

## Oberoi Realty Limited

September 06, 2022

### Ratings

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term / Short Term Bank Facilities	300.00	CARE AA+; Stable / CARE A1+ (Double A Plus; Outlook: Stable/ A One Plus)	Reaffirmed
<b>Total Bank Facilities</b>	<b>300.00</b> <b>(₹ Three Hundred Crore Only)</b>		
Non-Convertible Debentures	1,000.00	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed
<b>Total Long-Term Instruments</b>	<b>1,000.00</b> <b>(₹ One Thousand Crore Only)</b>		
Commercial Paper	300.00	CARE A1+ (A One Plus)	Reaffirmed
<b>Total Short-Term Instruments</b>	<b>300.00</b> <b>(₹ Three Hundred Crore Only)</b>		

Details of instruments/facilities in Annexure-1.

### Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of Oberoi Realty Limited (ORL) derive strength from the experienced promoters possessing a vast track record in the real estate industry, the well-established brand with a proven track record of executing real estate projects, the stable revenue from major investment and development properties, the favourable financial risk profile and debt coverage indicators.

ORL reported an improvement in its overall sales in FY22 (refers to the period from April 01 to March 31) and Q1FY23 y-o-y. The collection efficiency of the company continues to be stable, at around 74% as on June 30, 2022. The capital structure remained robust, at 0.27x (consolidated level) as on March 31, 2022, imparting strong financial flexibility. The company continues to report favourable interest coverage and total outside liabilities to tangible net worth (TOL/TNW) in FY22.

However, the rating strengths are partially offset by the high geographical concentration due to the restricted presence of business operations in the Mumbai Metropolitan Region (MMR) and the inherent risks associated with the execution of large-scale long-gestation projects amid the cyclical nature of the real estate industry.

### Rating sensitivities

#### Positive factors – Factors that could lead to positive rating action/upgrade:

- Net debt-free position of the company at a consolidated level on a sustained basis.

#### Negative factors – Factors that could lead to negative rating action/downgrade:

- Moderation in the financial risk profile of the company with an overall gearing ratio above 0.30x at a consolidated level on a sustained basis.
- Committed receivables to balance the project cost and outstanding debt is less than 75% at a consolidated level.

### Detailed description of the key rating drivers

#### Key rating strengths

**Experienced promoter possessing vast experience in the real estate industry:** ORL is promoted by Vikas Oberoi (first-generation), who is also its Chairman and Managing Director. Earlier, the company was known as Kingston Properties Private Limited. The promoter has over three decades of experience in executing real estate projects in the MMR. The promoter and the promoter group hold a 67.70% stake in the company, with no pledge against such holding. The day-to-day operations of the company are managed by a team of qualified and experienced professionals. Over the years, the company has executed several projects in the residential, commercial, retail, and hospitality segments.

**Well-established brand with a proven track of executing real estate projects:** ORL's business portfolio comprises investment and development properties. These properties are mainly situated in the western suburban area of the MMR. In the investment properties portfolio, the company has completed commercial and hospitality projects, which operate under the lease model, whereas in development properties, the company has residential, commercial, and hospitality projects at various construction stages. The completion of the commercial and hospitality projects will add to the investment portfolio, resulting in stable cash flow.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

ORL mainly executes real estate projects under the development properties segment, with whole and/or majority shareholding. However, in the case of a project in Worli, Mumbai, the company has a stake of 32.50%. Until June 30, 2022, ORL completed residential, commercial, hospitality, and social infrastructure projects of around 142 lakh sq. ft, which includes projects executed through its wholly-owned subsidiaries and group companies.

In FY22, the company launched Tower-B of its Elysian project.

**Stable revenue from major investment and development properties despite COVID-19:** On a consolidated basis, ORL continues to derive revenue from investment and development properties. In FY21, the company reported a moderation in revenue from the investment properties segment due to the COVID-19 pandemic. The performance of the hospitality and commercial segments witnessed a dip in revenue. However, with the relaxation of the COVID-19 norms, the revenue improved marginally in FY22. The company reported a rental income of ₹325.32 crore in FY22 as compared with ₹322.88 crore in FY21. The hospitality segment reported improved performance with an income of ₹71.09 crore in FY22 as compared with ₹31.67 crore in FY21.

Furthermore, the company reported an improvement in the operational performance in the development properties (i.e. residential real estate) segment.

The company sold 21.01 lakh square feet area in FY22 as compared with approximately 17.17 lakh sq. ft. in FY21. The booking value increased to around ₹3,920 crore in FY22 as compared with around ₹3,280 crore in FY21 on account of revival of demand in the residential segment. Furthermore, the company reported an improvement in collection and booking value in Q1FY23 on a y-o-y basis owing to the continued robust demand prospects of residential projects in Mumbai, coupled with movement in construction activities in the ongoing projects.

