres and another one, which is the shopping mall.

Shopping malls, typically, span an area of about 600,000 to a million square feet. These would be totally leased, and the brand ethos would be well taken care of.

Shopping centres would be retained and promoted as a model for sale. Mr. Khanna sees a huge vibrant market for purchase in this segment which cannot be neglected. He believes that this niche segment will survive and grow at the same rate as brand retail. So DLF has segregated and created ethos between the two.

Mr. Jain replied that if a shopping mall has a good product mix with organised and general retail, the lease model with sale model is a good mix than to create a standalone property for sale. However, in such case, the major concern is once the developer has sold out the entire property, he is in no way responsible for the footfalls. Besides, other issues such as maintenance of the mall also have to be taken care of. Hence, Mr. Jain suggested that if 30-40 percent of the mall is sold out, the remaining 60-70 percent can be leased out as it is important



Mr. Pradeep Jain

to provide for guarantees of footfalls and maintenance of the mall. A developer's prime responsibility is to bring in footfalls. If the product mix is not good, then malls

cannot function smoothly.

To this, Mr. Nagesh asked about guarantee of a right shopping and business environment in a shopping mall which is 30-40 percent sold out, and the balance is retained by the developer. What if that remaining percentage is transformed into an alcohol shop? Mr. Jain suggested that the retailer can always put a condition during the sale process that only a particular nature of products can be sold in the mall. He said that Parsvanath is facing similar problems while developing areas around the Delhi Metro, and they have also dealt with it using the aforementioned principle.

Mr. Nagesh asked Mr. Khanna about the Delhi Development Authority creating markets which are in a mess. After the sale is complete, the retailer cannot hold a developer accountable for what is happening at the centre after 20 years of purchasing the outlet. Mr. Khanna replied that it is the quality of the development which will make the difference. Across the world, the management of a quality shopping centre is given to a professional agency. He stressed on the need to create two agreements a sale agreement and a long-term management and maintenance agreement between the developer and retailer.

As a developer and a retailer, Mr. Chaturvedi was in favour of creating value for investors. He gave an interesting comparison of how shopping centres have evolved in India and the Western world. He said that having studied various retail models, he found that the world over there has been no successful mix model. In India, the entire retail evolution is more demand led, and is very different from the evolution of retailing in the developed world. This is one of the reasons why the entire thought process is different. In markets like US or UK, organised retail evolved to fulfill a need. Their economy was driven by consumption as is now happening in India. The city centres in the US and UK were once upon a time very crowded as they had planned for everything but for motor cars.

On weekends these markets became unmanageably crowded and chaotic. The counties, looking at this situation, shut down these markets on Sundays. With such a move, consumption in those local areas went down drastically which became a concern as consumption was the main driver of the economy in those days. Later when counties invited retailers, they refused to come in arguing that around 20-25 percent of business happens on Sundays, which was declared an off-day.

The counties then partnered with local developers to create spaces which would have all modern shopping amenities and accommodate motor cars as well. The developers then planned such facilities at the edge of towns and the first thing they

constructed was car parks. Secondly, they interviewed women shoppers to know their concerns. Their biggest concerns were motor cars which might prove hazardous for their children. Another issue was having garbage dumpers used to move cartons. They opined that such services must be planned outside these centres. As these centres were away from town, suggestions included entertainment avenues, hair salons, etc. to make it a perfect family outing place. Unlike other markets in Europe, which closed around 6 pm, these new centres were open till 9 pm, giving more time for shoppers, while providing for security, controlled temperature, etc.

As time evolved, these centres became extremely powerful. Businessmen considered having their offices surrounding these centres because they are good for post work relaxation. The safer environment provided by these centres also drove up residential demand in their vicinity. All this led to the evolution of all-new city centres in Europe.

In India, the evolution of malls has been different. Malls were built in areas that were already crowded, thereby adding to the chaos. Therefore, a lot of people feel that malls in India are developing in a haphazard manner, leading to disastrous results. He saw hope that a few Indian retail companies will build world class outlets as demand for such facilities is immense.

Mr. Nagesh was apprehensive about falling margins in a scenario of rising rentals. Mr. Chaturvedi drew attention to the fact that the average sale price in India was about Rs. 7000 per sq. ft, which is much lower compared with international standards. With such a benchmark, retailers can afford to pay 10 percent which is Rs. 700 per sq ft per annum, which translates to about Rs. 62. As an India-wide average, downtown properties in Mumbai or Delhi command around Rs. 125 while a centre in Aurangabad can get only Rs. 40, opined Mr. Chaturvedi. Therefore, it is extremely crucial to build malls keeping the retailer in mind as the entire cash flow of this business is dependent on his success. Some of the city centre rentals in Mumbai and Delhi are unreasonably expensive even when compared to the most costly properties in the world, he felt.

Mr. Jain did not completely agree with Mr. Chaturvedi's views. He argued that the developer has no control over the land price. Retail rentals depend completely on the location. If an establishment is in popular localities, it is not possible for developers to sell it at cheaper rates. He asserted that in several parts of Delhi, even small retailers are willing to pay high rentals. However, large retailers would want to buy those at much cheaper rates.

Mr. Nagesh wondered whether a retailer can sustain his

business by paying high rentals while his margins still remain around 37 percent. Is the retailer playing a gamble by agreeing to pay a higher rental when retail is booming?

Mr. Jain disagreed that the retailer is playing a gamble. If the retailer wants to put up a 2000-4000 sq. ft. store in a popular locality, he would agree to pay higher rentals. However, if he intends to put up a 50,000 square feet centre, he cannot afford to pay high rentals.

Mr. Khanna stressed the need for a business model to evolve in Indian retail. Every country has its own time span for investment and, therefore, one cannot simply pick up a model and implant it assuming that it will be successful. Many models exist that suit different locations and that Indian markets, too, would require some time to evolve such models. He foresaw that over a period of time developers and retailers will agree on a revenue sharing model wherein developers would enjoy incremental revenues based on footfalls. But he cautioned that ethical practices will have to play a strong role in such a revenue-sharing model.

Mr. Chaturvedi asserted that retail is the best form of real estate asset among residential and commercial. He said that in Europe and US it takes around 10 years to construct a shopping centre.



Mr. Nikhil Chaturvedi

Three years to get planning permissions, three more years to enter into tie-ups and another three years to construct the centre. In India, this 10-year cycle is squeezed into 23

years and while it is a buyer's market in most other countries, here it is a seller's market.

Mr. Jain highlighted the reason why developers do not go on a signing spree as soon as a shopping centre plan moves into execution stage. He said that there was a possibility that post the construction of the mall, the rent may go up. If the retailer has tied up prior to construction, the developer will not be able to realise the high price. At the same time, if the rent goes down, the tables will turn. Therefore, as a policy, Parsvanath Developers does not lease out property during the initial phase of construction of the mall. They start the leasing process only a year before completion.

Mr. Nagesh raised a point how a developer can design his property without understanding the needs of the anchors / retailers who will approach him after the mall is complete. Mr. Jain replied that while designing a mall, a developer arrives at a fairly correct product mix as he knows the players in the industry

Mr. Khanna offered a different view saying that there has to be certain amount of interactivity between the retailer and the developer. Over a period of time, players in the industry develop a relationship, and the developer understands the ethos of a retailer's business before designing a store. Mr. Chaturvedi was of the opinion that if the developer designs the mall keeping in mind a retailer's future requirements, retailers will invariably tie up with such developers even if there are some variations of price points in the future. That is because the retailer is assured of the quality and the exact business environment required to attract footfalls. The panel concluded that formalities like Letters of Intent do not hold much value as even a fundamental level of trust is missing between a developer and a retailer. All the parties need to work as partners to grow this industry and create more value.

Mr. Nagesh wondered about how international players and brands coming into India will fare. Mr. Khanna said that there exists a level of basic demand in India, which is being fulfilled by newer international and domestic players. He asserted that infusion of new blood is essential for this industry to stay vibrant. Mr. Chaturvedi said that irrespective of whether the retailer is international or domestic, he has to understand the Indian consumer, who is a unique specie.

