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Father, Son & Co.

As scions take charge, the business of real estate sees a generational shift — in practices and in policy

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Print Close

Ten years ago, builders were a shadowy lot. Very few realtors were listed and the property market was a mystery. Under threat from dons, builders routinely sought police protection, and most retail transactions had large cash components.

Over the past decade, the real estate sector has opened out. Many builders have raised money for their companies through public listing; incessant media coverage has lifted the veil of secrecy; land acquisition is usually conducted through open auction; and cheque payments have become the norm.

In this turnaround, realty is seeing a new, go-getting pack of sons, and daughters, of big builder families driving the modern ethos. For an industry traditionally run by close-knit families, GenNext is providing continuity, but with a difference. Usually educated abroad, they have entered with a modern outlook and have been willing to experiment with greater transparency. But can they break away from the past?

Cutting The Umbilical Cord

In real estate, Niranjan Hiranandani is a big name. Not only was he the first builder to give Mumbai quality construction, he also emerged as a prominent spokesperson for the much-reviled industry.

Earlier this decade, he succeeded in coaxing the then Union minister for urban development, Ram Jethmalani, to repeal the Urban Land Ceiling Act. A first-generation builder whose family was earlier in the textile business, Niranjan's first realty project was in 1981 — a clutch of 11 skyscrapers in Versova, Mumbai.

But the big splash was a 250-acre Powai development — 15 million sq. ft of high class residential and commercial construction. Hiranandani Constructions is not listed, but conservative estimates peg it as a Rs 12,000-crore company today. "We were the first to look for high quality. The object was to build homes that were better than what I lived in," he says.

Both Niranjan's son and daughter — Darshan and Priya — stepped in early but followed different courses. Young Darshan cut his teeth as an independent entrepreneur when he found himself in Dubai in 2004 at age 23 with independent charge of group company Hircon. "I found out how difficult it was to get things done. I had to build the company from scratch," says Darshan tracing his early days.

His was no mean achievement. Hircon, in partnership with Dubai-based ETA Star, completed 23 Marina, a 90-storey, Rs 1,000-crore luxury housing project. Fortunately for the group, a lot of the advance sales were executed before the 2008 recession struck West Asia. With the slowdown, Darshan now shuttles between Dubai and Mumbai, as he devotes time to business ventures in India as well.

Puravankara Projects - First Gen: Ravi Puravankara Next Gen: Ashish

Puravankara Ashish brought in technology usage and consumer communication. He is also advocating using carpet area as the selling norm. (BW pic by Jagadeesh NV)

The history of 30-year-old Priya Hiranandani has been more chequered and less spoken about. She headed out to London to take charge of the family-promoted, AIM-listed real estate investment firm Hirco a few years ago, with husband and investor Cyrus Vandrevala. But Hirco's performance has always been under a cloud and minority shareholders Laxey Partners had called for the ouster of Niranjan and two of his nominees from the board. Meanwhile, the relations between Niranjan and the Priya-Cyrus duo came under strain. In September 2010, Priya stepped down as CEO of Hirco.

"Priya has been a recluse," says father Niranjan, but adds: "She and her husband Cyrus continue as private equity investors." Cyrus Vandrevala is a technology investor and started Intrepid Capital Partners.

Ravi Puravankara is another first-generation developer. But he moved to Bangalore from Mumbai in 1983 "for the cleaner and more transparent business atmosphere". The Rs 500-crore Puravankara Projects now has 19 million sq. ft in the pipeline, and reported a net profit of Rs 145 crore in FY10. Unlike others, Puravankara has stayed with low-cost housing in the long term even after recessionary conditions abated. Ashish, the only son, joined in 2001, took a break to complete his studies, and returned just before the company went public in August 2007.

"What I am adding is the best practices — consumer communication and technology — to ramp up quality," he says. The young 32-year-old joint MD gives the example of going for digital 'Yale' locks that are Rs 8,000 a piece for flats as they provide better protection, though at double the price of the traditional bolting systems.

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Ashish has been nominated to the board of the national real estate apex body, Confederation of Real Estate Developers Associations of India (Credai), where he is pushing for using carpet area as the selling norm. "It is not easy. It may take years," he concedes.

But if sheer scaling up of business is the criteria, then the award must go to Ajay and Sanjay Chandra of the Unitech

Group. The company, started by a group of civil engineers led by their father Ramesh Chandra, began as a small construction and contracting firm in 1972.

Though it diversified into real estate with the 300-acre South City project in Gurgaon in 1986, Unitech was still a small operation at the turn of the century. The big leap came over the past decade, soon after younger son Sanjay joined the company in 2002 as head of marketing and sales, followed by Ajay in 2003, as head of business development. The group's foray into amusement parks, diversification into telecom in 2008 and, finally, spinning off Unitech Infra into a separate vertical followed in quick succession.

