Oberoi Realty Limited

March 28, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	881.20	CARE AA+; Stable	Assigned
Long-term / Short-term bank facilities	300.00	CARE AA+; Stable / CARE A1+	Reaffirmed
Non-convertible debentures	575.00 (Reduced from 980.00)	CARE AA+; Stable	Reaffirmed
Commercial paper	300.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The long-term rating assigned to the bank facility and ratings reaffirmed to bank facilities, debt instruments and commercial paper (CP) programme of Oberoi Realty Limited (ORL) factor in strong sales momentum and significant improvement in collections, supported by healthy demand, and new launches. Additionally, the pending receivables from the sold inventory combined with new projects set to be launched in near term, provides a healthy cash flow visibility over the medium term.

Ratings also factor in the diversified revenue mix from ORL's leasing and hotel business, which have exhibited healthy operational performance over the past few years.

As on December 31, 2023, ORL's capital structure remained robust, as marked by the overall gearing and total debt/collections ratio being below unity. The company's gross debt reduced from around ₹3,944 crore as on March 31, 2023 to around ₹2,961 crore as on December 31, 2023. With robust collection and focus on de-leveraging, CARE Ratings Limited (CARE Ratings) expects the company's leverage profile to remain strong over the medium term.

Ratings continue 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 also notes adherence to environmental, social, and corporate governance (ESG) norms by ORL.

However, rating strengths are partially offset by the geographical concentration risk stemming from the restricted presence of the business operations in MMR. Although the company plans to expand into new geographies, its successful establishment is yet to be seen.

Rating strengths are further tempered by the inherent risks associated with the execution of large-scale projects amid the cyclical 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) due to it being under a common management and having operational and financial linkages. The list of entities whose financials have been consolidated is 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 ORL's 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
In FY23, the company achieved a notable growth of 56% in total operating income (TOI), reaching to ₹4,192.58 crore compared to FY22. The TOI continues to be robust at ₹3,181.02 crore in 9MFY24. The growth is supported by healthy demand momentum across all segments.
In 9MFY24, the company has booked an area of approximately 6 lakh square feet (lsf) as compared to 8 lsf in FY23. As on December 31, 2023, ORL had sold 66% of the total area launched for sales, of which 96% of area is registered. The strong sales momentum led to significant cash flow generation, with collections of around ₹3,100 crore for 9MFY24 and ₹4,000 crore for FY23. The leasing and hospitality segment also continues to post healthy performance with average occupancy of above 80% each.
Additionally, ORL continues to post a strong profit before interest, lease rentals, depreciation and taxation (PBILDT) margin of 50-54% from its portfolio.

Diversified portfolio having a mix of residential, commercial, and hospitability segments
ORL's business portfolio comprises both investment and development properties. Under the investment properties portfolio, the company has completed commercial projects – offices and malls, which are operational under the lease model. Additionally, ORL also operates a five-star hotel – The Westin Mumbai Garden City, in Goregaon, Mumbai, aiding its stable cash flows.
In terms of development properties, the company has residential, commercial, and hospitality projects at various stages of construction.
The income from development projects continues to remain the company's key revenue driver, contributing nearly 80% to its TOI, followed by income from investment properties, hospitality segment, and performance management services (PMS).
Going ahead, completion of the ongoing commercial and hospitality projects over medium term is expected to further strengthen ORL's cash flows.

Favourable financial risk profile and strong debt coverage indicators
The company's gross debt reduced from around ₹3,944 crore as on March 31, 2023 to around ₹2,961 crore as on December 31, 2023. This reduction led to an improvement in the company's overall gearing ratio (consolidated) to 0.23x as on December 31, 2023, from 0.32x as on March 31, 2023.
The committed receivables coverage ratio for the outstanding residential project debt and the balance construction cost stood comfortable at 65% as on December 31, 2023. The moderation in the ratio is due to new project launch at the end of November 2023, where majority of the cost is yet to be incurred. Excluding the newly launched project, the ratio stands healthy at 87%. CARE Ratings expects the ratio to improve, given the healthy sales velocity and low leverage.

Experienced promoter and established brand recall in the real estate industry
Earlier known as Kingston Properties Private Limited, ORL is promoted by Vikas Oberoi (first generation), who is also its Chairman and Managing Director. The promoter has over three-decades 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 December 31, 2023. The company's day-to-day operations 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 around four-decade presence in the real estate industry delivering high-end luxury projects in the MMR, the company has a prominent presence in the city. Up to December 31, 2023, the company has developed 111 lsf (carpet area) of space, while 138 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 regions' micro-market forces. 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 over four-decades presence in the real estate industry and 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, admeasuring 138 lsf, comprising residential, commercial, and hotels as on December 31, 2023. Of the total project cost, the company has incurred around 62% cost as on December 31, 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. 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, and metal prices among others, also render the real estate sector towards cyclicality.