Q&A Session

Q). As opposed to an outright sale or lease model, will developers be open to an arrangement where a retailer will pay the developers a base price, and additional payment proportionate to the footfall in his outlet?

Mr. Jain: It is a difficult arrangement as there are no metrics to measure the amount of footfalls. Hence, I would like to adopt the conservative lease or sale model.

Mr. Khanna: There are metrics in Western markets to measure footfalls, and also revenue sharing models, which depend upon the number of footfalls. It may take around 2-3 years at least for these metrics to come to India. As the market matures, the industry will move towards such revenue sharing arrangements.

Q). Do you think in the current scenario, the developer-retailer relationship is a win-win one?

Mr. Nagesh: In some cases, it is cordial. Among the 23 Shoppers' Stop stores, only three have a revenue sharing model. In all three cases, the revenue we deliver to the developers is much higher than the second year rental on a fixed basis. The developers, in due course, are curious to know about footfalls.

This shows that both parties develop a concern for each other. As the industry comes into public limelight, the developers become more accountable to a lot many people. Hence, one third of the developers are moving in a positive way. There is another one third set of developers who have huge tracts of land, and are still asking investors and retailers to come to their mall which is not even constructed. But, overall, I would say that two-thirds of developers are reacting positively to changing situations.

Q). With increasing traffic of people and vehicles at shopping malls, along with the frantic movement of goods, mall management has become difficult and requires skilled managers. Therefore, in terms of design of the mall and management of a mix of tenants who come to the mall, do we have sufficient talent for the same?

Mr. Nagesh: I can answer this question both from a tenant's and a retailer's perspective. If you visit shopping malls around the world, almost 80 percent of mall managers are certified mall managers, having the designation of a member or a director of shopping centres, which means they go through a professional course, whether correspondence or regular. When we look at the Indian fraternity, however, over the last four years, we have not seen many certified mall managers. Here we do not have any set rules for fire management, we do not know how to conduct an evacuation in case of emergencies, etc. because of which malls here never felt the need for such professional certification.

In terms of talent, there is an overall shortage across India. About four years back, the International Council of Shopping Centers (ICSC) opened in India to cater to such requirements. The mall managers present here would agree to this and may be able to share their thoughts.

Mr. Khanna: Retail specific training has, more or less, already started in India. Institutions like the ICSC and other management institutions are coming up with training programmes which are retail-specific. Such specific courses will help cater to the growing demand from retailers for skilled resources, which at the moment is indeed in short supply. Over the next couple of years, we will definitely witness an offsetting of this shortfall.

Towards the end of the session, Mr. Nagesh concluded that he is very optimistic about the long term prospects of retail in India and the opportunities it provides. In the medium-term, everybody in retail seems to be making money.

Speaker Profiles

Ajay Khanna - DLF Retail



Mr. Khanna started his career in Advertising; Trained with Lintas & HTA for assignments at Escorts, handling the client's end. He has worked with the Sriram Group, Dunlop India and with Contech Singapore a fully owned subsidiary of Temasek Holdings.

Mr. Khanna is currently with DLF Commercial Complexes Ltd., as Managing Director.

Mr. Khanna has a English Literature (Hons.) from St. Stephens, Delhi and an MBA from FMS, Delhi University

He has written various papers on the retail industry, been a prime speaker at seminars on retail both nationally and internationally.

B. S. NAGESH - Shopper's Stop Ltd.



Mr. B. S. Nagesh, 48, popularly known as BSN, has been with Shopper's Stop Ltd right from its inception in 1991. Under his able leadership & guidance, Shoppers Stop has grown from a one-store set-up in Mumbai to a group of companies, spread over 1.93 million sq.ft. and operating (136 stores pan India) under multiple formats.

During the past 16 years BSN was instrumental in buying the Crossword chain of bookstores, setting up of home store called HomeStop as well as food & beverages chain under the brand name BRIO and Desi Café and the country's first biggest hypermarket - HyperCITY. His vision of putting India on the global retail map landed Shoppers Stop with the opportunity of being the only exclusive member of IGDS from India.

Besides introducing leading global brands like MAC, Clinique & Mothercare to India, BSN has been instrumental in forging strategic alliances with leading global organizations for the company's new initiatives. Shoppers Stop Ltd has entered into JVs with Nuance Group of Switzerland for airport retailing, LAI of Australia for Timezone entertainment centres (6 in operation). He also spearheaded in getting the master franchise for Argos to create a multi-channel retailing business through catalogue retailing under the brand HyperCity-Argos.

His passion for retailing, working with details, ability to take risk and going along with employees made Business India vote him as one of the top 50 managers in India who will influence the Indian business scenario in the 21st century and today; he is recognized as the pioneer of the retail boom in India.

As the MD of Shoppers' Stop, BSN has infused the latest retail techniques into the business, blending the best of national and international talent within the company. NASSCOM in association with Economic Times awarded Shoppers' Stop the

"Best IT User" in the retail vertical and more recently Shoppers stop was awarded the "Most admired Retailer Effective Technology Application" at Images Retail Forum in Sep'07

BSN was felicitated 'The Best Professional of the Year' award at the ICICI Bank, Retail Awards 2005 & "Retail Professional of the Year" at the India Retail Summit in September, 05. He has also been declared as the retail professional of the year by CMAI for 2001, 2003, 2005, 2006 & 2007.

Nikhil Chaturvedi - Provogue

Nikhil Chaturvedi (38) is a first generation entrepreneur and the Founder/Managing Director of Provogue (India) Limited.



Provogue (India) Limited is amongst the top 5 listed retail companies on the Indian Stock Exchanges. It is on the Economics Times 500 list and Business Today 500 list and is ranked No.5 across all Indian companies in the consumer loyalty index by Business World.

Provogue has a national network of over 150 dedicated retail outlets spread over 60 cities in India and employs over 1,000 people.

Nikhil is the Managing Director of Prozone-Liberty International and is leading the company in the development of retail infrastructure pan India. The company currently has over 40 million square feet of projects underway, focussed on large scale retail-centric mixed-use developments.

Nikhil is a commerce graduate, he did his schooling at St Mary's Mumbai and finished college from Jai Hind, Mumbai and Commerce College Jaipur. He started his career as an accounts executive at Adfactors Advertising and also worked as a Merchandiser at Metro Exporters Ltd, before he moved on to establish himself as an entrepreneur.

Pradeep Jain - Parsvnath Developers

Mr. Pradeep Jain entered the Real Estate Business in 1984 in a small way as a Marketing Associate. Step by step he achieved great success. Presently, he is the Chairman of Parsvnath Group of Companies, which entered in the real estate business with a quest for excellence and a 'total-value' approach. The Group emerged into a major entity as promoters, builders and developers. Today, the Parsvnath Group is a name to reckon with in the corporate sphere, engaged in more areas than just real estate. It has a strong presence in finance, amusement parks and indoor games. Mr. Pradeep Jain is a man of great organising ability, clear vision and is devoted to his profession. He believes in customer services and Company policies are so framed that customer satisfaction is given the highest priority as 'Customer is the Master'.

The Group today gives direct / indirect employment for more than 1,00,000 people of the country and also plays a major role in the nation building.



Panel Discussion - Residential

Session Chair

Mr. Rajiv Sabharwal, ICICI Bank

Panelists

Mr. J C Sharma, Sobha Developers

Mr. Girish Puravankara, Lalith Gangadhar Constructions
(former Joint Managing Director at Puravankara Projects)

Mr. Pradeep Jain, Parsvanath Developers

Executive Summary

- Developers and bankers are bullish on the Indian real estate story.
- The current slowdown in real estate is a temporary blip and will soon be surpassed.
- The present slowdown will lead to correction in prices to the tune of around 10-15 percent.
- With growing population in Tier I, II and III cities, and most of them being migratory population, demand for houses in these places will increase.
- Demand for premium houses has declined while that for budget accommodations is intact.
- As more and more people realise benefits of living in a good community and value services such as maintenance of society, real estate business will transform from being a commodity business to a branded business.
- The industry growth rate of around 20-25 percent is satisfactory; although developers think that the potential for growth is huge, provided issues related with supply constraints, regulator, etc are resolved.
- Consolidation in the real estate sector will eventually take place with larger players buying out smaller ones as it will be difficult for the latter to sustain in this competitive market.
- Developers welcome initiatives by the Government to provide houses for the masses at affordable rates, although issues such as faster land clearances, tax benefits, etc must be taken care of by the authorities.
- Supply of real estate properties is constrained because of time-consuming clearances for regulations laid down by government with respect to environmental concerns. If they are made faster, supply would be able to match demand.

