Building a community

Mantri Developers has carved a niche in the real estate sector

What should a real estate developer do when he finds out that a metro line passes through a 20-acre land parcel he just purchased for ₹90 crore? Should he sue the Metro Rail Corporation for not disclosing the metro line details during pre-sale? In a real life incident, Sushil Mantri, founder and CMD of Mantri Developers, who had purchased the Mysore Mills property from the Karnataka government in 2003, decided against going to court.

He sketched a new plan that didn't change the metro line alignment but the properties that were to be constructed around it. According to the earlier plan only residential projects were to be built on this land, but Mantri proposed a public-private partnership with the Karnataka government wherein he would give the land required for the Metro station valued at ₹200 crore for free and also build the station at his own cost. In return, Mantri asked for permission to build a commercial and a residential block around the station, offering a small portion of rental revenues from the commercial complex. The government officials found this offer too good to be true and appointed Infrastructure Development Corporation Karnataka Ltd to conduct a detailed review. It's then that he decided to construct a retail complex (mall) connected to the adjacent metro station.

After approval, Mantri constructed a residential project and a mall, which opened in 2010. The metro station opened last month, and India got its first metro rail connected mall.

The benefit for Mantri: for a mall, usually, a 5-km radius is the catchment area but the direct metro connectivity to the Mantri mall widens the target audience. Mantri also gets branding rights to the metro station for 99 years along with a lot of goodwill with the government. The cost: cost of land for metro station and construction expenses of metro station. The commercial complex, adjacent to the metro station, on the other side is under construction.

Mantri: trusted brand

Mantri Square is one of the biggest malls in the country at 1.7 million sq ft of built-up area. Instead of selling retail space in the mall, as followed by several major developers, Mantri has rented out space and there is a revenue-sharing agreement between retailers and Mantri Developers. And while actively managing the mall's operations, a first for Mantri, he also started getting offers to manage other malls in south India.

Expansion of activities

Mantri Developers started managing several retail complexes soon after. Mantri is confident that mall management is the only way forward for developers. "There will be a time when people (retailers) will like professional advice," he says. "There are few malls where people like to go again and again." Apart from managing its two malls in Bangalore, Mantri manages two other malls in Hyderabad.

"To maintain a steady income, it is imperative (for a developer) to have good mall management to ensure steady footfalls, increasing revenues and a better customer experience," says Pushpa Bector, senior VP and head (leasing & mall management), DLF Mall of India. For DLF's largest retail project, DLF Mall of India, DLF is outsourcing the operations; however, leasing, rentals, finance and marketing processes will be controlled by DLF.

While the foray into mall management happened by chance, the leasing of commercial property akin to the strategy of other large developers like Rahejas in Mumbai and DLF in Delhi, is part of Mantri's plan to create long-term income yielding assets.

Mantri, who started as a residential developer in 1999, started focussing on the long-term yielding asset business during 2007-08 and has so far leased 3 million sq ft of space including malls, office complexes and a hotel, which alone contribute 20 per cent to its total revenue.

The leasing of mall space includes Mantri Square (1 million sq ft), and Mantri Central (0.4 million sq ft), both in Bangalore. The hotel consisting of 0.2 million sq ft is managed by Hilton (Bangalore). And Mantri has office spaces in Bangalore, Pune, and Hyderabad amounting to 1.4 million sq ft. While 65 per cent of Mantri's commercial properties are in Bangalore, the rest are in Pune and Hyderabad. "Real estate is a cyclical business and yielding assets can support us in the weak period, as assets can be mortgaged. It also gives stability to the organisation," says Mantri. "Our target is to get 50 per cent of total revenue from rental income over the next five years. Our topline will come from yielding income."

Mantri has set an ambitious target to expand its commercial assets portfolio to 13 million sq ft, by adding 10 million sq ft over the next five years. Of this, 3 million sq ft is already under construction in Bangalore, Pune and Hyderabad.

The group also has two malls in Bangalore under construction for 1.2 million sq ft and 0.8 million sq ft, respectively. And it is building office complexes in Bangalore, Pune and Hyderabad of 1 million sq ft.

