Oberoi Realty Limited

September 05, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term/Short-term bank facilities	300.00	CARE AA+; Stable/CARE A1+	Reaffirmed
Non-convertible debentures	980.00 (Reduced from 1,000.00)	CARE AA+; Stable	Reaffirmed
Commercial paper	300.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the ratings assigned to the bank facilities, debt instruments and commercial paper programme of Oberoi Realty Limited (ORL) factors in significant improvement in its total operating income (TOI) in FY23 (FY refers to the period from April 01 to March 31) with strong profitability margins. The ratings further take into account diversified revenue mix from leasing and hotel business which have done well post the COVID-19 pandemic.

In line with growing demand for housing, ORL's booking, and collections remained robust in FY23 and Q1FY24. The company has continued to post a healthy committed receivables coverage ratio. The pending receivables from the sold inventory as on June 30, 2023, combined with new projects set to be launched in the current fiscal provides a healthy cash flow visibility over the medium term.

ORL's capital structure remained strong as on June 30, 2023, marked by the overall gearing and total debt/ collections ratio being below unity. The company's leverage profile is expected to remain strong over the medium term.

The rating continues to derive strength from the experienced promoters with a well-established brand and a proven track record of executing real estate projects in the Mumbai Metropolitan Region (MMR). CARE Ratings Limited (CARE Ratings) also notes adherence to environmental, social and corporate governance (ESG) norms by ORL.

However, the rating strengths are partially offset by the geographical concentration risk due to the restricted presence of the business operations in MMR, although the company is stepping in new geographies, namely, the National Capital Region (NCR) and Bengaluru. The establishments in new geographies, which is yet to be seen, exposes ORL to market risk to a certain extent.

The rating strengths are further tempered by the inherent risks associated with the execution of large-scale long-gestation projects amid the cyclical nature of the real estate industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

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

Negative factors

- 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.
- Ratio of Committed receivables to balance the project cost and residential debt less than 75% on a sustained basis.

Analytical approach: Consolidated

CARE Ratings has taken a consolidated view of ORL and its subsidiaries, associates and joint ventures (JVs) 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-6.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Outlook: Stable

The stable outlook reflects CARE Ratings' expectation for the sustenance of strong performance, marked by strong sales velocity, robust collections, low reliance on external debt, and strong liquidity. The expectation is attributable to the established brand image in MMR, supported by continued end-user demand in the real estate industry.

Detailed description of the key rating drivers

Key strengths

Robust revenue profile and profitability margin

On a consolidated basis, ORL continues to derive revenue from investment (leasing) and development (residential) properties. During FY23, the company reported a significant growth of 56% in TOI to ₹4,192.58 crore over FY22.

The income from development projects continues to remain the key revenue driver for the company, contributing close to 80% to its total operating income (TOI), followed by income from investment properties, the hospitality segment, and performance management services (PMS).

The income from investment properties improved y-o-y post the COVID-19 pandemic on the back of timely lease renewals with the rising trend of back-to-office, however, yet to surpass the pre-COVID levels. Furthermore, during FY23, the hospitality segment reported a strong comeback since COVID-19, almost at par with the pre-COVID level. ORL continues to post a strong PBILDT margin of 45-50% from its portfolio.

As on June 30, 2023, ORL sold 68% of the total area launched for sales of which 98% of area is registered. The company continued to have healthy collection efficiency at 78% as on June 30, 2023.

Diversified portfolio having a mix of residential, commercial, and hospitability segments

ORL's business portfolio comprises investment and development properties. These properties are mainly situated in the western suburban area of the MMR. Under the investment properties portfolio, the company has completed commercial projects – offices and malls – which are operational under the lease model. Additionally, ORL also has an operational five-star hotel – The Westin Mumbai Garden City, in Goregaon, Mumbai, which aids its stable cash flows. Furthermore, in development properties, the company has residential, commercial, and hospitality projects at various construction stages. Going ahead, the completion of the ongoing commercial and hospitality projects over medium term are expected to strengthen the cash flows of ORL.