Mr. Rajiv Sabharwal commenced the talk on real estate on a



Mr. Rajiv Sabharwal

positive note saying that he always believed in the industry's growing contribution to India's GDP. The current slowdown witnessed in the industry is a temporary

blip, and over the long term real estate will continue to contribute heavily to the GDP. The sector has potential to create new opportunities in the form of jobs and that all its sub-sectors

- commercial, residential, travel, tourism, etc will continue to do well.

Mr. Sabharwal, however, did agree that there is an ongoing slowdown in terms of unit sales across the country. Reduction in unit sales could be anywhere between 15-40 percent depending upon market conditions such as location and others. Despite this, values have not dropped significantly. Some of the markets have witnessed a correction in prices between 10-15 percent. It is also believed that some amount of appreciation has taken place in certain markets, especially in the southern and western regions. This may result in the real estate witnessing a modest growth of around 10-15 percent in terms of value.

As far as real estate prices in Mumbai are concerned, Mr. Sabharwal is confident that there is no correction in prices despite high amount of supply of residential apartments. However, he fears that a continuing slowdown might have some corrective measures on prices, thereby lowering prices by 15-20 percent. This will not be a matter of concern though as prices had already gone up by around 10-15 percent over the last 2-3 years. On the contrary, a correction might bring back actual users to the market, increasing market growth rate that will eventually benefit developers and financiers in the industry.

Another positive trend cited by Mr. Sabharwal is the huge influx of foreign money into the real estate sector in the form of venture funds and FDI. This money chases organised developers, who in turn would also go for an IPO to get listed that will ultimately lead to the industry becoming more organised. An organised industry managed by professionals will lead to better corporate governance. The Government has also mooted the idea of having a regulator for this industry soon.

After having spoken about the industry trends, Mr. Sabharwal began the panel discussion by asking them about their views on where the market is heading and whether it will continue to grow, with supply keeping pace.

Mr. Pradeep Jain, being a developer, completely disagreed with



Mr. Pradeep Jain

Mr. Sabharwal's views that the industry is facing any slowdown in demand. According to him, a better way to describe the current scenario is by using the term correction in

demand. He feels there is plenty of demand in Tier II and Tier III cities for budget properties (properties valued between Rs. 15-40 lakhs).

About 12-18 months ago, there were many short-term investors such as those in capital markets who would buy a property and sell it for profit. Today, most of the investors who invest in budget as well as luxury properties are end-users. Demand continues to rise whereas in his opinion even the prices are going up. The reason, according to Mr. Jain, is that developers find it difficult to construct on inferior land and that its conversion to end-user utilisation is a big challenge. He does not foresee any oversupply in Tier II and Tier III cities. In metros such as Mumbai or Delhi, demand for residential property is still intact.

Mr. J.C. Sharma reiterated Mr. Jain's words by showing optimism in demand for residential real estate. According to him, the Indian economy has a beautiful story because whatever we talk, we can prove it using logic and by producing data. Banks are seeing a slowdown because they observe the market from disbursements' perspectives and that customers are not as aggressive as they used to be 1-2 years ago. However, at the same time Mr. Jain believes it is 100 percent correct. According to him, the population in Tier I, II and III cities in India is equivalent to that of the entire USA, and this population is growing at around 2.9 percent per annum. Most of this population is migratory which needs accommodation, whether rented or on ownership basis.

According to Mr. Sharma, there has been a lack of understanding about the size of demand given a particular price point. Most developers, therefore, are trying to address the customers who either already own a house and would like to upgrade to a bigger house or first time buyers who have done well in their early 30s.

According to Mr. Sharma, India is witnessing one of the highest growth in the world, and the real estate industry will remain a major contributor to this growth in coming few years. He said that the growth in real estate is responsible for employment generation as well as increased consumption demand for products like steel, cement, power, etc. Without the success of real estate, demand for these products will fade away in future. India's largest power provider, NTPC, plans to provide uninterrupted power supply of up to 10 megawatts for every single real estate project citing increased demand from this sector.

Similarly, he talked about instances of lift and tile manufacturers, who are either completely sold out or have bulk orders coming from the real estate sector. As far as providing employment is concerned, real estate sector recruits both skilled and unskilled people, with civil engineers now getting paid at levels equal to or even above that of the IT sector.

Continuing with the India story, he said that while 29 percent of the current population is urbanised, in 2015 this figure will rise to around 40-50 percent levels, which means the real estate story has only just begun.

Mr. Sabharwal asked, "Having heard about positives, almost everybody seems bullish about growth in the real estate sector. However, if I may ask what are the challenges, especially for a player who is a new entrant? Also, in the southern markets, due to a slowdown in the IT sector, is there any impact on the real estate market considering that it hugely depended on the IT?"

Before talking about the challenges, Mr. Girish Puravankara replied by first highlighting a few things about the shift in demand in real estate properties in the southern region. He categorised the market into three sections the super-luxury market valued at Rs. 1.5 crore and above; luxury market valued between Rs. 60 lakhs to one crore; budget market valued between Rs. 20-50 lakhs. According to Mr. Puravankara, demand has moved from luxury market to the niche segment of super luxury market, while also there is huge demand for budget accommodations. Most of the developers are excessively concentrated in the luxury segment and, therefore, volumes here have gone low. On the contrary, there is a shortage in supplies of budget accommodation where demand is huge. Going forward, there will be huge pressure in the budget segment and developers who can make available houses for Rs. 25-50 lakhs would be attracting huge demand.

While highlighting the shift in real estate demand in the southern region, Mr. Puravankara cited the case of Bangalore where demand is shifting location. Looking at the current scenario, there is a shift in preference of location. At one point of time, there was huge demand for properties in Whitefield, which later shifted to the evergreen southern Bangalore. Now, suddenly there is shift in demand again towards northern part of Bangalore, which will house the newly proposed international airport.

Replying to the question asked by Mr. Sabharwal, Mr. Puravankara said that it will be difficult for a new start-up to enter at this stage. It is a huge challenge to acquire land, whose prices have gone up significantly. There is no relation between the selling price and the final end-product sale price. Competition from other developers has also increased drastically as all players have now become huge. A new entrant would be better off if he focuses on niche segments for execution, although there would still be issues in terms of scaling up of operations.

Mr. Sabharwal asked how important is it for developers to be present in multiple locations and the challenges it presents.

Mr. Jain answered that it is indeed very important for a developer to have presence in multiple locations. He said that if a developer has presence in more than one location, he understands the market better and is also able to take advantage of bartering between locations. For instance, media reports suggest that southern markets of Bangalore and Cochin are witnessing a come-back while the northern region is not yet very hot. Developers who have presence in both markets get a chance to maintain certain degree of stability as they have a chance to barter between areas.

On the margin front, he said that multiple cities help developers to increase margins. In cities like Mumbai where competition is heavy, margins may be low. On the other hand, Tier II and Tier III cities offer greater margins as competition is not as intense. Here you are bound to make substantial profits if a rightly located land is acquired at a right price.

Mr. Sabharwal asked whether there is enough manpower to cater to the growing demand for real estate professionals and how developers are coping with this.

Mr. Jain does not foresee any problem with regards to manpower as there is enough manpower, both in the technical and non-technical area. For operations such as land acquisition, execution of projects, etc. there is not much challenge. However, as far as top management is concerned, manpower continues to remain a challenge.