Liquidity: Strong

At a consolidated level, ORL had free cash and cash equivalents of around ₹900 crore as on December 31, 2023, unutilised CP limits of ₹300 crore, and overdraft (OD) limits have remained un-utilised since August 2023. ORL's cash flows from operations are expected to remain robust in FY24 as well. Against 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 (LT/ST)	1.50x (to be tested on an annual basis based on audited results)
Total debt/tangible net worth on a consolidated basis (LT/ST)	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.

ORL has an ongoing focus on strengthening its compliance of ESG parameters and resultantly it has taken various initiatives for efficiently managing ESG risks. The company has also been awarded LEED certificates by U.S Green Building Council (USGCB) for four commercial projects – Commerz-II, Commerz-III, Oberoi International School- JVLR, and Oberoi Mall, and for residential projects such as Three Sixty West , Worli, and Sky City Borivali – Residential Towers. ORL has a ESG committee in place and is increasingly focusing on mitigating the ESG risks.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector
Rating methodology for Real estate sector
Short Term Instruments
Consolidation

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About the company and industry
Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Consumer discretionary	Realty	Realty	Residential, commercial projects

Incorporated on May 08, 1998, ORL (CIN: L45200MH1998PLC114818; market cap: ₹47,237.88 crore as on March 13, 2024) is engaged 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 December 31, 2023, ORL, through its wholly owned subsidiaries and group companies, has developed around 111 lsf (carpet area), and has around 138 lsf (carpet area) under implementation.

Brief Financials - Consolidated (₹ crore)	FY22 (A)	FY23 (A)	9MFY24 (UA)
Total operating income	2,693.97	4,192.58	3,181.02
PBILDT	1,203.76	2,111.65	1,700.49
PAT	1,047.10	1,904.55	1,138.58
Overall gearing (times)	0.27	0.32	0.23
Interest coverage (times)	5.58	7.38	6.68

A: Audited; UA: Unaudited; Note: 'these are latest financial results available'
Note: Financials are classified as per CARE Ratings' internal standard

Brief Financials - Standalone (₹ crore)	FY22 (A)	FY23 (A)	9MFY24 (UA)
Total operating income	1,012.48	1,420.07	1,329.59
PBILDT	513.37	805.31	789.75
PAT	381.87	703.35	464.82
Overall gearing (times)	0.24	0.62	0.69
Interest coverage (times)	4.40	4.47	3.75

A: Audited; UA: Unaudited; ; Note: 'these are latest financial results available'
Note: Financials are classified as per CARE Ratings' internal standard

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Disclosure of interest of independent/non-executive directors of CARE Ratings: Not applicable

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

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

Complexity level of 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
LT Fund-based/Term loan	-	-	-	January 2027	881.20	CARE AA+; Stable
Commercial paper-Commercial paper	Not yet placed	-	-	-	300.00	CARE A1+
Debentures-Non-convertible debentures	INE093I07041	16-12-2021	6.40	16-12-2024	175.00	CARE AA+; Stable
	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 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	Fund-based-LT/Term loan	LT	881.20	CARE AA+; Stable	-	-	-	-
2	Commercial paper-Commercial paper (Standalone)	ST	300.00	CARE A1+	1)CARE A1+ (05-Sep-23)	1)CARE A1+ (06-Sep-22)	1)CARE A1+ (17-Aug-21)	1)CARE A1+ (06-Oct-20) 2)CARE A1+ (24-Apr-20)
3	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)
4	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)
5	Debentures-Non-convertible debentures	LT	575.00	CARE AA+; Stable	1)CARE AA+; Stable (05-Sep-23)	1)CARE AA+; Stable (06-Sep-22)	1)CARE AA+; Stable (06-Dec-21)	-
6	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+ (05-Sep-23)	1)CARE AA+; Stable / CARE A1+ (06-Sep-22)	1)CARE AA+; Stable / CARE A1+ (25-Feb-22)	-

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	LT Fund-based/Term loan	Simple
2	Commercial paper-Commercial paper (Standalone)	Simple
3	Debentures-Non-convertible debentures	Simple
4	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 all the entities consolidated as on December 31, 2023

S. No	Name of companies	Extent of Consolidation	Rationale for Consolidation
1	Oberoi Constructions Limited	Full	Strong operational & financial linkages
2	Oberoi Mall Limited	Full	Strong operational & financial linkages
3	Kingston Hospitality and Developers Private Limited	Full	Strong operational & financial linkages
4	Kingston Property Services Limited	Full	Strong operational & financial linkages
5	Incline Realty Private Limited	Full	Strong operational & financial linkages
6	Evenstar Hotels Private Limited	Full	Strong operational & financial linkages
7	Expressions Realty Private Limited	Full	Strong operational & financial linkages
8	Perspective Realty Private Limited	Full	Strong operational & financial linkages
9	Sight Realty Private Limited	Full	Strong operational & financial linkages
10	Integrus Realty Private Limited	Full	Strong operational & financial linkages
11	Encase Realty Private Limited	Full	Strong operational & financial linkages
12	Buoyant Realty LLP	Full	Strong operational & financial linkages
13	Astir Realty LLP	Full	Strong operational & financial linkages
14	Pursuit Realty LLP	Full	Strong operational & financial linkages

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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