Unitech today has an annual turnover touching Rs 3,000 crore with businesses spread over office space, hospitality and mall development. From Gurgaon, the Chandras expanded to Delhi, Kolkata and Bangalore. Says father Ramesh Chandra of his two sons: "Pan-India growth would not have been possible without them. They have provided more bandwidth."

"In just 7-8 years, they ramped up the market cap to Rs 16,000 crore — the fastest we have seen," says Anshuman Magazine, chairman and MD of property consultants CB Richard Ellis India. Magazine ascribes the growth to the brothers quickly developing a strong backroom and professionalising operations. "Ramesh Chandra had little personal money. It was a classic case of stock growth," says HDFC Property Ventures' CEO K.G. Krishnamurthy.

Of late, there has been speculation that Unitech Infra has been set up to divide the group for the eventuality that Ajay and Sanjay can't work together. But Sanjay denies this. "On the contrary, Unitech is still the largest shareholder in Unitech Infra. In terms of management, we have made it independent under one CEO."

Hiranandani Constructions - First Gen:

Niranjan Hiranandani (with father Dr Lakhumal Hiranandani) Next Gen: Darshan Hiranandani Other than heading the family's real estate business in Dubai, Darshan is also looking after the new business of power generation (BW pic by Subhabrata Das)

Lodha Group - First Gen: Mangal Prabhat Lodha Next Gen: Abhisheck (right) and Abhinandan Lodha While Lodha senior is in charge of land acquisition, the brothers handle brand building, project management, finance and marketing (BW pic by Satheesh Nair)

As of now, the areas of control between the two brothers are fluid, and father Ramesh continues to play a hands-on role as the executive chairman. "The three of us are not involved in any day-to-day activity or deal-making. That is for the professionals," says Sanjay.

What is startling is the appetite the brothers had for risky gambles. Entering Mumbai realty only in 2008, they floated a 50:50 joint venture with Lehman Brothers for a Rs 1,500-crore slum redevelopment project near Goregaon. Slum rehabilitation, even by Mumbai developers, is considered high risk given the political ramifications. Similar forays in alliance with Indonesian Salim group to acquire thousands of acres of rural land in West Bengal also failed.

As is the case with high-risk ventures, many hit a stone wall. Not anticipating the recession, the group's over-leveraged position landed it in heavy debt estimated at nearly Rs 11,000 crore at peak. To recoup, Unitech had to sell off many of its non-core assets such as Gurgaon's Hotel Courtyard in 2008, and more recently its own office complex in Delhi's upmarket Saket area. Trimming debt by 40 per cent and with sales again picking up, the brothers have managed to stem the slide.

Aggressive Style

GenNext wants to get things done, and is more aggressive than their fathers. But as family-run units, the father figure always looms large.

Rapidly expanding the Mumbai-based Lodha group — largely built by Mangal Prabhat Lodha — are Abhisheck (31) and Abhinandan Lodha (29). "The boys are mature and balanced, but they are more aggressive than the previous generation," says Krishnamurthy of HDFC, which recently invested Rs 500 crore in the builder's Srinivas Mills project.

Lodha Senior, an active BJP legislator from Mumbai's Malabar Hills, mainly drives the sticky agenda of land acquisition and lets his sons work the daily grind in the company. Abhisheck, as part of brand building, has a large annual Rs 40-crore advertising budget. Five years ago, such spends would have been seen as criminal.

Another big Mumbai developer — the unlisted Runwal Group, estimated to have an annual turnover of about Rs 1,000 crore — is run by father Subhash Runwal and sons Sandeep (39) and Subodh (35). The father still sits in on all important decisions, but the work is divided amongst the three project-wise. Their styles, however, differ. "Dad wanted to do everything himself. We have learnt to professionalise, to delegate authority so that we can get more done," says Subodh.

For young Gaurav Mittal (32), director of the mid-size realty company CHD Developers, it has been a long journey from Bathinda to Bhikaji Cama Place in Delhi. His father, R.K. Mittal, saw no future for the family's traditional legal practice in Bathinda. He branched out on his own as an MES contractor but Bathinda was too small for his dreams. In 1989, Mittal senior caught the Punjab Mail to Delhi, booked a Delhi Development Authority plot in an auction, and became a developer.