**Favourable financial risk profile and robust debt coverage indicators:** On a consolidated basis, ORL continues to report a favourable financial risk profile and debt coverage indicators in FY22. The overall gearing ratio of the company (consolidated) stood at 0.27x as on March 31, 2022, as compared with 0.16x as on March 31, 2021. Furthermore, the interest coverage ratio of the company (consolidated) stood comfortable at 7.64x in FY22 (P.Y. 7.68x). The TOL/TNW of the company continues to be favourable, at 0.50x as on March 31, 2022.

The committed receivables as a percentage of balance cost and outstanding debt improved to 116% as on June 30, 2022, from 85% as on December 31, 2021. Furthermore, the revenue from development properties is envisaged to increase on account of the completion of a few projects, where around 80-90% of the total cost is already incurred as on June 30, 2022.

#### **Key rating weaknesses**

**High geographical concentration associated with the presence in a single city:** ORL has operations in the MMR through its wholly-owned subsidiaries and group companies. The portfolio comprises of residential, commercial, hospitality, and social infrastructure, including investment and development properties in these segments. The company's real estate portfolio caters to a high-end customer base. Thereby, its operations are highly exposed to the vagaries of the micro market forces of the region.

ORL is exploring micro-markets near the MMR, like Thane and Pune. The company has acquired land in Thane, while the entry plans in the Pune market are in the nascent stages.

With over three decades of presence and execution of projects in the region, the company has a relatively better position among the existing players. As a result, the geographical concentration risk is mitigated to a certain extent.

#### **Inherent risk associated with the execution of large-scale projects amid the cyclical nature of the real estate industry:**

ORL along with its wholly-owned subsidiaries and group companies has 12 projects under the planning phase, consisting of residential, commercial, and hotels. These projects are located in the MMR and Thane. The projects are in the initial stage of development with the receipt of Initiation of Disapproval (IOD) and commencement of construction at few sites. Among the planned projects, few are part of the extension of the ongoing projects. The company plans to foray into a new micro real estate market – Thane.

The company's operations are exposed to the project execution risk and the inherent risks associated with the execution of large-scale projects.

Apart from the real estate business, the company is into the hotel and rental businesses. In the hospitality business, it currently has one operational hotel property and another one is under the project stage. In the rental business, it has three operational commercial properties and two under construction properties. The revenue from the hospitality and rental segments were impacted by the relatively lower economic activities due to the ongoing COVID-19 pandemic. However, the same has improved during FY22.

The demand of the real estate sector is linked to the overall economic prospects. The cyclicity associated with the economic outlook, interest rates, input prices, etc, also renders the real estate sector vulnerable, as exhibited by disruptions in construction activities.

#### **Liquidity: Strong**

ORL, at a consolidated level, has free cash and cash equivalent of around ₹1,300 crore as on June 30, 2022, un-availed commercial paper programme of ₹300 crore, and average utilisation of overdraft limit continues to be in the range of 45-50%, imparting strong liquidity support towards servicing of the scheduled debt obligations for FY23. The overall gearing ratio stood at 0.27x as on March 31, 2022, demonstrating financial flexibility.

**Analytical approach:** Consolidated

CARE Ratings Ltd has adopted consolidated approach for analysing ORL. The subsidiaries/associates/joint ventures along with the parent company, ORL, have been consolidated on account of being under a common management and having operational and financial linkages. The list of entities whose financials have been consolidated are mentioned in Annexure 4.

**Applicable criteria**

[Policy on Default Recognition](#)

[Financial ratios – Non-financial sector](#)

[Liquidity analysis of non-financial sector entities](#)

[Criteria on Assigning 'Outlook' or 'Credit Watch' to Credit Ratings](#)

[Criteria for short-term instruments](#)

[Rating methodology – Consolidation](#)

[Rating methodology – Real estate](#)

**About the company**

ORL (CIN: L45200MH1998PLC114818; market cap: ₹34,773.10 crore as on August 29, 2022), incorporated on May 08, 1998, is into real estate development mainly in the MMR. The company operates in the residential, commercial, hospitality, and social infrastructure business segments through its subsidiaries and associates. Until June 30, 2022, ORL, through its wholly-owned subsidiaries and group companies, has developed around 142 lakh sq ft and has around 166 lakh sq. ft under implementation.