Mr. Sharma argued over the manpower issue by saying that he himself had moved into the real estate segment two years back amidst lot of suspicion and criticism from family and friends. However, when most developers have matured and have gone public, along with the fact that real estate segment has propelled to such heights, people have started to realise its importance. Professionals from many IT companies are now eager to join the real estate sector for lucrative offers. Having said that, for developers quality manpower means someone who understands the quality of a project. In India, the final execution of projects is not through engineers but workers who live in labour camps or sheds and do not understand the kind of quality expected from a customer who is paying around 60 lakhs for the house. We are trying to overcome this problem, although we are still not happy.

Coming to the point of de-risking by going to different cities, Mr. Sharma said that this has mostly happened after FDI policies were liberalised. He attributed the whole up-swing in potentials of real estate industry to the FDI and FII inflows. It is the foreign investors who spotted increased competition in local markets and opportunity in other markets. This led to scaling up of operations in an organised manner to other cities.

Mr. Sabharwal asked Mr. Puravankara, "Often we get to see huge price differentials in the same locality leading to discrepancies in prices.



Mr. Girish Puravankara

On the other hand, at times people have ridiculed at obnoxiously high rates of bidding for properties. However, the same people, after some point of time, state that the deal was a steal. In such circumstances, how can you really value a property?"

Mr. Puravankara suggested that buyers of property must be cautious while bidding at high rates. They should be clear with their own calculations over the FAR they are getting there, frontage of the property, whether it will be developed as a commercial/residential project, etc. Going forward, there could be a rise in prices as almost everyone of us is bullish about the market, although it is crucial at the present to be clear on your numbers before you run over a bid.

Replying to the price differentials question, Mr. Jain said that when the land is small in size, the developer will not be able to build luxury amenities. Therefore, he cannot price the property at higher rates. On the other hand, if the land is huge, say around 20 acres, the scenario becomes different and the builder can afford to price it high. Therefore, price differentials within a particularly locality is not uncommon. Mr. Jain personally feels that more than FAR, the location and the demand for a property coupled with what is being developed there are real determinants of the bidding/selling price for the property.

Mr. Sharma contributed to the topic by adding that the real estate business will transform from a commodity business to a branded business. As more people realise the importance of living in a particular community and also the maintenance of their facilities, these things will start adding further value. Paying a premium for such facilities will not be restricted to big cities but also for people living away from cities. He cited an example in Bangalore where bungalows in the up-market localities like Sadashiv Nagar or Adarsh Nagar are less costly than those in Whitefield. Therefore, community living experiences will command prices.

Mr. Sabharwal, "At the beginning of our discussion, almost all of us agreed that demand for real estate properties will be intact as supply will remain constrained. It is not growing at the same pace as demand is growing. From a customer's perspective however, he would want supply to grow to match demand. What are the factors that are leading to a constrained growth in

supply?"

Mr. Puravankara blamed the new environmental regulations laid down by the Government responsible for this constraint in supply. He said that these regulations came as surprise to many developers and nobody was clear regarding ways to go about implementing them. Without getting environmental clearance, no project could start and timelines for each clearance got extended to almost a year and a half. Developers were affected as their execution plans got disturbed. Projects which were supposed to witness completion in two years were extended by three years.

In Mr. Sharma's view, one of the reasons for artificially high prices was the huge holding cost of the property until all pending approvals and other formalities got fulfilled. The authorities must adhere to faster approvals so that the increased costs of holdings are not passed on to consumers. It is natural that when real estate demand is high, developers will be motivated to pass the incremental cost of holding of property to consumers. If the authorities address this issue, it will go a long



Mr. J.C. Sharma

way in improving the supply constraint, thereby rendering prices affordable.

Mr. Jain reiterated the views of Mr. Sharma saying that in cities like Delhi, project sanctioning takes a lot of time. Also, in other smaller cities the timeline is around 6-12 months. Certain regulations relating to environment - state and central clearances - act as hurdles. Another issue which he highlighted is that of taxes. According to him, almost 27 percent of the realised rate of any property goes on account for paying taxes. All these costs keep increasing every year, and unfortunately the burden is passed on to the consumer.

Mr. Puravankara said that delays would definitely be there going forward as well. Contractors at times have their order books full and they might not come forward due to lack of capacity. Some of the developers such as Sobha and Puravankara have started in-house construction companies to cater to this excess demand, although pressure on delivery still existed. Other issues include getting labourers for which developers travel to places where they are usually available Orissa and other parts of South India. Managing these labourers is also not easy for the developer. Therefore, delays will continue, and investors must factor in a delay of around 12 months to avoid problems while putting in their numbers.

Mr. Sharma too agreed saying that delays are inevitable.

However, developers try their best to ensure supply is not disturbed and therefore number of projects handled by developers is also increasing.

Mr. Jain argued that while delays do happen, developers at times initiate a penalty clause whereby if projects get delayed, then they are liable to pay a penalty to customers. On the contrary, if customers do not take possession on time, they are liable to pay the penalty to developers. He said that till the time the project execution is not started, completion is not in the hands of the developer. However, once execution begins, then it becomes the liability of the developer to complete the project on time, until the developer deliberately wants to delay.

Mr. Sabharwal said that customers would normally not suffer. There could be instances though where developer cannot correctly predict the completion time and would need some buffer time. He wondered that developers have raised lot of money the capital markets and now have huge kitty. Since this industry is very fragmented, will the larger players seek consolidation by taking over smaller ones?

Mr. Jain replied in affirmation saying that this process has already started. Like we saw during the dotcom era, today real estate developers are present in every corner. Amidst this, the smaller players are unable to get faster approvals, sanctions, project execution due to various reasons as a result of which they approach the larger developers. They even approach bankers and other large fund houses who at times are able to support them. However, it might be difficult to convince foreign investors or fund houses of delays related to sanctioning by the Government.

Mr. Sharma too agreed that consolidation had set in. He said that certain developers have joined hands with their firm to jointly develop a project. There is a clear signal within the market that if a developer is not supported by any fund house or bank, then he will perish in this market. We will see more of this happening for sure in the near future.

Mr. Sabharwal asked about the Government's intention to appoint a regulator for the industry. Mr. Sharma admitted that the industry requires the services of a regulator. He said that the industry is precious and there should be someone to govern the funds invested by investors or banks. But looking at it from a different angle, developers are already over-regulated with many smaller agencies on which they depend. There are agencies that tell what to construct, what not to construct; obtaining planning approvals, occupancy certificates, commencement certificates; approvals from fire department, telephone, electricity boards, sewerage department, etc. The industry needs a regulator who understands its requirements so

that when they sell a product to the customer, he should not be over-charged. When a developer is building something, he should not over-build than what was commissioned. Another thing that the regulator must check for is the transfer of property which should be legally done. It should have controlling powers like the SEBI has over capital markets.

Mr. Puravankara differed slightly with Mr. Sharma and felt that the regulator is required more from the investor/customer perspective. Like Mr. Sharma, he too agreed that already there are many smaller agencies that regulate the operations of the developer. Certain developers might have clauses that call for a penalty when delay happens on their part, although they usually take refuge in terms and conditions that may work in their favour. So, from the customer's perspective, there needs to be a good regulator who can enforce what is actually contracted.

Mr. Jain too agreed that a regulator is needed and that he was delighted to inform the audience that a formal process has been introduced in Delhi. A Carbon Development ministry has already been formalized, and will start operations in the coming few weeks. In Delhi, the real estate is a state subject and hence it was a big concern there. Once this regulatory body is operational in other states, the big advantage to the industry will be with respect to small developers. The listed developers follow norms of corporate governance while also complying with all regulatory best practices. However, many small developers come with the intention of building and selling real estate properties without having to follow best practices for acquiring land, construction standards, tax payments, etc. This has become an important issue with both the big and reputed small developers.

The topic then veered towards West Bengal Government's policies regarding reserving homes for the middle and lower middle income groups.

