Raymond: How demerger of realty, lifestyle will unlock value for Gautam Singhania's firm.

ET economictimes.indiatimes.com/prime/money-and-markets/raymond-how-demerger-of-realty-lifestyle-will-unlock-value-for-gautam-singhanias-firm-/primearticleshow/108796078.cms

Harmohan Sahni, CEO, Raymond Realty; Image credit: company

Synopsis

For the past five years, Raymond is up 118% as against Nifty 50's 90% gain. However, it has underperformed the Nifty Realty Index. It seems Raymond is not valued as much as its real-estate peers. But that is likely to change soon as the company plans to demerge its textile and apparel business.

Timing is everything for business ventures. It is the right time that pieces the big and small pictures together to give an entrepreneur the moonshot moment, which gives him/her the disproportionate advantage. For Raymond's realty business, the timing could not have been better.

In 2019, just before the pandemic, the company launched its first real-estate project. For the last five years, the stock is up 118% as against Nifty 50’s 90% gain. But compared to the Nifty Realty Index, which is up over 200% in the last five years, Raymond has underperformed. It seems Raymond is not valued as much as its real-estate peers. But that is likely to change soon with the company planning to demerge its textile and apparel business and list it separately.

Leading real-estate consultants have been proposing Raymond to launch its realty business for nearly two decades, given the huge land parcel the company has in one of the most sought-after neighbourhoods in Thane. With the demerger, Raymond will become a predominant real-estate developer.

The land parcel

The company has a 100-acre land parcel in Pokhran Road II, situated next to Thane’s leading mall and a renowned hospital chain. According to property portal Magicbricks, prices on Pokhran Road went up from INR13,000 per sq ft at the start of 2014 to over INR19,000 per sq ft.

Harmohan Sahni, CEO of Raymond Realty, tells ET Prime that despite the intentions, the “Goldilocks moment” for Raymond’s foray into real estate only arrived in 2019 when the company launched high-end housing project Ten X Habitat (priced between INR80 lakh and INR1.5 crore). On the back of the success of Ten X Habitat, starting 2021, Raymond has launched ‘The Address by GS’, Ten X Era, and Invictus by GS in quick succession.

“We treat land as a raw material and not as an investment,” Sahni says.

Dressed in a blue T-shirt for a Friday noon meeting and sporting salt-and-pepper hair, Sahni talks about building high-end branded properties. But Sahni is not a marketing man. In his over 30 year-long career which started at Tisco (Tata Iron and Steel Company), Sahni has mostly donned the hat of the chief financial officer —including a four-year stint at Mahindra Lifespaces. He wants to concentrate on capital efficiency — a matrix often ignored by the industry, eventually leading to low ROCE (return on capital employed) numbers.

“The problem with this industry is over-optimisation where developers keep waiting for better margin, more area, etc. We want to play for the time value of money,” says Sahni.

Raymond undervalued against its realty peers

Stock name	Market cap	Relative returns vs. Nifty 50 (yearly %)	Operating profit margin (TTM %)	PE TTM	Price to sales TTM	Total debt to total equity annual	ROCE (annual %)
DLF	214,337.2	106	30.8	90.2	37.3	0.1	4.4
Macrotech Developers	115,177.9	140.7	25.1	70.8	12.1	0.7	13.9
Godrej Properties	62,460.6	78.3	2.9	93.8	19.2	0.7	10.9
Oberoi Realty	52,607.8	39	48.0	32.5	12.7	0.3	14.2
Prestige Estates Projects	44,114.8	139.2	28.2	25.9	5.3	0.8	12.5
Brigade Enterprises	21,538.4	71.6	23.9	68.4	5.3	1.4	8.7
Swan Energy	20,855.9	168.7	21.7	51.3	4.6	2.1	2.0
Signatureglobal	18,644.4	215.8	-0.1	2,743.5	14.9	35.9	1.2
Sobha	14,009.2	197.6	9.3	154.5	3.9	0.8	12.5
Raymond	**11,878.8**	**12.6**	**14.1**	**7.4**	**1.4**	**0.7**	**24.5**

Source: *Ace Equity*

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The real-estate cycle

The last decade has seen real-estate companies go through a lot of pain including high debt, low ROCE, and subdued demand. But post-pandemic, things have changed. As companies became more efficient in terms of managing their capital, the market turned. Demand has picked up and the overall capital efficiency is now getting reflected in high stock prices.

