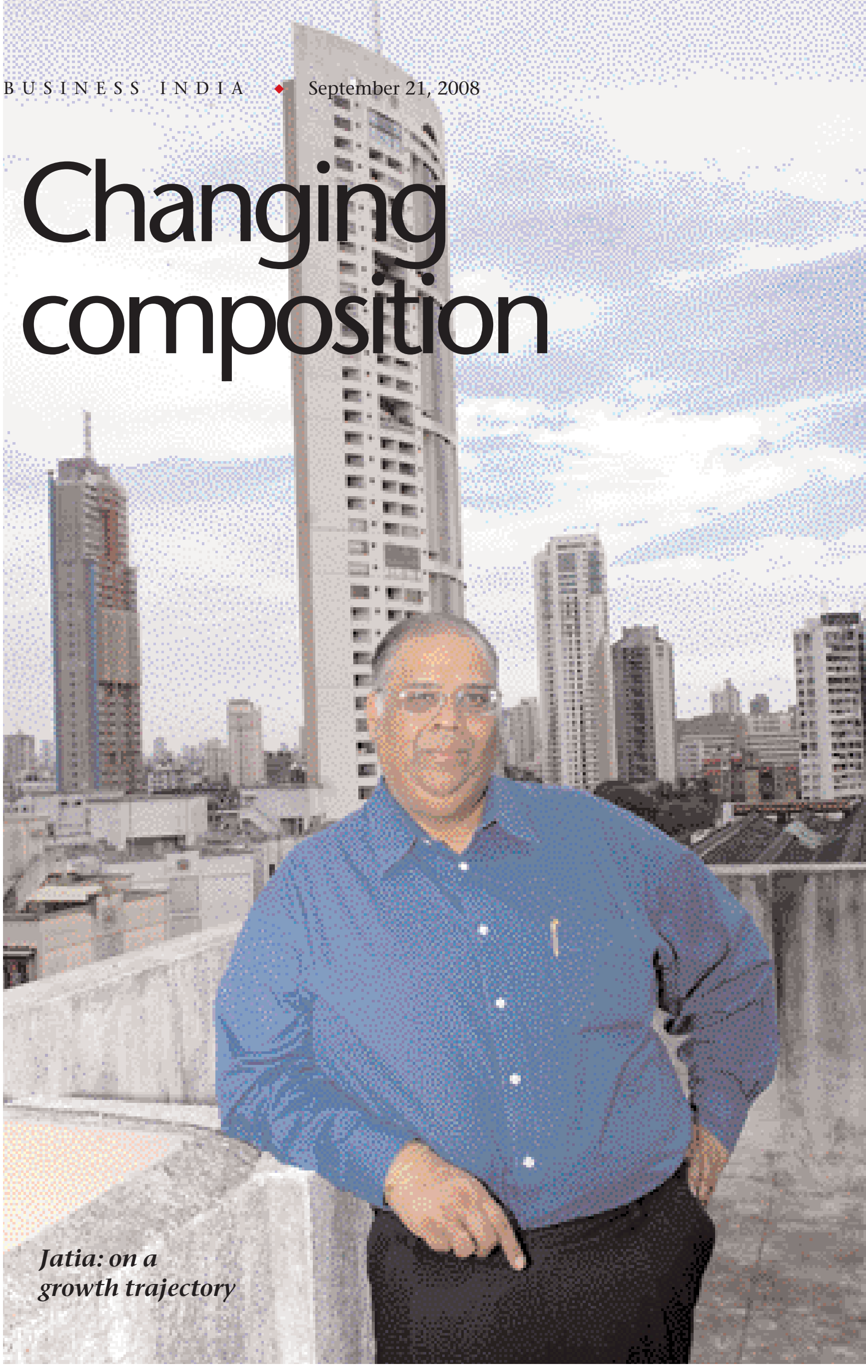
Changing composition



SANJAY BORADE

Jatia: on a growth trajectory

The Rs2,000 crore investment in an IT SEZ and a free trade warehousing zone will change Modern India's revenue composition

The rising interest rates have hit the real estate sector the hardest. Companies in this sector are now resorting to borrowing at exorbitant rates and their share prices have fallen by over 50 per cent from their peak. But that does not perturb Vijay Kumar Jatia, CMD of the Mumbai-based Modern India Ltd (MIL), formerly Modern Mills, who has mastered the art of picking up distressed assets and laughing his way to the bank.