Describing the West Bengal's initiative, Mr. Jain said that the system was that of EWS where houses are available for prices less than 20 lakhs. He said that the industry already has been talking to the Central Government and has put in papers to the Urban Development Ministry and the Commerce Ministry to introduce special residential zones. These special residential zones will be constructed such that while developers acquire the land, authorities must give them faster and one-window clearances within a period of 90 days. Talks are in advanced stages with several State Governments such as Punjab, Haryana, UP, Rajasthan and Andhra Pradesh. Developers have given commitment to construct one million houses every year to cater exclusively to this segment.

Other things that developers are asking for this scheme to become successful are acquisition of agricultural land at

agricultural land prices, no conversion charges to convert agricultural land and no ADC. Developers can then think of building houses for the masses like that done by HUDCO, HB, etc and provide them to the tenant at subsidised rate of interest of around 6-7 percent. Almost 25 percent of the price will be paid by the customer while the remaining 75 percent will be funded by financial institutions, who would retain ownerships of the property until the full payment is realised.

Mr. Puravankara supported Mr. Jain's arguments by saying that sops will be needed from the Government in terms of tax benefits. These benefits can be later passed on to buyers while developers find interest in building apartments in that range. Another critical thing is to develop the right infrastructure for such houses. Without provision of good roads and other public amenities, developers would not be interested in building something which is affordable, although not of good living quality. Also, a land acquired earlier might realise a better value later due to improvement in the profile of the area. Developers might, therefore, want to sell flats at slightly better rates than selling them for cheaper prices. This can be another major challenge.

Mr. Sharma opined that real estate must be given the status of an industry. The RBI needs to understand that what developers build is leading to a nation building exercise. Bankers must feel secure while mortgaging property and lending money to developers in pursuit of real estate projects. Regulators need to understand that while mass housing is important, building them at the cost of bleeding developers cannot be done. He quoted an instance from the airline industry where low-cost carriers have flourished to the benefit of travelers, although airline operators are bleeding.

Mr. Sabharwal talked about bankers who have huge targets for financial inclusion. They have financed about 3 million customers where loans were dispersed for as little as Rs. 8000 at very low interest rates. Similarly, with projects of such nature, bankers would be happy to lend at attractive interest rates and hopefully they will be rewarded with higher PE multiples by the investors. This will help them to generate money from the market at low interest expectations.

The highlight of the discussion has been that India is a country with huge potential in the real estate space. While demand for real estate will continue to grow, supply remains a concern, although developers are keen to increase supply. Everybody, including the Government, must work towards increasing supply as this is crucial to increase growth rates. The growth rates of around 20-25 percent is satisfactory, although this industry can grow at a much higher rate provided supply issues are taken care of.

Q&A Session

Q). From a manufacturer's perspective, there is an absence of standard sizes of the builder's requirements in terms of doors, windows, etc., thereby restricting manufacturers to produce in bulk. This in turn restricts manufacturers from reducing cost due to economies of scale. Is there a move to standardise the sizes of doors, windows, tiles, etc.?

Mr. Sharma: As far as we are concerned we are already standardised. All our door and window sizes are the same. We manufacture in our own factory. I completely agree with your point. I concede 100 percent that standardising will help us get better bargain from the manufacturers. However, the manufacturers themselves have increased prices in the last two years.

Mr. Jain: I agree with you completely that most areas are already standardised. There is a difference between low cost and luxury projects in terms of the sizes of doors, windows and tiles. However, the material that is being used for construction is standard. However, it is very difficult to standardise across developers and also across projects. The demand, supply, quality is different for different areas like Delhi, Mumbai, Bangalore etc.

Mr. Sabharwal: As an outsider, I would say that the responsibility lies with the manufacturers. If the manufacturers produce only specific sizes then the builder is compelled to build keeping in mind that size.

Speakers Profiles

Rajiv Sabharwal - ICICI Bank

Rajiv Sabharwal (Head - Retail Assets, ICICI Bank) Mr. Rajiv Sabharwal has done his graduation from IIT Delhi in Mechanical Engineering. Post that he completed his PGDM from IIM Lucknow in 1990 with specialisation in Marketing and Finance.



He started his career in Godrej GE Appliances in the area of Sales. He has been in the field of financial services since, for 15 years. He has worked in Retail Risk function at GE capital. His last assignment before joining ICICI Group was in the Retail Risk function at Times Bank.

He joined ICICI in 1998 in the credit function of the Automobile Finance business. Subsequent to that he has handled the credit function in two wheelers, personal loans and consumer durables. He was the Risk Head of ICICI Retail Business in 2000-01 handling all retail products - Mortgages, Auto, Credit Cards, Commercial Assets, Consumer Durables, Two wheelers and Personal loans. In June 2001 he moved to head the Home Finance business. Currently he heads

the Retail Assets (excluding credit cards) products group and the Rural and Micro banking group.

Pradeep Jain - Parsvnath Developers



Mr. Pradeep Jain entered the Real Estate Business in 1984 in a small way as a Marketing Associate. Step by step he achieved great success. Presently, he is the Chairman of Parsvnath Group of Companies, which entered in the real estate business with a quest for excellence and a 'total-value' approach. The Group emerged into a major entity as promoters, builders and developers. Today, the Parsvnath Group is a name to reckon with in the corporate sphere, engaged in more areas than just real estate. It has a strong presence in finance, amusement parks and indoor games. Mr. Pradeep Jain is a man of great organising ability, clear vision and is devoted to his profession. He believes in customer services and Company policies are so framed that customer satisfaction is given the highest priority as 'Customer is the Master'.

The Group today gives direct / indirect employment for more than 1,00,000 people of the country and also plays a major role in the nation building.

J.C. Sharma - Sobha Developers



Mr. J.C. Sharma is the Managing Director of Sobha Developers Ltd. He graduated with honors in Commerce from St. Xaviers College, Calcutta. He is a qualified Chartered Accountant as well as a Company Secretary and has over 25 years of experience earned across plethora of industries such as Automobiles, Textiles, Steel & Real-estate in the areas of Finance and Management.

Before taking on the mantle at Sobha Developers Limited in June 2001, he had successful stints at Grasim Industries Limited, Boruka Steels Limited and Auto Distributors Limited in Senior Management Position.

Girish Puravankara - Lalith Gangadhar Constructions Ltd.



Mr. Girish Puravankara graduated with bachelor's degree from Mysore University and also holds Master's Degree in Business Administration from Pune University.

Mr. Purvankara joined Puravankara Projects Ltd in April 1998 as 'Business Development Executive' and was responsible for Marketing Activities of

the Company. Thereafter, he was promoted as 'Business Development Manager' and subsequently inducted in to Board as Director responsible for overall affairs of the Company.

Mr. Purvankara was responsible for identification & Acquisition of Lands, Conceptualization of Projects, Launch & Marketing of Properties. Mr. Purvankara was instrumental in taking the Company to other Cities like Hyderabad, Coimbatore & Mysore.

Mr. Purvankara created exceptional teams in Marketing, HR, Legal, Finance, Engineering & Projects. He was also instrumental in advocating & implementing Good Corporate Governance through out the Company and other group Companies.

Mr. Purvankara resigned as 'Dy. Managing Director' of Puravankara Projects during October 2007 and since started new Venture - Lalith Gangadhar Constructions Ltd. in alliance with Kotak Reality Fund. The Company is pursuing projects in Bangalore, Hyderabad and few other Cities.



Panel Discussion - Hotels

Panelists

Mr. Patu Keswani, Founder & Chairman and
Managing Director, Lemon Tree Hotels

Mr. S P Jain, Chairman and Managing Director,
The Pride Group of Hotels

Mr. Manav Thadani, Managing Director,
HVS India and Head - Operations, HVS South Asia

Executive Summary

- There is sufficient growth in Tier I cities.
- Infrastructure and technology in and around hotels remain key areas of concern.
- Standardisation of room rents is essential.
- The years 2009 - 2012 will see a correction in some markets and an increase in supply in most markets.
- 5 critical factors that will affect the industry:
 - Oversupply in certain markets
 - Land Values
 - Pricing
 - Talent
 - Technology
- There will be pockets in the country where supply will be more than demand, within the next 3 years, which is happening in Bangalore, Hyderabad, Chennai, Pune, Gurgaon and Ahmedabad.
- The coming five years will witness massive development in the hotel industry.