The Nifty Realty Index is up 133% over the last one year compared to Nifty 50, which is up 30%. Against this, Raymond is up only 50%. The question remains: Is there scope for Raymond to stay ahead of the pack?

To answer this, let's look at the real-estate cycle.

Since 2013, the ROCE of the sector has been on a downturn at around 11%. In 2021, it went down 7%. Most fund managers and even end buyers were not showing any interest in the real-estate sector. But things turned in 2021. The companies started to pay off debt and made themselves more efficient. Interest rates were down, and sales had started to move up.

By 2023, the ROCE increased to around 9%, and looks like this time the companies will be in their top form. Depending on their business model, many companies are showing a 10-year high ROCE. This trend is likely to continue as demand keeps soaring and companies do not plan to raise any new debt. Raymond Realty already has a massive land bank. It can continue without further capital flows into the business.

About Raymond Realty
Again, Raymond wants to be a big player in a small premium market and growing in that segment at a faster rate, chances are that it should be able to maintain its profitability ratio. But that also depends on how long the uptrend lasts. Looking at the past, we can say that we are on a two-year uptrend, and this should continue for another two more years ideally. But beyond the industry dynamics, it will be now on how the individual CEOs want to grow the business.

“We are trying to build branded real-estate properties,” says Sahni. Raymond plans to use the brand building knowledge in real estate. For example, the company’s premium housing project in Bandra will be called “The Address by GS, Bandra” he says. Similar branding will be done for upcoming joint development projects in Sion and Mahim. Besides the sales potential of INR9,000 crore of projects underway in Raymond’s Thane land, the company expects revenues of around INR5,000 crore from the joint development projects in Bandra, Mahim, and Sion.

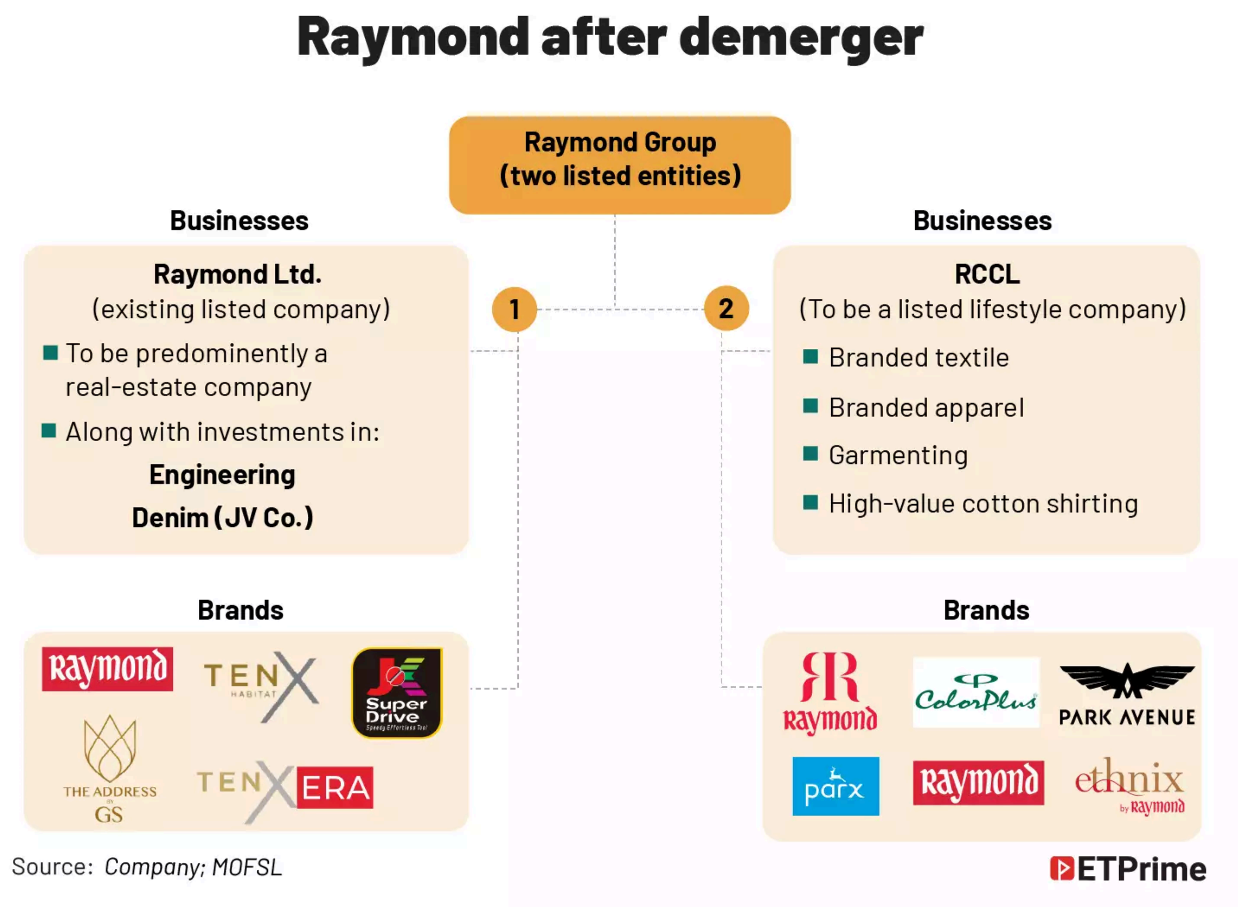
With JDA, Raymond’s strategy is to get into revenue-sharing agreements and oversee execution and marketing of the project. This will ensure tight control on execution and keep the margins under check. Sahni tells ET Prime that in the last three years the company has looked at 667 projects for JDA but has shortlisted only 15.

