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## Satish Magar narrates to MoneyLIFE how he created Magarpatta

September 17, 2008

### Our township has acted as an agent of social change through a policy of inclusion

#### ML: Can we start by asking you about your family background and the early influences in your life.

**Magar:** I come from an agricultural family with a political background. My grandfather was in politics; my eldest uncle was an MLA for 25 years and, later, a Member of Parliament when he died and my mother's father was the first mayor of Pune. So, there was politics everywhere in the family. All of us stayed together in a large ancestral house right here. Along with politics, education was very important to the family. My father is a graduate of the Pune Engineering College. My uncle, who was an MP and founder of the Pimpri-Chinchwad area (the country's richest municipality next to Pune), was a graduate in agriculture. My grandfather was very progressive and wanted all his sons to study. At that time, it was the Brahmins who were more focused on education. So he had an interesting idea. He put up his sons in Shaniwarpeth, a predominantly Brahmin area of Pune, so that they would be more focused on studies and not think of themselves as landlords. There was little contact with the farm except during the holidays. When it came to my education, I was initially sent to what was called a Cambridge school; all of us including all my cousins went to Bishops School and St Mary's which were the two best-known Christian, Anglo-Indian style schools in Pune. In effect, although we were farmers, we got a Western, urban education.

#### ML: Since you were exposed to politics from such a young age, did you see politics as a career option?

**Magar:** No, politics was not an easy option because it was not a business of inheritance. In fact, by the time I graduated, my uncle had expired. He had been a big influence. He became an MLA in 1952 in the first general elections when he was in his early 20s. He was an MLA for every term thereafter till 1977, after which he became an MP. He was a very progressive thinker. He is the one who conceived of the Pimpri-Chinchwad Municipal Corporation and he was involved in the conception and growth of Maharashtra Industrial Development Corporation. Pimpri-Chinchwad, which was a part of his constituency, emerged as a thriving industrial area with 150-foot wide roads lined with trees, thanks to his vision and strategy. He used to talk of planned development and commissioned master plans. He was also one of those who created the Gultekwadi market area of Pune in the 1960s -- it has a central open space with the vegetable market in concentric circles. The idea was somewhat like Connaught Place of Delhi. He got a model made to illustrate his idea, which was also unusual those days. I found it all very fascinating. We made a similar model when we created Magarpatta. So, those early influences stayed with me.

#### ML: What about your father? Was he in the construction business?

**Magar:** He was an engineer and started out as an apprentice with BG Shirke, Consulting Engineers. He then started his own civil construction firm. My uncle was very strict about where he could bid. My father could not bid for work in any of the institutions headed by my grandfather. He did a lot of defence-related work. After 1971-72, he came back to look after the farm because we had large holdings that my uncle was not able to manage on his own.

#### ML: What was your early ambition?

**Magar:** Because of the influence of politics, and seeing many top leaders from close quarters, I was inspired to do the things they talked about. I had decided that I would either do medicine or join the agricultural college. In 1971, when I was in the 8th or the 9th standard, Indira Gandhi had just won the Bangladesh War. Our family had been close to the Congress party for decades and we were naturally highly charged by her vision. She talked about green revolution. So agriculture looked very promising. I joined the agriculture college in Pune, probably the oldest one in the country. I don't know if there is any other instance of someone going from Senior Cambridge to an agricultural college! I went to stay in the hostel partly because the college was far from our house and also because my parents felt we should learn to do things by ourselves and to live with kids from different backgrounds. The agricultural college and my hostel days turned out to be one of the most fascinating experiences of my life. It was a turning point.

#### ML: In what sense?

**Magar:** It brought me down to earth. I got to know the ground reality of India. Some 80%-90% of the students were from rural areas. Remember, television had barely come in and I found that I knew almost nothing about the kind of background that my batch mates came from. Most were from small farming communities and had studied in vernacular schools. One was the son of a farm labourer. They knew they had to study hard, survive and get through. Getting educated was very important to them because agriculture could not give them a livelihood. They wanted to get a job in a bank or a government office. They used to save on everything. Most of them used to attend college in pyjamas and shirts. There were four or five of us from English medium schools who initially felt superior to them. The rector of our hostel told us, "Don't laugh. After six months, these boys will master the English language and overtake you". The way these guys worked to overcome their drawbacks was an eye-opener. Another interesting aspect was the student mix, which included some students from Nagaland who were much older than us and were sent by their government to study. It opened my eyes to what India is really about.