Mr. Manav Thadani anchored and commenced the panel discussion. He initiated the discussion with a short presentation



Mr. Manav Thadani

covering demand-supply trends for some key Indian cities. Some important cities and facts highlighted in the presentation are as mentioned below:

Overview of Indian Hotel Industry: Cities and Segmentation

1. **Mumbai:** According to Mr. Thadani, Mumbai will continue to maintain the market leader position, and presents a good investment opportunity. Supply in the city would double within 5-6 years; even though many projects are still in the pipeline, while the market remains positive for hotels and their investors. On the demand front, only 2 hotels are expected to be completed in 2008, including the expansion of Renaissance, Powai and The Four Seasons. There are also chances of 'The Trident' staging a comeback in Bandra-Kurla early next year.

Segmentation: Mr. Thadani stressed on the fact that

Mumbai was still a commercially-driven market with a large portion of business coming from 'extended stay' or 'long stay' guests, a trend reflected across most markets in India. He brought up a very informative point in the fact that the hotel industry was losing out on a large share of this market to the unorganised sector, consisting of guest houses. But he also mentioned that this was an interesting space to observe over the next few years.

2. **Delhi:** The Government's push to increase room availability to 30,000 by 2010 was strong but the delay of a few projects would lead to a failure in meeting this requirement. Other factors contributing to this include: a) auction of some non A Grade sites and A+ Grade prices - many of which do not make business sense from the point of setting up standalone hotels. b) Non-hoteliers entering the market and attempting to build retail projects along with mixed-use features. While doing so these hotels may not be developed very efficiently from an operational point of view.

All in all, Delhi remains a strong market. In 2010, a spurt in occupancy may be witnessed because of the Commonwealth Games and prospects of Formula 1 and Cricket World Cup being organised in the city. Sports will play an important role (with respect to impact) in 2010.

The Government would like to see the number of estimated rooms to touch 30,000 from current 24,000 by 2012-2013. But in Mr. Thadani's opinion they may not even make it to 20,000 by the time the Commonwealth Games commence, mostly due to a delay in a number of big projects. In addition to this the ten hotels in Noida, backed by Uttar Pradesh Chief Minister, Ms. Mayawati for political reasons, other airport hotels which were to deliver 17 hotels by 2010-2011 too remain a question mark as to how many of these hotels will actually be developed.

Segmentation: Leisure plays an important role in the Delhi hotel market as does the extended stay market. Mr. Thadani also added that one of the main reasons these markets were losing out was that the country is not tapping into the potential for tourism and the MICE (Meeting and Conference) business. Part of which is due to the current astronomical hotel room rates.

3. **Kolkata:** Another great market which has done very well. Mr. Thadani mentioned that approximately 8 years back when the ITC and Hyatt were to launch (and practically double the room inventory) in Kolkata, everyone was of the opinion that there would be a sharp correction in the market - which never happened.

Current demand situation points towards a correction of some nature while a lot of supply is being talked about in the city. But most analysts are a little reluctant to mention anything about a sharp decline. The Left Parties can never be understood since they keep changing their policies. So analysts are a little more conservative in projecting the downturn. What is worrying is the kind of hotels coming up in the city - most of which are at the high end of the market (JW Marriott, potential talks of a Ritz Carlton / Park Hyatt, Intercontinental). The market should ideally have been in inverse so that signs of a correction would show up. Supply is a worry. In 2000, the number went up to 1,000 rooms, after which a gradual increase followed by a sharp upward movement has been witnessed.

Segmentation: The market size is commercial, while others like meetings, airlines etc. are more or less equal.

4. **Chennai:** Chennai is a relatively strong market which will maintain its strength. The existence of unorganised and unbranded hotels, which tend to do quite well, also supports this fact. It is also the only city with 3 main sources of demand - IT, automobiles and the banking finance sector. A well spread out city, which gives comfort to developers. In terms of supply, Chennai has witnessed a gradual but not a sharp increase, which is under development.

Segmentation: A traditionally commercial driven market of which a small part comes from leisure and airlines while the others - meetings and extended stay markets contribute equally.

5. **Bangalore:** Mr. Thadani declared that this was a market many people were looking at. He also mentioned that he was expecting it to start softening a little faster than it had, and that it may also witness a slight correction this year. Rates have already stopped going up the way they used to. He opined that there was even a time when Monday-Thursday it was impossible to get a room, which was now possible, for most weeks of the year. Early this year, we realised that there were more unorganised rooms in this market, which most hotels were not even tracking, than organised rooms. Charges for hotel rooms range between Rs. 2,500 and Rs. 5,000, clearly indicating that people have either stopped going to the city or have decided to stop going to hotels, and the number of guest houses have mushroomed. He also predicted that as more supply came in, there would be a rate correction but that business would start coming back from the unorganised sector to the organised sector.

He also added that some supply in this city was still 3-4 years

away from coming into the market. For example, Whitefield, a very important pocket for the city, which has traditionally supported the city in a large way, saw a lot of supply coming in and will see more supply coming in this year.

Segmentation: An IT driven city followed by the extended stay market, which is as high as 20-25 percent if the unorganised sector is taken into consideration.

6. **Hyderabad:** A market which has disappointed a lot of people. It shows a herd mentality which is reflected in the people if one person is developing something, everyone wants to develop the same thing. Three years ago, Hyderabad had the prospect of becoming the number one market in India but clearly that has not happened. And it cannot be pinpointed whether the reasons are political or large infrastructure projects, which were seen every year, have stalled. Clearly, this market has disappointed with announcements like The Four Seasons and Park Hyatt coming into this market. The other thing about Hyderabad is that 10 years ago it had the lowest average room rate in the country while today it has crept up towards the higher end. Hyderabad is highly rate sensitive. A good space to enter the market would be in the budget mid-market space, not in the high-end luxury space. The supply in this city is worrisome, as we see a correction before the supply has already come in. An interesting market to observe once the hotels start coming in.

Segmentation: Again, very commercially driven like most other IT cities.

7. **Goa:** Fantastic market, equated to a bottomless pit more hotels more people going there for holidays - yet a tough market to enter. A majority of tourists would not mind paying US\$ 200/night but not US\$ 350 - 400/night. It would be good if more supply came in. As mentioned earlier the leisure market in India has not been tapped correctly. While everyone is looking at it very few people have been able to successfully start hotels.

Segmentation: The market size is very evenly developed between group leisure, individual leisure and foreign. The domestic market is what has really made this market grow in the last few years. There exists a lot of potential for the MICE businesses in this market.

8. **Jaipur:** The last two years have seen a fair amount of IT/ITES coming into the city providing it some opportunity to grow as well. Witnesses steady supply, the next 2-3 years will see supply increasing aggressively. Mr. Thadani is fairly

comfortable with what is happening in Jaipur.

Segmentation: The commercial side of business will continue to grow.

9. **Ahmedabad:** A lot was dependant on which Government came back to power in this market. With Narendra Modi back in power, it is expected that this market will continue to grow in the next 5 years. During his last tenure, improvements were seen more towards the last 1-2 years of his tenure. Momentum to continue. A couple of SEZs are coming up, which will have a positive impact on the city. A gradual increase in supply is expected. It is also a very rate sensitive market so there are not many products coming at the high end which is the correct thing to do in such a market. This market is being tracked fairly recently.

Segmentation: Commercially driven.