Favourable financial risk profile and strong debt coverage indicators

ORL's financial risk profile and debt coverage indicators continue to remain favourable in FY2023. The overall gearing ratio of the company (consolidated) stood almost similar at 0.30x as on June 30, 2023, compared to 0.32x as on March 31, 2023 (0.27x as on March 31, 2022). The slight moderation in the leverage was on account of the execution of certain debt-funded projects, including the ones under JVs, on account of scale up. Nevertheless, the company made a few pre-payments in Q1FY24, and the leverage is proposed to remain at or below 0.30x. Given the robust cash flows, ORL's debt to cash flow is expected to remain below 0.50x for FY24. The committed receivables coverage ratio for the outstanding residential project debt and the balance construction cost stood comfortable at 84% as on June 30, 2023. The same is expected to remain strong given healthy sales velocity and low leverage.

Experienced promoter and established brand recall 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 as on June 30, 2023. 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.

With a presence of around four decades in the real estate industry with the delivery of high-end luxury projects in the MMR, the company has a prominent presence in the city. Up to June 30, 2023, the company has developed 95 lakh sq ft (lsf, carpet area) of space and 103 lsf (carpet area) is under implementation through its wholly owned subsidiaries and group companies.

Key weaknesses

Geographical concentration associated with the presence in a single city
ORL has operations in the MMR through its wholly owned subsidiaries and group companies. 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, such as Thane and Pune. The company plans to enter new micro real estate markets such as NCR and Bengaluru, wherein, largely redevelopment projects are to be undertaken. The establishments in new geographies, which is yet to be seen, also exposes ORL to market risk to a certain extent.
CARE Ratings opines that with its presence of over four decades in the real estate industry and the large-sized executions in the MMR, ORL is better placed among the existing players in the said region. 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 has 11 projects under the execution phase, comprising residential, commercial, and hotels as on June 30, 2023. Of the total project cost, the company has incurred around 73% cost as on June 30, 2023. These projects are located in MMR and Thane. Additionally, around seven projects are upcoming in these locations, including extensions or additional phases of the ongoing projects. The company plans to enter new micro real estate markets, such as those of Thane, Pune, the NCR and Bengaluru, over the medium to long term. The company's operations are exposed to project execution risk and the inherent risk associated with the execution of large-scale projects for the remaining part of the development. Furthermore, the demand of the real estate sector is linked to the overall economic prospects of the country. The cyclicality associated with economic outlook, interest rates, metal prices, etc, also render the real estate sector towards cyclicality.

Liquidity: Strong
ORL, at a consolidated level, had free cash and cash equivalents of around ₹660 crore as on June 30, 2023, unutilised commercial paper limits of ₹300 crore, and the un-utilised overdraft (OD) limits stood close to 67% as on July 31, 2023. ORL's cash flows from operations are expected to remain robust in FY24 as well. Against the total debt obligations (consolidated) for the remaining part of FY24, ORL has a healthy liquidity cover.

Assumptions/Covenants

Name of the Instrument	Detailed Explanation
A. Financial covenants – Bank facilities	
Fixed asset cover ratio	1.50x (to be tested on an annual basis based on audited results)
Total debt/tangible net worth on a consolidated basis	0.90x (to be tested on an annual basis based on audited results)
Financial covenants – Non-convertible debentures	
Security cover	Minimum security cover of 1.50x to be maintained at all times until the final settlement date
Debt-to-equity ratio	Should not exceed 0.90x during the term of the debentures.
B. Non-financial covenants	
Ownership	Vikas Oberoi will hold (directly or indirectly) a minimum 51% unencumbered stake in the issuers at all times, throughout the term of the debentures
Brand name	The 'Oberoi' name will remain part of the issuer's name until the final settlement date.