CHD Developers was incorporated in 1990, and was among the early real estate companies to go public — it listed on the Bombay Stock Exchange in 1995. Gaurav joined the business in 2000, by then it was established in Tier II cities such as Karnal, Haridwar and Varanasi.
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"I have built professional teams to scale up the business to around Rs 150 crore. For that, I have changed focus from our Tier II city projects to the upper-middle class market in the Delhi NCR region," says Gaurav. His signature project is Avenue 71, a 1.6 million-sq ft upscale housing venture in Gurgaon, which aims to deliver 867 units over the next 2-3 years.

Gaurav says he had broken with the past by insisting on transparency. "Every visitor at a project site can go through our 'Blue Book' — a 500-page compendium of all our permissions, layout maps and copies of the title of the property — so that his doubts are cleared."

First Generation Heroes
If there were marks for style and suavity, builder Vikas Oberoi would be among the front-runners. He wears crisp formals, works out in a gym, likes Japanese sushi and knows his wines. He has recently shed his S-Class Mercedes for an Aston Martin and has graduated to sport flying having acquired a Cirrus single-engine aircraft.

But his USP is his success as a first generation builder. Standing in his plush Weston tower office overlooking Mumbai's Western Express Highway, Oberoi is a man in a hurry. Oberoi Realty, incorporated in 1999, saw an 84 per cent rise in net profit — Rs 460 crore on Rs 805 crore sales in FY10. With Morgan Stanley as a minority shareholder, Oberoi completed his IPO in October 2010 raising Rs 1,000 crore.

"I had to scale up faster than others because I had no land bank, no family to back me," says Oberoi, the 41-year-old MD of Oberoi Realty.

Runwal Group -First Gen: Subhash Runwal Next Gen: Sandeep (right) and Subodh Runwal The brothers have professionalised operations, and delegate authority so that more can be done(BW pic by Subhabrata Das)

As a latecomer, his land acquisition has been frenetic. He joined the big league when he acquired pharma company Novartis's 60-acre campus in Goregaon, Mumbai, for Rs 107 crore, in 2002. Today, the layout boasts of the Weston Hotel tower; a 500,000 sq. ft-mall; and Oberoi Garden City, a 11.2 million sq. ft-housing complex. Oberoi's most lucrative project, however, is a 3.1 million sq ft-layout in Mumbai's heartland of Worli, where he is setting up a hotel and commercial and residential buildings.

Before the Reserve Bank of India tightened the screws on bank lending to builders, Oberoi was among the first to use bank finance to buy land. The acquisition of Glaxo's 23-acre Mulund property, for instance, was financed by Axis Bank. "I was among the first to monetise my receivables," says Oberoi.

Talking of breaking away from tradition, the young builder says: "Developers earlier tried to do everything themselves. In the municipal corporation, you would meet them liaising; if you went to Hafeez Contractor's office (a prominent Mumbai architect), they would be sitting there. After 8 p.m. they would meet customers. Ten years ago, there was no HR, no CFO." To scale up, Oberoi brought in professionals at all levels. He is currently looking for a CEO, too.

But not everything has gone as planned for him. Both the Glaxo properties — in Mulund and Worli — are mired in problems and have not been developed yet. Glaxo Mulund has been stalled because of claims of the forest department, while the municipal corporation has refused permission to build in Glaxo Worli till the developer pays a 50-per cent transfer fee.

Oberoi's father, Ranvir Oberoi, started off as a small real estate investor and broker. In the 1970s and the 80s, from a 300 sq. ft-office in Maker V in Nariman Point, he would book flats in advance sales, putting down 10 per cent of the cost. As prices rose, he sold at a profit, and went through the reinvestment cycle again. Today, his son, with a personal wealth of Rs 7,000 crore, has come a long way.

Pradeep Jain, chairman of Parsvnath Developers, is also a first-generation developer, but is at the other end of the spectrum in terms of style. He runs a simple office on the 6th floor of the rundown Arunachal Bhavan on Barakhamba Road in New Delhi. His demeanor, too, is understated. But years of experience has made him a smart, conservative judge of the realty market.

A penniless Jain migrated to Delhi in May 1984 and managed to set up a property brokerage selling apartments for Delhi's big brands such as the Ansals. He then moved on to work as a land acquisition and assembly agent for some other developers. He started construction contracting, too, and, by 1990, with all his experience, graduated to incorporating his own integrated company, Parsvnath Developers.

His first big projects were not in Delhi. He launched a shopping mall in Moradabad in 1994 followed by a 120,000-sq. ft commercial complex in Saharanpur, both in UP. His first big housing project in Delhi region was Parsvnath Estate in Greater Noida in 2000, where he built 300 quality homes. Parsvnath, in many ways, pioneered the IPO revolution in real estate, becoming one of the first builders to go public in November 2006 with a Rs 900-crore issue.