5 critical factors to discuss in the panel discussion:

1. **Oversupply in certain markets:** Demand exceeds supply, favourable to owners and operators. However, the guest has to pay a lot more and that is a critical issue because much of the business is lost because of this distorted price-value relationship.
2. **Land Values:** Existing owners and others face a high entry barrier. For the new players too it is a tough challenge. Mixed use is an option but is it really the right option? India is beseeched with huge infrastructure problems many hotels are put on top of retail malls. Designing of structures entry, exit points, traffic management, etc. should be paramount. One way that the government could help not just hotels but also hospitals is by increasing FSI norms. Some State Governments have already started doing that.
3. **Overpricing:** In the last one month itself there are instances of mismatch of price points - to the extent that the guest feels cheated when a mid market business hotel charges US\$ 350. Mismatch is certainly an issue. It has also led to the creation of a huge unorganised sector which no one is really tracking and hoteliers are losing business to this unorganised sector. This has also impacted the MICE business and the foreign tourist demand, which has more or less disappeared.
4. **Talent:** The quality of human resource remains a concern.
5. **Technology:** In Thailand internet is free in most hotels. In India, hotels still charge Rs. 800-900 for internet access. Connectivity and technology infrastructure is not up to the mark. Sometimes, hotels go overboard with technology,

with remote controls in showers, when all guests are not technology-savvy.

A recent survey mentioned that 67 percent of travelers want internet connectivity while 44 percent reported of stress due to a related problem. Some basic things to be expected from an in-room technology aspect (many of these are beginning to happen, some will happen and developers/investors should make sure that their projects particularly 5 Star, luxury and upper scale limit, they need to have these because these are becoming or will soon become the norm in due course)

Standardisation is critical for brand standard to be maintained.

PANEL DISCUSSION

Mr. S P Jain briefed the audience about the business model of Pride Hotels

Pride Hotels, at present, has 430 rooms in the 5 Star category, located in Pune, Nagpur, Ahmedabad and Chennai. The model was based on: build a hotel in Pune in 1988 and then started acquiring hotels rather than building their own. In 1999, they acquired Pride Hotel, Nagpur followed by Ahmedabad in 2003 (for which only civil work was completed) where they completed the hotel. In 2005, a property in Chennai was acquired. Pride Hotels is currently working on increasing the number of rooms by 176 in their existing hotels. In addition to this, their new projects will consist of 520 rooms in Mumbai, Alibaug, Goa and Bangalore. The hotel in Bangalore will be ready by July with 120 rooms. In all, Pride Hotels will have 1126 rooms by 2009-10.

Mr. Patu Keswani, then, briefed the audience about Lemon Tree Hotels

Lemon Tree Hotels started with their first hotel in 2004. Currently the company has approximately 500 rooms, and will have another 500 rooms done this year, followed by 1500 rooms in the next 1.5 years which will take their room count to 2500 rooms. Of which 2000 are in the upscale category and 650 rooms in the economy category - spread out in 12 main cities in India.

Mr. Thadani asked Mr. Keswani how they have managed to get some of the best sites in most cities. Mr. Keswani replied that Lemon Tree Hotels was hungry from the word 'go'.

India has the problem of inverted pyramid of supply - trying to meet the regular pyramid of demand. The opportunity lies in the upscale, mid-market and the economy space. The problem is how one can put up hotels, which are financially successful at these price points because land values had already started

showing signs of hardening in 2004. So, Lemon Tree grabbed whatever was available, and timed their decisions right.

Mr. Thadani wished to know from Mr. Jain how long this good phase will last. He estimated that with increasing demand and shortage of supply, this phase will continue for another 2-3 years. By then, more supply will be added which will lead to a slight price correction, which will be a relief from the current high prices. But he doubted whether the industry will be able to meet the supply even over the next 10 years because whatever supply is coming - 55,000 rooms are under construction, whereas there is excess demand. And, the demand too is increasing. So the next 8-10 years is a very good phase for this industry due to the country's fast economic development, demand in all the sectors is also helping the hospitality industry. The situation too is changing; companies who were earlier maintaining guest houses are also finding it expensive and unviable.

Mr. Keswani felt that, today, because of a shortage of supply even inefficient players are doing very well. Demand is growing faster than supply. But there will be pockets in the country where supply will be more than demand, within the next 3 years, which is happening in Bangalore, Hyderabad, Chennai, Pune, Gurgaon and to some extent in Ahmedabad.

One key barrier to entry in the country - as far as putting up supply goes - is getting land, felt Mr. Keswani. Regulatory process is absolutely opaque. One can put up a hotel in 15 months but it usually takes 6-8 months to get approvals, to start building and then to operationalise it. These are the key risks - getting government approvals and getting land at the right price. Mr. Keswani prefers the pricing to be mid-market and the product to be upscale, that is how he can price the hotel at approximately 60 percent of the average price of a 5 Star in that city.

Mr. Keswani averred that the 5 Star segment would very severely hit in the next 10 years. The key challenge is to get land where Lemon Tree can put up hotels at the mid-market price point, which is possible. The interesting thing is, in India only 15 percent of the supply is branded - the rest is either unbranded or owned by individuals but these hotels are not very efficiently built and are very vulnerable. There will be an opportunity in the next 3-7 years, especially where supply starts overtaking demand for distressed assets. That is also when cash will be king with a good opportunity to consolidate and for efficient players to start dropping prices while still making money.

Mr. Thadani then talked about some international groups which have evolved a pricing strategy where they are going to open the doors and display 'rate of the day' from outside the

hotel. There will be a big board saying 'You can come and stay here, the rate will be Rs. 3000 per day'. How will such pricing strategies impact India?

Mr. Jain said that this is an international trend, which has not been practiced in India. Pride Hotels has already started providing two rates - one for Monday to Thursday (even to corporates) and another rate for Friday, Saturday and Sunday. It may not have any effect as it is a demand-supply equation. Even today, some companies are charging 'day rates' but these are still on the higher side. It also depends on the occupancy. It will be an open game, and like the airlines, hotels too will start following competitive price trends in the country, felt Mr. Jain.

Talking about raising debt, Mr. Keswani opined that it is a difficult task for new companies, but not for big existing players. A cash flow with an adequate coverage ratio on debt is essential. Future successful players in this space will be development companies like DLF, which can overcome the problem of land supply, and approvals and development to some extent, aligning with Hilton or Emaar MGF with Accor, Unitech with Marriott. These companies do not have much of a problem raising debt but individual hotels can face problem raising debt as banks are very conservative in India.

Mr. Keswani also discussed an interesting trend in the US where 53-56 percent of bookings happen through the internet. The Indian average is 7-8 percent. Internet is a great opportunity for both maximising revenues and dropping prices. With this rooms can be filled, prices can be dropped or increased to fill the final few rooms on internet based bookings.

Mr. Jain felt that the biggest critical factor in the development of this industry is the sanctions, Government approvals and land prices. Nearly 50 percent of the total project cost goes towards land and the ARR too gets affected. Single window clearances are essential. Attrition is another area of concern. In order to deal with this shortage, Pride Hotels has decided to start a 'Pride Hospitality Institute' in Pune, which will have degree courses.

Mr. Keswani estimated that their employee strength will grow to about 6000 in the next 2 years. Employee Stock Options was another innovation, which Lemon Tree introduced to its employees. The company is also focused on process and



Mr.S.P Jain

training. The right attitude and a strong recruitment system are necessary. A happy person will take better care of guests. Lemon Tree Hotels has a very low attrition rate of 6-7

percent a year.

While taking on the big players in the industry, Mr. Jain said that the world is becoming a small place, and one can reach anywhere in a smart way. It helps to be a brand. Indian companies need to balance their marketing connectivity, and it is not a huge challenge for new hotels that are coming up.

Mr. Jain added that valuations are bound to go up, with land, construction and other input costs going up. Mr. Keswani envisaged that there will be lot of congestion in the country; so distances would be measured in time and not in kilometres. In



Mr. Patu Keswani

this scenario, it makes sense to disaggregate supply and go right where the customer is. Spreading risks through a mix of economy and high-end hotels with different

number of rooms should be a viable option.

Mr. Keswani differed that hotel prices will go up. India is one of the few countries where inefficiency is rewarded - because of the barriers of entry. The big challenge is every company has asset values higher than the enterprise value and that is unfortunate. RoC is 2-3 percent, and most players afraid to revalue their assets because then they would approach 1 percent or even 0.5 percent in the long term. If this happened in the US market, one would acquire such property bit by bit and sell it asset by asset. That's not happening in India, but slowly as two things happen - laws ease up making it easier to acquire companies and more supply comes up. Paradoxically, supply will drop the price of these existing companies and there will be an opportunity to acquire them - hopefully in the next 5-7 years.