Environment, social, and governance (ESG) risks
The real estate sector is confronted with increased credit risk factors due to the rising compliance costs and operational expenses stemming from more stringent environmental standards. Delays in securing environmental clearances for projects pose potential risks to business operations, impacting creditworthiness.
Residential real estate developers have witnessed favourable conditions, driven by the heightened demand for high-quality homes equipped with robust social infrastructure.

Green buildings, Leadership in Energy and Environmental Design (LEED) certifications, water treatment plants (WTPs), solar lights, wind energy for electricity, green gardens, fresh air, double-glazed walls for better cooling, etc, are the key focus areas for ORL.

Applicable criteria

Policy on default recognition
Consolidation
Factoring Linkages Parent Sub JV Group
Financial Ratios – Nonfinancial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Rating methodology for Real estate sector
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Realty	Realty	Residential, Commercial Projects

ORL (CIN: L45200MH1998PLC114818; market cap: ₹39,959.89 crore as on August 29, 2023), 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. Up to June 30, 2023, ORL, through its wholly owned subsidiaries and group companies, has developed around 95 lsf (carpet area) and has around 103 lsf (carpet area) under implementation.

Brief Financials – Consolidated (₹ crore)	FY22 (A)	FY23 (A)	Q1FY24 (UA)
Total operating income	2693.97	4192.58	933.56
PBILDT	1203.76	2111.79	497.32
PAT	1047.10	1904.55	321.64
Overall gearing (times)	0.27	0.32	0.30
Interest coverage (times)	5.58	7.38	8.08

A: Audited; UA: Unaudited. Note: The above results are the latest financial results available.

Brief Financials – Standalone (₹ crore)	FY22 (A)	FY23 (A)	Q1FY24 (UA)
Total operating income	1012.48	1420.07	351.25
PBILDT	513.37	805.31	217.94
PAT	381.87	703.35	120.72
Overall gearing (times)	0.24	0.62	0.40
Interest coverage (times)	4.40	4.47	4.36

A: Audited; UA: Unaudited; Note: The above results are the latest financial results available.

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 the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

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
Commercial Paper-(Standalone/ proposed)	-	-	-	-	300.00	CARE A1+
Debentures-Non-Convertible Debentures	INE093I07033	16-12-2021	5.90	16-12-2023	230.00	CARE AA+; Stable
	INE093I07041	16-12-2021	6.40	16-12-2024	350.00	
	INE093I07058	16-12-2021	6.80	16-12-2025	400.00	
LT/ST Fund-based/non-fund-based-CC/WCDL/OD/LC/BG	-	-	-	-	300.00	CARE AA+; Stable / 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 2023-2024	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
1	Commercial Paper-Commercial Paper (Standalone/ proposed)	ST	300.00	CARE A1+	-	1)CARE A1+ (06-Sep-22)	1)CARE A1+ (17-Aug-21)	1)CARE A1+ (06-Oct-20) 2)CARE A1+ (24-Apr-20)
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)
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	980.00	CARE AA+; Stable	-	1)CARE AA+; Stable (06-Sep-22)	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+ (06-Sep-22)	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

Not applicable

Annexure-4: Complexity level of the various instruments rated

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

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Annexure-6: List of subsidiaries as on June 30, 2023

Names of Companies	ORL Stake (%)	Nature of Business
Oberoi Constructions Limited	100	Real Estate Development
Oberoi Mall Limited	100	Leasing of Immovable Property
Kingston Hospitality and Developers Private Limited	100	Real Estate Development
Kingston Property Services Limited	100	Property Management & Maintenance
Incline Realty Private Limited	100	Real Estate Development
Evenstar Hotels Private Limited	100	Hospitality
Expressions Realty Private Limited	100	Real Estate Development
Perspective Realty Private Limited	100	Real Estate Development
Sight Realty Private Limited	100	Real Estate Development
Integrus Realty Private Limited	100	Real Estate Development
Encase Realty Private Limited	100	Real Estate Development
Buoyant Realty LLP	100	Real Estate Development
Astir Realty LLP	100	Real Estate Development
Pursuit Realty LLP	100	Real Estate Development

Note on the 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 for any clarifications.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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