#### ML: What did you do after you passed out of the college? Did you want to apply your knowledge of agriculture to farming?

**Magar:** I will come to that. Let me first tell you about how the minds of these students worked. They understood something important very intuitively. They said if you wanted to succeed, you must have a presence in politics because the political system controls everything, or you have to be in the bureaucracy or in finance. So, they constantly discussed these three fields (politics, bureaucracy and finance). Many of them eventually joined banks, which had been nationalised then and were expanding into rural areas. A bank job was seen as access to finance. Some opted for the Maharashtra Public Service Commission (for which agriculture was a compulsory subject because several postings were in rural areas). Finally, some students came

from families that were deeply into politics, like mine. I had restrictions on joining politics but Balasaheb Vikhe Patil's (former Congress MP and Union Minister) son, who studied in the agricultural college when I did, joined politics. That people planned their lives through these three angles was a revelation; I had never thought this way, since I was city bred. Of the 180 students in my batch, almost 70-80 got through the MPSC; some became IAS officers. Many joined banks and are now in senior positions.

**ML: What did you do after passing out of college?**

**Magar:** I wanted to come back to the farm. But my urban upbringing started coming in the way. I had a friend who had a small shop on MG Road in Pune who earned more than us with 150 acres of land. Agriculture is completely dependent on external factors - monsoon, market, logistics, etc. I used to calculate how much we would earn if we could sell the land and put the money in the bank. I tried different things. We had a large dairy of 150-odd cows, with modern milking machines, etc., but one agitation from somewhere and a protest call to throw the milk on the streets caused great damage. It was senseless. You throw the milk today and how do you feed the cows tomorrow? So, agriculture was not working out. Meanwhile, my brothers and cousins were growing up and they needed to be accommodated. Then, the development plan of Pune in 1982 made me really insecure.

**ML: What was this plan?**

**Magar:** The Magarpatta area has been a part of the Pune Municipal Corporation from 1960 onwards, even though it was in the agricultural zone. The 1982 draft development plan showed it as future urbanisable zone. Under the Urban Land Ceiling Act, the government could easily acquire this land; then what would we do? We lobbied with the government; although my uncle had expired, we had political contacts and, in the 1987 plan, they identified this land as agricultural. But I knew it was temporary, as the city grew, this land too would be acquired someday. In 1985, three of us started a marketing firm. One of us had an office in town and the other was from Johnson & Johnson. We started as distributors for consumer durables and some consumer products. Looking back, that experience taught us a lot. We learned to create differentiation in the marketplace, and recover money from the government. After a few years, we realised that distribution of consumer durables required a showroom; since we did not have one, we knew the business would not work in the long run. After 1987, when the Magarpatta area was re-designated as agricultural land, we started a real estate development company.