For Mr. Jain, the coming five years will witness massive development particularly in the hotel industry. A booming economy, increase in tax collections and Government expenditure provides good scope of development in the next 5 years. For hospitality and hotels - the next 5 years are bound to be healthy because any supply will come only after 2-3 years.

Mr. Jain as well as Mr. Keswani concurred that they will be concentrating on expanding operations in India in the near future, and not venture abroad.

Talking about the changes in cost structure of the business model, Mr. Keswani said Lemon Tree has a simple model:

- They consider the land value and the cost per room. This model can be applied to different cities.

- They also look at return per square foot, and not return per room

The cost is going up, which is affecting returns (other than land value). Construction costs linked to cost of steel and so on and so forth. But Lemon Tree has devised ways to reduce other input costs they manage to build a room at about US\$ 60,000. At this rate, they can offer rooms at US\$ 75-80. The challenge now is to offer rooms at US\$ 25.

Mr. Thadani wondered that when most global companies have gone asset light and have gone into the management route, do the panelists see that as a road to expansion or is it always going to be asset lead?

Mr. Keswani does not see that happening in India as the balance of power lies with the asset owner. Service level agreements are not enforced, so at present pure brand and management plays cannot work in India. When there is enough supply that will work. Going forward, Lemon Tree will spin its assets into an asset company and look at placing them on a yield basis with REITs and investors if they can retain control. From a valuation perspective, from an IPO going forward, placement with any PE players, Lemon Tree needs control over the asset.

When asked if Pride Hotels is looking at the management route, Mr. Jain said that they have a well established 5 Star hotel apart from Pride Visotel, a new brand. He felt that there is tremendous scope because of the amount of fees and share of profit. In view of HR trends, they are finding it very difficult to sustain small hotels independently. This is a good model for Pride. There will be no-frills hotels with prices in the range of Rs. 2000-4000, said Mr. Jain.

Q&A Session

Q). It sounds to me from your presentation that a possible slight correction in land values in certain markets, the smart money is on budget, mid-scale now, and will wait on upscale, full service until 2010-11 if it is new in the market. Is that a fair assessment?

Mr. Thadani: I tend to agree with that. I do realise that land prices are very high and it makes sense to put up more luxury hotels. Clearly when the correction comes you are better off being in the lower pyramid and the opportunities are far greater in that segment. You could be in the low segment and still charge US\$ 200 when the times are good. But when it turns around, you could be in the lower segment and you could charge US\$ 50 and still survive. But if you came in at that high rate and the market corrected, it will be a lot more challenging.

Q). You had mentioned 6000 employees and 2500 rooms. What is the employee to room ratio?

Mr. Keswani: We have actually 5 verticals and some companies that I did not mention. In the hotel space, we typically look at, depending on the inventory cycle, for Lemon Tree between 1.2 to 1.6. Of which the permanent employees on our roles are 0.7 and on Red Fox it is 0.6.

Q). And for Pride, what are the employee to room ratios? Do you see additional opportunity to decrease that ratio with technology?

Mr. Keswani: When I say 2500 rooms, those are rooms that will be ready in our pipeline. We will have another 2000. So, at any given moment, we are going to have a 1000 rooms by the end of this year, and we will have 1200 employees which will go up to approximately 1800 in another 3 months. We are actually building people ahead of opening a hotel. But on a steady state basis, you could be safe saying it is 1.2 for Lemon Tree and 1.6 for Red Fox.

Mr. Jain: We have a slightly higher ratio because we have an F&B outlet group payroll 1:1, contract 1.5 to 1.6.

Q). I recently went to Rajasthan. They have heritage hotels both of poor and good standards. Also there is a mismatch in the way they are designed. Palaces are turned to hotels, but do not deliver like hotels. Are people like Mr. Keswani and Mr. Jain looking at taking over such heritage hotels?

Mr. Jain: These are mostly havelis, their own homes. Seeing a boom, the owners have converted them into hotels which they sell to groups, and is a seasonal business. We are definitely looking to acquire such hotels and put professional management in place, upgrade their service quality. The problem with them is that they have small capacities, which makes it unviable (for example, 27 rooms/30 rooms/40 rooms) unless they are not 70-75 rooms or expandable to 70-75 rooms it becomes difficult. This is one of the main reasons a lot of groups are not taking over such hotels. It is the same with us too as we feel the room capacity is very low. But these hotels are seasonal, and in future with demand growing and the revenue it is generating the promoters would also like to upgrade their product.

Speaker Profiles

Manav Thadani - HVS India



Mr. Thadani is the Managing Director of HVS, New Delhi and heads all the operations of HVS in South Asia. This includes HVS's Consulting & Valuation services, Executive Search, Marketing & Communications, Web Technology Strategies and Eco Services. He holds a Bachelors degree in Hotel & Restaurant Management and a Masters in Food Service Management from the New York University. As a consultant, Mr. Thadani has had the opportunity to work in

North America, Europe and the Asia Pacific region. Prior to this, he gained six years of operational experience in various hotels in New York. He has also conducted feasibility and market studies as well as performed hotel valuations for most of the international hospitality groups, investment banks and real estate players in the region.

HVS, under his supervision has conducted executive search assignments in the hospitality, real estate, aviation, retail, Engineering and FMCG space. Having written numerous articles for the industry, Manav has been quoted extensively in various publications such as HOTELS magazine, Express Hotelier & Caterer, Economic Times, The Financial Express and Business Standard amongst others. He has also been regularly featured on various television channels in India like CNBC News, NDTV Profit and Total TV. He has also been playing host to the most sought after Hotel Investment Conference for South Asia (HICSA) in the past few years.

SP Jain - The Pride Group of Hotels

Mr. Jain is a first generation entrepreneur and heads the Pride Group of Hotels. He also has a finance company.



Mr. Jain is active in Social work in field of Education, Medical & Religion. He is on the managing committees of various associations like Hotel and Restaurant Association of

Western India, Federation of Hotel and Restaurant Association of India (FHRAI) and Akhil Bharatvarshiya Digamber Jain Parishad (Maharashtra) to name a few.

His philanthropic activities include donations for S.P. Jain Jainological Museum at Gajpantha (Nasik), S.P.Jain Sabhagrah (Hall) at Trimurti Jain Mandir, Podanpar, Borivali, Mumbai and Construction of Pravachan Hall at Chandraprabhu Jain Mandir, Bhuleshwar, Mumbai to name a few.

Patu Keswani - Lemon Tree Hotels

Mr. Patu Keswani is the Chairman & Managing Director of Lemon Tree Hotels Mr. Keswani is a B.Tech (Electrical) from IIT Delhi and an MBA from IIM Kolkata. He has 15 years of experience with The Taj Group of Hotels including as Chief Operating Officer of Taj Business Hotels and as Sr Vice President Special Projects. Patu has also worked with A.T. Kearney Inc., as Director in their India Office.



Anticipating the enormous latent demand for a right-priced up-scale hotel product in India, Patu promoted Lemon Tree Hotels in September 2002 to offer India's first moderately priced, upscale, full service hotel in Gurgaon in 2004. Since then, the company has built 5 hotels in four cities and is currently constructing 9 more hotels across all the major Indian cities.

For information, please contact:

KOTAK MAHINDRA (INTERNATIONAL) LIMITED
(OFFSHORE MANAGER)
LES CASCADES BUILDING,
4TH FLOOR, EDIT CAVELL STREET, PORT LUIS, MAURITIUS
TEL. (230) 212-9800, FAX. (230) 212-9833

KOTAK INVESTMENT ADVISORS LIMITED
(INDIAN ADVISOR)
13TH FLOOR, BAKHTAWAR, 229,
NARIMAN POINT, MUMBAI - 21
TEL- (91) 22- 66260500, FAX- (91) 22 - 22855511