The business model
Among real-estate companies in India, there are two business models, Sahni explains. There is a premium real-estate developer, which buys land and waits for five years or more for its price to appreciate to have high margin, but single-digit return on capital employed. Then there is the second where a certain large developer is known for buying land, launches projects across price points quickly and handing them over as soon as possible. This developer makes mid-teen but a high-teen ROCE as well.

Sahni wants to marry the two together.

He wants Raymond Realty to focus on the premium and ultra- premium market like the first developer, but he also wants to build and sell fast to get a better ROCE. The primary focus of the real-estate developer will be on Mumbai Metropolitan Region and later Pune.

“In Mumbai, premium units account for 5%-6% of the total volume but in term of value they account for more than 25%. That’s the segment where the money is,” he says. Selling premium housing also means better margins. For the nine months of FY24, the real-estate business of Raymond had Ebitda margin of 21.7% and over 26% in FY23. Last financial year, the company reported a ROCE of 21%, but there is a catch. The Gautam Singhania-owned company deals not only in real estate, but also in textiles and apparel business, along with a small engineering products business.



The outlook

While Raymond's real-estate business has some of the sector-leading margins, the company has lower-margin businesses like branded apparels and shirting.

As a result, while peers like Macrotech Developers and Godrej Properties are trading at a price-to-sales of 12x and 19x, respectively, Raymond trades at a price-to-sales of 1.4x. Another Mumbai-based real-estate developer, Oberoi Realty, is currently trading at 13x price-to-sales.

Oberoi Realty launched its first project, Forestville, in the Thane market. Both Raymond and Oberoi have launched projects that fall under the premium category. While Oberoi has sold just 9% of its project after its launch in December quarter, Raymond has managed to sell 39% at GS Address.

So how long will Raymond continue to be undervalued? Even Bengaluru real-estate companies are valued higher than Raymond, despite its pedigree and high margins.

To remedy this anomaly, last year Singhania announced the plan to demerge the textiles and apparel business and transfer it to a new company, RCCL. For every five shares of Raymond held, shareholders will get four shares of RCCL. On May 9,2024, the NCLT will give its verdict on the demerger.

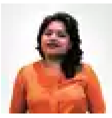
Once all approvals are in place, Raymond will become predominantly a real estate-focused company with some small portion of business coming from engineering products. RCCL will be a listed lifestyle company and house the branded textile, apparel and shirting business.

A back-of-the-envelope calculation shows that if Raymond was to be valued at the same price-to-sales of 12x as its real-estate peers on an annualised FY24 real-estate business revenue of INR1,200 crore, the market cap could raise to over INR14,000 crore.

But can the sales momentum keep going?

The answer is yes. The industry is in mid-cycle and companies with high ROCE will eventually give the best shareholder value for some time.

(*Graphics by Manali Ghosh*)



BY

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Mar 27, 2024, 04:30:00 AM IST