**ML: So, when was Magarpatta, the township, conceived?**

**Magar:** After 1987, a lot of farmers started selling small plots of land to developers. The government had no mechanism to stop it, no will to demolish it. We were constantly thinking of how to develop our land. We looked at selling bungalows. But it was neither legal nor profitable. Then we thought of making a golf course with villas around it. But it was not only a waste of land, but a big risk. Some time around 1993, it suddenly struck me, why don't we do a township. I went through the Regional Town Planning Act and knew what the requirements were. I spoke to all the landowners in the surrounding areas. For historical reasons, there was a lot of cohesion and harmony among the farmers, arising out of fragmented holding. When a piece of land is divided among the brothers, they divide it in such a way that both get access to the road. So, over time, many plots ended up divided as narrow strips of, say, 20 feet wide and 1,000 feet long. Because of the peculiar layout, people did their farming in harmony and cooperation by fixing dates for sowing or harvesting serially in order to economise on labour and equipment. I knew all of them very well, since I had done agriculture for five years. When I started planning the township, I told them, we need to do something with the land; otherwise it will be acquired someday. Many had stories of relatives who sold off their lands, blew up the money and had nothing left. That is when I suggested doing something together. We had a meeting of all the landowners where I suggested that we pool our land into a development company and accept proportionate shareholding. The idea was accepted, although I did not know how the whole thing would finally evolve. I went to Hafeez Contractor and told him "this is what we have; we want to do a township". He agreed. We made a detailed report of the area we wanted to build on, how much to reserve for education and how much to earmark as open space. Sharad Pawar was the chief minister and we presented him a nice laminated report, printed on an electronic typewriter with graphs, charts, statistics and pictures. This came from my marketing experience. He asked us: "Are you serious"? We said: "Yes, we are". He asked: "What are you going to do about urban land ceiling"? We said, "We would not ask for exemptions". He wrote something on the file. One day, I got a call from the government to discuss the plan further. DT Joseph was then Secretary, Urban Planning. We were also very fortunate to have a close relationship with BG Deshmukh, who had just retired as the Cabinet Secretary. We met Mr Joseph through his help and told him how 120 farmer-families have come together to do something different. He was apprehensive. Since I had read the law, I said "We need notification under Section 154 to get the scheme sanctioned". He said, "Fine, if you know the CM, get it done. But let me tell you, it can be challenged by anybody in High Court and you will lose".

**ML: Who would file a case?**

**Magar:** Anybody. Any competitor could have filed a case. With 400 acres of land coming out of agriculture for residential construction, we would have had numerous enemies. Mr Joseph said: "we would have to go through the procedure and it will all take time". I said: "Fine, we will go through the process". In any case, we were not ready physically or financially.

**ML: What was this process?**

**Magar:** Mr Joseph came and spoke to the landowners personally. There was a report required from the town planning department, a report from the Municipal Corporation and then the government had to issue a notification which had to be passed by the general body of the Corporation. Then there was public hearing. We decided not to jump a single step of the process because if there were a court case, that would be the end of it. We went to opinion leaders asking them to support us because such townships would reduce unauthorised growth and create a lot of greenery. All this took time; by then BJP-Shiv Sena government came to power. But they did not interfere and we got the final notification in 1995.

**ML: That was precisely the time the real estate sector went through a big slump. Didn't it make you rethink your plan?**

**Magar:** What was our choice? We were already committed and had already announced the 400-acre township. There was no going back. During our planning process, we also spoke to a lot of sensible people outside the real estate industry to consult them on the elements that must go into this project. Many elderly people used to say that the apartment complexes are making us compartmentalised and nobody knows who their neighbour is. Satellite TV had just come in, which made things worse. This is not the way the Indian society has grown. If you see the chawls in Mumbai, they all look into a central open space on the inside. I visited several chawls in Girgaum (Mumbai) with my architect to see how we can incorporate the neighbourhood concept. If you see our township, although it is a cosmopolitan set up, all flats open to a central space, as in a traditional neighbourhood. The residents may pass each other for 10 days without speaking but on the 11th day they will at least smile. When we started building, the concept of Vaastu Shastra was beginning to get popular. We called the open space Brahma Sthal. For us, it was a way of providing good light and ventilation.

**ML: Since all this was happening for the first time, where did you get your ideas?**

**Magar:** We consulted experts for each and every aspect. We had a lot of time on our hands since the project was taking its own time to get all the clearances and funding in place. We met many people and attended all sorts of seminars. Around 1997, a delegation of Maratha Chamber of Commerce & Industries (MCCI) was going to San Jose, which is similar to Pune. My architect and I joined the delegation. Almost all the people there were in IT -- venture capitalists, entrepreneurs, lawyers, etc.; we were the only odd ones out. We went around looking at their townships, city centres, visited their planning department and saw how they organised their space. In San Jose, Santa Clara and surrounding areas, there were large corporate-cum-residential areas where people cycled or walked to work. We decided that we would not re-invent the wheel. We will take the best ideas from all over and create a plan that is best suited to our needs. San Jose was great -- a lot of greenery and people walking to work -- but the whole thing was unstructured. You had an IT building, some houses nearby then some more corporate offices further down. We felt we could improve on that plan. We also decided to avoid numerical addresses. We will not have Sector 6, 7th crossing, 8th lane, 9th building, 10th flat. It is totally materialistic, there's no life in it.