Global financial crisis impact

Even today, 80 per cent of Mantri Developers' income comes from sale of residential projects, and it currently has 23 residential projects in various stages of construction. Its margins (sales price per sq ft), which had shrunk by 20 per cent during the slowdown of FY11, recovered last year. But the size of the apartments that had shrunk by at least 20 per cent during the same period has started going up again. The size of the apartments in India's IT city only kept growing from 2000 to 2008-09, helped by the boom in this sector and Mantri's customers, 70-80 per cent, were IT professionals who wanted to buy bigger flats. But the slowdown in the western economies that affected the IT industry in Bangalore made an impact on its real estate as well. Large sized apartments found fewer buyers. It was then that Mantri went to the drawing board and designed smaller size apartments, that didn't compromise quality of living to a great extent. Interestingly, its rental income from commercial properties didn't take a hit in the slowdown.

The reduction in the size of the apartments coupled with a decrease in the sales price brought down the budget of the flat by at least 20 per cent, post 2009. It made apartments affordable and that attracted a new set of buyers. Of all the apartments that Mantri Developers has sold over the past four years, only 20-30 per cent of its buyers are IT professionals. Reaching out to a broader target audience helped Mantri Developers survive the slowdown and it claims zero unsold apartments, as this player prefers to sell even at a discount rather than bearing holding costs.

Inflation made a dent on the real estate industry as well. Over the last three years, construction costs have gone up by 65 per cent. To offset this, Mantri started selling apartments in small batches and marginally increasing the sales price with each batch.

Snehal: value-based vision

Emerging segments of growth

To construct an income yielding asset portfolio, Mantri needs to invest a lot of money, but returns will come gradually over the long-term, unlike residential property. "We have reached a good size and have enough cash flow coming from residential that we can invest here," he says. Mantri finances its projects with the help of internal accruals, bank loans and private equity partner, Morgan Stanley, which holds 10 per cent in the company.

Its income from sales for FY14 was ₹1,200-1,300 crore, but, by the percentage completion method of accounting, the turnover was about ₹700 crore. Meanwhile, expenditure on construction was ₹600 crore and a quarter of this was spent on building income yielding asset. This year, Mantri feels, expenditure on construction can go up to ₹1,200 crore.

"Mantri Developers is a reputed player and there track record for the past 15 years speaks about the professional, innovation and strong leadership of Sushil. My compliments to Sushil and his team on completion of 15 years," says Anil Nayak, CEO, CREDAI Bangalore, who has worked with Sushil Mantri when he was president, CREDAI Bengaluru. Mantri is now vice-president of CREDAI at the national level.

Mantri, whose signature is the logo of Mantri Developers, claims to charge a 10 per cent premium on his properties. While the hype for smart cities is recent, Mantri had partnered with Cisco in 2012 to provide home automation solutions and build smart townships. "Sushil is highly focused on execution and making sure the customer is happy," says a partner on condition of anonymity. "He makes good use of technology and has developed a system with SAP to track inventory."

Mantri Developers' target market is affordable luxury, focusing on building residential townships instead of standalone buildings. It also has plans to get some apps developed for its smart townships. Mantri would also like to build new smart cities in India. In the residential segment, Mantri has started making homes for senior citizens in Bangalore, which are specially designed luxury residences targeted at retired people. And it offers complimentary services like bill payments, ticket booking, post office and bank, among others, which seniors might not be able to access easily.

And as part of the CSR initiative, a community school in Mangalore has been set up where 500 students from below- the-poverty-line families can study.

Mantri's wife became actively involved in the business as it was growing. "The company's vision is based on the values of punctuality, quality, reliability, speed and transparency (PQRST)," says Snehal Mantri, director, marketing and HR, Mantri Developers.

When Sushil Mantri, 52, originally from Pune, decided to branch out on his own in Bangalore in 1999, he had to leave his family fold without getting his share of the family property. He took a ₹10 lakh loan and came to Bangalore. Over the past 15 years, Mantri has come a long way having built a trusted real estate brand. But, he's not done yet, and Mantri, who has run and turned around several business initiatives of his family including textile, real estate, broking and an automobile forging company during 1980-1990, has a long way to go.

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