Sitting on a land bank acquired at a historically low price, he develops the property on the build-own-lease (BOL) business model and has been earning steady rental income. In 2000, while parting with the M.P. Jatia family (different from the S.K. Jatia family, which owns Asian Hotels) that runs Pudumjee Pulp & Paper, Vijay Jatia had taken possession of a sick composite mill, which the family had acquired in 1979. Although the mill was profitable, a prolonged strike by the Datta Samant-led trade union was impacting its operations.

The case was then referred to the BIFR. And, soon, under Jatia's stewardship, the mill came out of the clutches of the BIFR. The mill had a solid asset – a land bank in central Mumbai. Jatia used this asset to build an empire.

"MIL was one of the first to develop surplus mill land and the company revived on the back of a project undertaken to develop a 40-storeyed residential complex at Mahalaxmi," explains the 51-year-old Jatia, talking about his first involvement in the real estate sector, which he jointly developed with GE shipping. "Called Belvedere Court, the complex has modern amenities like a swimming pool, health club, jacuzzi, tennis court, squash court and ample parking space."

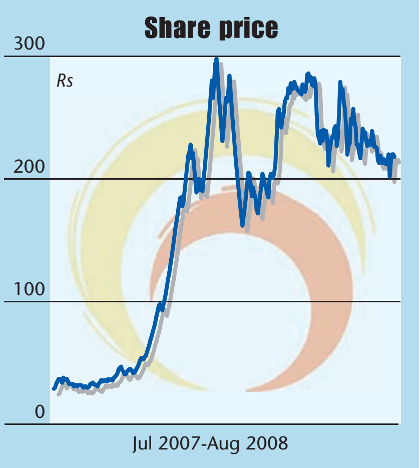
"In 2001, the development control rules were further liberalised and modified," says Jatia. "We also started renting out the Modern Centre (which houses our office) and earned rental income to sustain the mill operations, but on account of high labour cost and octroi, it was unviable. So, in 2004, the mill was finally shut," he adds.

Till date, Jatia has converted 3.35 lakh sq ft of mill land into residential and commercial complexes. The renovated and refurbished mill premises called Modern Centre is a 1.50 lakh sq ft built up area, which has a business centre as well as office space leased out to clients like ING Vysya Bank, Ugam Solutions, SIFI securities, Emerson's, etc. With the average rental of Rs250 per sq ft, MIL earned an income of Rs6.68 crore last year (2007-08) alone. "We have received permission to develop the present land bank of 8 lakh sq ft at Mahalaxmi and Elphinstone into commercial space," says A.R. Birla, general manager (project finance), MIL.

Currently, the major contributor to MIL's topline is the trading activity. Turnover in this segment for the year ended March 2008 has more than tripled to Rs142 crore from Rs45 crore in 2007. During the same time, the profit also rose to Rs1.95 crore from Rs1.37 crore. MIL's trading activity consists of fabric, yarn, sponge iron, steel pipes, etc.

During 2006-07 and 2007-08, in the real estate space and business centre side, MIL's revenues increased from Rs6.43 crore to Rs8.86 crore, making a profit per annum of Rs5.07 crore and Rs6.25 crore respectively. Analysts tracking the real estate sector feel that, unless MIL's real estate activity starts picking up (which could take another three-four years) and becomes a major contributor to its topline, it would be kept out of their radar. "It has yet to gain critical mass. Hence, the awareness of this company among analysts is poor".

For the first quarter ended June 2008, MIL's income from operations was Rs51.03 crore, up 180.83 per cent from Rs18.17 crore for the same period last fiscal. But, the profit after tax is just Rs1.39 crore, up from Rs1.13 crore – a rise of just 22.88 per cent. Interestingly, the revenues from the business centre have gone up to Rs2.94 crore on the back of high rentals.