**ML: But most of America is laid out like that.**

**Magar:** That's because it is a new civilisation. We are a 5000-year old civilisation. We talk of Mohenjodaro and Harappa, brilliant examples of town planning. I picked up ideas from all sorts of people. For instance, in one of the IT seminars, I heard one Dr Hebalkar speaking.

**ML: Dr Prakash Hebalkar of Profitech?**

**Magar:** Yes. He was giving a presentation to MCCI. We got to know Dr Hebalkar through BG Deshmukh who was part of MCCI. I went to him and said, "I am doing this township project and I would like you to be our consultant". He said "I am very expensive". I said, "We know nothing of IT, we want you as our consultant on the IT Park". He told me 'first of all get an email ID'. But Pune didn't have Internet connectivity. So, we opened an Internet account in Mumbai; that is how I have a Bom5 email ID, which I have kept for sentimental reasons. We used to make long-distance calls to connect and it used to take ages to get access. Anyway, Dr Hebalkar was a great help on the IT front. He taught us the importance of bandwidth, routers, switches, etc., and advised us to opt for fast connections. We went to Dr Vijay Bhatkar. He said "What Dr Hebalkar is talking of is the future, it is going to happen". We went to VSNL. They said, "You have to put a cable and it will cost so many crores of rupees". Fortunately, by the time we started, the whole bandwidth scene had changed. Dr Hebalkar used to say, "This is going to happen; prepare for it so you will have a first-mover advantage".

**ML: Which other experts contributed to the development at the ideation stage?**

**Magar:** Ravi Paranjape, the renowned artist, told us that the complex must have some themes. He suggested that we use the concept of the five forces of Nature, which Indians have always worshipped. We have incorporated this idea, although it is not fully implemented. Then he suggested we have plantations, based on the nature's cycles, the idea of Rituchakra, so that there are some blooms at all times. We took help from Ram Takwale, vice chancellor of Pune University who advised us on education.

**ML: What did you do about finance?**

**Magar:** We had very little money to hire consultants. We knew Mr Kshirsagar, who had retired as DGM from HDFC. He told us that HDFC was the best financial institution in the country and very clean in their dealings.

**ML: So, you went and met Deepak Parekh?**

**Magar:** I took the help of Mr Kshirsagar to meet Mr Parekh and told him we need Rs100 crore for this project. He asked us: "How will you service the interest"? We had no answer. He asked "Do you think you can sell so much in 2000"? No answer. Then we said, "We will manage". He asked "Do you know what you are talking about? How many flats are you going to build"? I said "about 10,000 flats". He said, "That means you want to construct 2,000 flats a year? And what is the market"? We said, "We want to try. We will work very hard". Finally, he said, "I am convinced this is a good project. I will give you the money but I will start with Rs2 crore. I will fund your infrastructure. You start with the bungalows, start marketing them; you will get your cash flow going and you will see that you will not need so much of money".

**ML: Did that happen? When did the work start?**

**Magar:** We started construction in March 2000 with a residential block of 72 apartments. We also started working on the commercial area which is generally the magnet for townships. At that time, IT was hot so we planned for an IT Park. We felt that there would be a time when a lot of people would want to come back, work and live here.

**ML: Did you start with the bungalows, as Mr Parkeh suggested?**

**Magar:** Yes, but I was in a hurry to prove myself. The farmers had stayed together and waited for seven years to see this project so I also started a couple of apartment blocks.

**ML: Where did you get the money to fund that?**

**Magar:** Oh, we were very stingy on our expenses. We hardly had any overheads, one small office, not charging anything to the company; the farmers with tractors were shifting the soil. We were doing everything ourselves. That was our second aim. Make the second-generation farmers our partners in the development process.

**ML:** We remember that everybody used say "Magarpatta is a great plan, but will it work"? Did you get the same reaction?

**Magar:** Absolutely. In 1997, I showed this plan to someone in the US and he said, "Great, when will it start working"?