Brief Financials (₹ crore) – Consolidated	FY21 (Audited)	FY22 (Audited)	Q1FY23 (Unaudited)
TOI	2,089.72	2972.02	934.81
PBILDT	1,105.34	1481.82	559.16
PAT	739.29	1047.10	403.08
Overall gearing (times)	0.16	0.27	-
Interest coverage (times)	7.68	7.64	17.15

Note: Financials have been classified as per CARE Ratings' internal standards.

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for the last three years:** Please refer Annexure-2

**Covenants of the rated instruments/facilities:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of the various instruments rated for this company:** Annexure-4

**Annexure-1: Details of instruments/facilities**

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
LT/ST Fund-based/non-fund-based-CC/WCDL/OD/LC/BG	-	-	-	-	300.00	CARE AA+; Stable / CARE A1+
Debentures-Non-Convertible Debentures	INE093I07033 INE093I07041 INE093I07058	December 16, 2021	5.90%-6.80%	December 16, 2025	1000.00	CARE AA+; Stable
Commercial Paper	-	-	-	-	300.00	CARE A1+

**Annexure-2: Rating history for the last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Commercial Paper-Commercial Paper (Standalone)	ST	300.00	CARE A1+	-	1)CARE A1+ (17-Aug-21)	1)CARE A1+ (06-Oct-20) 2)CARE A1+ (24-Apr-20)	1)CARE A1+ (05-Jul-19) 2)CARE A1+ (26-Apr-19)
2	Fund-based/non-fund-based-LT/ST	LT/ST*	-	-	-	1)Withdrawn (22-Nov-21) 2)CARE AA+; Stable / CARE A1+ (17-Aug-21)	1)CARE AA+; Negative / CARE A1+ (06-Oct-20) 2)CARE AA+; Negative / CARE A1+ (24-Apr-20)	1)CARE AA+; Stable / CARE A1+ (05-Jul-19)
3	Debentures-Non-Convertible Debentures	LT	-	-	1)Withdrawn (13-Apr-22)	1)CARE AA+; Stable (06-Dec-21) 2)CARE AA+; Stable (17-Aug-21)	1)CARE AA+; Negative (29-Sep-20)	-
4	Debentures-Non-Convertible Debentures	LT	1000.00	CARE AA+; Stable	-	1)CARE AA+; Stable (06-Dec-21)	-	-
5	LT/ST Fund-based/non-fund-based-CC/WCDL/OD/LC/BG	LT/ST*	300.00	CARE AA+; Stable / CARE A1+	-	1)CARE AA+; Stable / CARE A1+ (25-Feb-22)	-	-

\*Long term/Short term.

**Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities**

Particulars	Detailed explanation
<b>Financial covenants – Bank Facilities</b>	
Fixed Asset Cover Ratio	1.50x (to be tested on an annual basis based on audited results)
Total Debt/Tangible Net Worth on Consolidated Basis	0.90x (to be tested on an annual basis based on audited results)
<b>Financial covenants – Non-Convertible Debentures</b>	
Security Cover	Minimum security cover of 1.50x to be maintained at all time till the final settlement date
Debt to Equity ratio	Should not exceed 0.90 during the term of the Debentures.
<b>Non-Financial covenants – Non-Convertible Debentures</b>	
Ownership	Vikas Oberoi shall hold (directly or indirectly) minimum 51% unencumbered stake in Issuers at all points of time throughout the term of the Debentures
Brand Name	'Oberoi' name shall remain part of Issuer's name until final settlement date.

**Annexure-4: List of subsidiaries of ORL as on June 30, 2022**

S. No.	Name of the company	% shareholding of ORL
1	Oberoi Constructions Limited	100.00
2	Oberoi Mall Limited	100.00
3	Kingston Hospitality and Developers Private Limited	100.00
4	Kingston Property Services Limited	100.00
5	Incline Realty Private Limited	100.00
6	Evenstar Hotels Private Limited	100.00
7	Expressions Realty Private Limited	100.00
8	Perspective Realty Private Limited	100.00
9	Sight Realty Private Limited	100.00
10	Integrus Realty Private Limited	100.00
11	Encase Realty Private Limited	100.00
12	Astir Realty LLP	100.00
13	Buoyant Realty LLP	100.00
14	Pursuit Realty LLP	100.00

**Annexure-5: Complexity level of various instruments rated for this company**

Sr. No.	Name of Instrument	Complexity Level
1	Commercial Paper-Commercial Paper (Standalone)	Simple
2	Debentures-Non-Convertible Debentures	Simple
3	LT/ST Fund-based/non-fund-based-CC/WCDL/OD/LC/BG	Simple

**Annexure-6: Bank lender details for this company**

To view the lender wise details of bank facilities please [click here](#)

**Note on complexity levels of the rated instruments:** CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for any clarifications.

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