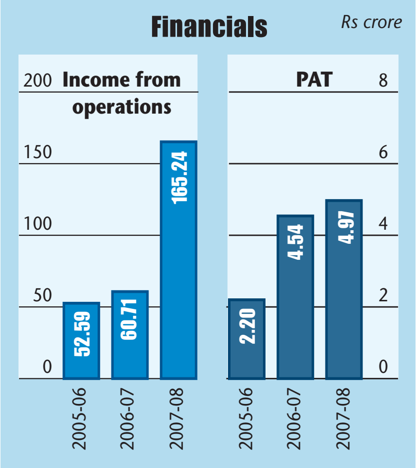


But Jatia, holding an 87 per cent stake (after the recent 3 per cent dilution, pursuant to the Sebi directive) and raking in close to Rs25 crore, is all set to change the composition of the topline. Sebi has directed the promoters to bring their holding to 75 per cent. "Before being referred to the BIFR, we had a 50 per cent stake in the company. Then, under the rehab scheme, we had to infuse fresh equity, as a result of which the holding had gone up to 90 per cent," discloses Jatia, looking at further dilution. Currently, the Rs2 paid-up share of MIL is changing hands at Rs220, up from Rs48 (adjusted), a year ago.

More recently (in March 2007), under the High Court auction in the liquidation process of Hico Products, Jatia emerged as the highest bidder, lapping up 37 acres at Khopoli in Mumbai for Rs50 crore. The levelling of the ground is going on and construction is slated to start by early 2009. By investing Rs700 crore (roughly around Rs20 crore per acre), MIL is planning to put up a 4 million sq ft IT SEZ on this plot, through a 100 per cent-owned special purpose vehicle (SPV) – Modern India Property Developers Ltd (MIPDL).

New IT hub

Operating on the build-own-lease model, he plans to make Khopoli a new IT hub between Hinjewadi in Pune and Navi Mumbai. "At Hinjewadi, the rentals are around Rs70-80 per sq ft, while, in Navi Mumbai, it is Rs100-150 per sq ft. We will charge



Rs35 per sq ft to attract IT players," says Jatia, whose complex is close to the Khopoli railway station and the expressway.

"The strategic importance of this location would be realised post 2009, when tax exemptions would go away and IT companies would scout for low-cost location in the outskirts of the city," states an MF Global research report on the company.

Mid-July 2008, Jatia made yet another announcement, launching Modern India Free Trade Warehousing Private Limited (MIFTWPL), as a 51 per cent subsidiary of MIL. It has identified land at Panvel, Mumbai, and will set up a free trade warehousing zone (FTWZ) soon. The balance 49 per cent is held by the Jatia family.

Located in close proximity to JNPT and the proposed new airport site, MIFTWPL is in the process of acquiring up to 300 acres of land at Panvel, at a total cost of Rs375 crore. "We will fund it through a mix of equity, debt and internal accruals," adds Birla. According to an IL&FS report, leveraging on its location attribute – proximity to Mumbai and Navi Mumbai and other large-scale infrastructure projects like airports, ports and SEZs – the site is suitable for establishing free trade and warehousing zone. The entire project will cost Rs1,000 crore, to be deployed in the next three-four years.

An ITCOT consultancy (a JV of ICICI, IDBI, IFCI and banks) report says that India needs at least 340 million sq ft of warehouse space in the organised sector by 2015. "The phasing out of CST, enactment of warehousing bill, increasing trend towards outsourcing, and growth in the logistics and real estate sectors have already set the warehouse industry on an excellent growth trajectory," says the report.

"A need was felt for developing an FTWZ. The FTWZ policy has been evolved to provide the much needed infrastructure required for trading and storage activities relating to foreign trade. The key differentiator between an FTWZ and a standard warehouse is the unique product offering wherein the benefits of a free zone. The benefits that come with FTWZ include common facilities such as cost-effective skilled labour, transportation facilities, customised warehouse, sophisticated equipment, etc, thereby improving the quality of infrastructure, while reducing logistics cost across the industry groups," explains Jatia, targeting to make MIL a Rs1,000 crore company by 2012.

Unlike most property developers, Jatia would like to continue adopting the BOL route to grow the business, although not averse to selling the entire business (which has a valuation of close to Rs1,800 crore) today. "If someone offers me the price, I will sell," says Jatia, who is talking to private equity investors that could come into MIL's SPVs.

◆ LANCELOT JOSEPH