**ML: What was your belief? Were you confident it would work or just hoping for the best?**

**Magar:** Probably I was overconfident. I had the confidence of all the landowners who were with me. I had faith in the concept. Magarpatta had not bought the land. We all pooled our land into the company. That was the strength. Around 1999, we were reading lots of stories of venture capital-funded tech companies commanding huge valuations. We said, "We are like venture capitalists with the land as our stock. We will have to make the right product and we will get the right valuation".

**ML: Did the other farmers get restless about when they would see this valuation?**

**Magar:** We had a system where 30% of the sale proceeds were treated as the land cost. The higher the selling price, the greater is the embedded value of the sale. I told them if we sell land, we will get Rs80 a square foot. When we were ready to sell, the apartment value in the surrounding area was Rs600. We started selling at Rs1,000, of which the landowner was getting Rs300. We had explained this logic well in advance. So he preferred to wait. The second factor was getting the second generation involved in the whole effort. In the seven years that we waited to get going, we trained the farmers in different activities. All those in the 18-30 age groups used to gather in this office every Sunday and discuss what each of them could do. Some wanted to do landscaping, somebody else road building, etc. We also gave them aptitude tests to see who is good for what. When we started doing the actual work, the farmer who moved soil with his tractor was getting Rs750 a day. As a farmer, he had never made that kind of money. We saw to it that somebody from each family was involved in construction-related work and made money from the project continuously. Mind you, not as an employee but as a businessman. After all, he was the owner of a piece of land and although he was now a shareholder, he did not work for the company as an employee. We took that sensitivity into account.

**ML: How did others react to this model?**

**Magar:** Many did not believe in it. One banker told me that this is impossible. How can farmers come together and execute a 400-acre project? None of the advertising agencies from Pune wanted our work; they probably felt we would not be able to pay them. So, I contacted a college friend who had gone on to IIM, Ahmedabad and had set up an advertising agency in Hyderabad to do my logo and other things.

**ML: So what is the best investment you have made?**

**Magar:** Two things. One, the creation of second-generation land owner-entrepreneurs and two, Cybercity Magarpatta -- the IT Park which is an asset for the landowners. We created the idea of property for property. The land was valued at Rs400 crore when we started. We said we will create property worth Rs400 crore to start with which will fetch much higher returns than what the farm is yielding. That is why the Cybercity Park was not sold and kept within the company. It gives us a steady stream of revenues. One of the biggest spin-offs of the whole scheme is the creation of a whole generation of entrepreneurs who are no longer dependent on the land. We have our own subsidiary company to run broadband, cable TV, the transportation system,

the food supply company as well as landscaping, etc. A person, who owned an acre of land, stays inside the complex, starts interacting with neighbours; their children go to an excellent school and to Nandal Bal Tennis Academy. Of the 280 landholders who run some business or the other, 200 are under tax audit. That means they have an income of at least Rs40 lakh a year. Together they must be paying Rs10-12 crore of taxes every year. I think this has been the best part of our investment.

**ML: You have created several small companies to take care of different needs of the townships. How do you ensure quality? Can you tell your farmer-turned-shareholder who owns the business that his quality is not good enough?**

**Magar:** Well, when something is successful, everything falls in place. I guess, they listen to me because I have not failed. It is also clearly understood that the company gives them preference but not priority.

**ML: So what next? Are you replicating this model?**

**Magar:** We are trying to replicate this model in two places. In those projects, Magarpatta Company will take a 51% stake and 49% will be held by those landowners in proportion to their landholding. Plus they get a share of the revenue. The big attraction, of course, is that they have a chance to transform their lives. Now that the word of Magarpatta's success has spread, farmers make a tentative plan, take a form from us in which all the family details and landholdings are filled in, create a whole file and say, "here are 150 acres, make a township for us".

**ML: Really? Are there many such proposals?**

**Magar:** Yes. There are five groups of farmers in the queue.

**ML: Are other builders showing interest in this model?**

**Magar:** A lot of people are talking but most developers want outright purchase of land. They do not talk of sharing. And I believe that if we are doing a successful business, it is the model that is working. Our township has acted as an agent of social change through a policy of inclusion. That is the way I want it.



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