IN THE OPEN

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	Company	[illegible]
1	DLF	48,326
2	Unitech	16,482
3	Housing Dev. & Infrastr.	7,860
4	Indiabulls Real Estate	5,049
5	DB Realty	4,759
6	Godrej Properties	4,125
7	Phoenix Mills	3,175
8	Anant Raj Industries	3,121
9	Sobha Developers	3,105
10	Omaxe	2,553
11	Puravankara Projects	2,345
12	Parsvnath Developers	2,261
13	Ackruti City	1,813
14	Peninsula Land	1,706
15	Mahindra Lifespace Developers	1,593
16	IVRCL Assets & Holdings	1,435
17	Brigade Enterprises	1,230

*In Rs crore; market cap and share price as on 29 December 2010
Source: BW research

Over the years, Jain has ramped up his business by snapping up every opportunity. He got the concessions for developing malls at Delhi's metro stations; bagged licences to develop 11 SEZs in the second half of 2006; set up Parsvnath Telecom in 2007 and bid for licences for 22 circles; and by the end of 2007, was in partnership with the West Asian Al-Hassan Group for offshore real estate projects.

Speaking about the learning from the two rounds of real estate crises — the first in the latter half of 1990s and then in 2008 — Jain blames the problem on the mad scramble for land by developers. "With their focus on land acquisition, no one was trying to understand the execution and delivery process. If you develop a project in a time-bound manner, people pay and there is no cash flow problem." Project completion is sacrosanct, says Jain. "Kill the developer if he does not complete the project he takes advances for."

CHD Developers - First Gen: R.K. Mittal (left) Next Gen: Gaurav Mittal Gaurav changed the company's focus from Tier II cities to Delhi NCR. He also insists on transparency(BW pic by Bivash Banerjee)

However, in the past few years, one can see the appetite for rapid expansion and for over-leveraging expected receivables. The drive for growth at any cost pushed the Parsvnath group into the very position Jain warns against. By end-2008, it had debts mounting to Rs 2,600 crore, and he was forced to sell numerous non-core assets. Jain's most expensive failure has perhaps been the Pride Asia project in joint venture with Chandigarh Housing Board. Having bid and paid an advance of Rs 567 crore, the Chandigarh project has not taken off and is mired in a web of legal and environmental controversies.

Uncertain Future

So has GenNext overtaken the old guard? "Without a doubt," says Anuj Puri, CEO of Jones Lang Lasalle. "On their side, they have market opportunities that did not exist earlier, and the aggressiveness to tackle these head-on."

Agreeing that things have changed for the better, Darshan Hiranandani says: "Earlier, dad (Niranjan Hiranandani) did not have access to capital. That problem is not there now."

Also, good education has given them a modern outlook. Unitech's Ajay Chandra is a civil engineer from Cornell University while Sanjay has a Master's in business administration from University of Boston. Vikas Oberoi went to Harvard Business School and has an executive MBA. Ashish Puravankara has a Master's from Willamette University, Oregon, US. Gaurav Mittal of CHD Developers is a graduate from Bradford University, UK.

On the ground, though, operational difficulties continue to be crippling. The suspicion that the consumer and political class has for builders, persists. In turn, the builder community, despite the newly-acquired spit and polish, still thinks short-term and employs unethical practices.

Says Magazine of CB Richard Ellis India: "In a volatile market, the young builders continue with a short-term view — launch a mall or a housing project, take in as much of pre-sales as possible and worry about completion later."

In fact, some, such as Subodh Runwal, feel things have worsened. "There was always lack of clarity, but now things are even more blurred. Expectations have gone through the roof. Land acquisition is tough. Permissions are tougher. Norms get changed overnight."

It is, therefore, little wonder that many young builders want to branch out into new businesses, which may be unknown to the previous generations but that offer more stable practices.

Darshan Hiranandani, for instance, is anchoring his family's diversification into power generation. Conceived in August 2009, the 2,500-MW natural gas-fired power plant is being set near Pune at a cost of around Rs 10,000 crore.

The Puravankaras, too, have long-term plans. "We are seriously looking to enter healthcare and education. Not in the short term, but over the next 3-5 years," says Ashish.

Despite the pessimism and the scams, most feel things have become better for the GenNext. "There has been a clean-up by default through consolidation. Public listing has got rid of 95 per cent of benami firms. They have been merged with the main company for better valuation," says HDFC's Krishnamurty.

But 'dirty' money is still a big problem, and nobody is looking for solutions. Most admit it is an issue, but few speak of actual numbers. 'Speed money' is conservatively estimated to account for as much as 20 per cent of turnover. Will GenNext be able to bell this cat?

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