# Oberoi Realty Limited

April 24, 2020

**Ratings**

| **Facilities** | **Amount (Rs. crore)** | **Rating1** | **Rating Action** |
|---|---|---|---|
| Long term / Short term bank facility (Line of Credit)* | 150.00 (Reduced from 225.00) | CARE AA+; Negative / CARE A1+ [Double A Plus; Outlook: Negative / A One Plus] | Reaffirmed with outlook revised from Stable to Negative |
| **Total facilities** | **150.00 (Rupees One Hundred and fifty crore only)** | | |
| Short-term instruments - Commercial paper | 300.00 | CARE A1+ [A One Plus] | Reaffirmed |

*Details of instruments/facilities in Annexure-1;*
**Letter of Credit Limit (interchangeable with BG Limits) of Rs.30 crores as sublimit of LoC Limits and Bank Guarantee Limit (interchangeable with LC Limits) of Rs.30 crores as sublimit of LoC Limit for Oberoi Realty Ltd.*

**Detailed Rationale & Key Rating Drivers**

The reaffirmation of the ratings assigned to the bank facilities and short term instruments of Oberoi Realty Limited (ORL) continue to derive strength from the long track record and extensive experience of the promoters/management in the real estate business, the group's well-established brand image and strong foothold in the real estate market of Mumbai backed by steadily growing income from the investment properties. Furthermore, the rating continues to derive strength from ORL's strong financial risk profile marked by healthy cash accruals, favorable capital structure and strong liquidity profile.
The above rating strengths are however tempered by geographic concentration of the company's operations, risk associated with large size of ongoing and planned projects, and inherent industry risk associated with real estate sector.

**Rating Sensitivities**

***Negative Factors***

- If tied-up receivables to pending project cost and outstanding debt deteriorates to less than 50%
- Achievement of lower than anticipated collections amidst slowdown in the real estate market

**Outlook: Negative**

The revision in the outlook from "Stable" to "Negative" reflects expected moderation in the credit risk profile of entities involved in the real estate development owing to the ongoing lockdown in the country implemented by the central government towards containment of COVID-19. This has resulted in the disruption in operational activities i.e. stoppage of the construction work at various sites coupled with diminished sales and collection activities which is expected to impact the cash flows of the company adversely. Moreover, CARE believes that the lockdown is expected to severely impact the already ongoing sluggish realty market in the medium term. In CARE's opinion, once the lockdown is lifted, the recovery in the residential housing segment is expected to be slow and gradual as buyers may choose to defer their purchases as they may be more averse to big ticket expenditures. This may impact sales/collection momentum as well as new sales launches as the developers may choose to wait for the demand in the residential segment to pick-up.
Besides, mandatory closure of the malls and hotel operating at a very low occupancy level owing to measures taken by the central government towards containment of COVID-19 is expected to impact the stable source of cash flows for the company, as the group may have to forgo major portion of its revenues from mall and hotel properties during Q1FY21; albeit office spaces rentals is expected to see minimal impact. While the central government's lockdown is applicable till May 03, 2020, clarity is yet to emerge on possible extension or staggered exit from the lockdown, which in turn will be contingent on the extent of spread of COVID-19.
Thus, the business risk profile of the companies in the sector will remain under pressure even after commencement of operations due to slow recovery in the real estate sector coupled with expected sparse footfalls in malls or hotels. With increasing thrust on work from home, demand for office space can be under pressure in the medium to long term. CARE will continue to monitor the situation and possible impact on the risk profile of the companies in the sector.

**Detailed description of the key rating drivers**

**Key Rating Strengths**

***Vast experience of the promoters in the real estate business coupled with strong management team***

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Mr. Vikas Oberoi, promoter and Chairman cum Managing Director (CMD) of ORL, has been on the Board of the company since its incorporation and has around three decades of experience in the real estate industry. Mr. Vikas Oberoi completed the Owner's/ President's Management Program from Harvard Business School in August 1999 and is involved in the formulation of corporate strategy and planning, overall execution and management, as well as focuses on the growth and diversification plans of the company. He is supported by a team of experienced professionals from the technical, financial, marketing, legal disciplines, taxations for evaluating, planning and constructing projects. Moreover, the company is governed by well experienced board of directors consisting of four independent directors and three non-independent directors.

***Long and established track record of the company's operations in the real estate development***

Incorporated in 1998, ORL has established itself as a premium real estate developer catering to the Mumbai region. The group has been present in the real estate development business since more than three decades. The group is recognized as strong player having its niche brand in Mumbai's premium residential real estate market. The group has developed over 42 projects in the Mumbai region aggregating to about 11.89 million sq. ft. Besides, the group is in the process of developing another 28.58 million sq. ft. of saleable/leasable area. Long experience in the business helps the company in timely execution of the projects. Further, In order to ensure smooth execution and maintain quality of the construction, ORL outsources construction work to reputed construction companies both domestic and international. Moreover, the company works in close tandem with leading international design and architectural firms for providing premium appeal to its projects.

***Decline in new bookings of development properties; albeit lease rentals continued to grow***

Owing to sluggish real estate market the group chose to postpone its new project launches: Thane project and Exquisite III which were earlier scheduled to be launched in Q3FY20 were postponed to Q1FY21. However, due to ongoing lockdown in the country the group now expects to launch the projects by August 2020. Absence of any major project launches during the year coupled with decline in bookings at some of its projects such as Esquire (which had higher sales in FY19 due to receipt of OC during the year) coupled with marginal decline in sale of Mulund projects (Eternia & Enigma) the consolidated new bookings (excluding Three sixty west) declined during 9MFY20 to 4.86 lsf as compared to 5.88 lsf booked during 9MFY19. Value of sold flats also declined to Rs.811.24 crore in 9MFY20 as compared to 1056.57 crore during 9MFY19.
However, income from the investment properties continued to grow during 9MFY20, largely due to increase in occupancy rates in Commerz II office space. In 9MFY20 income form investment properties grew by around 12.43% to Rs.424.30 crore from Rs.377.38 crore during 9MFY19.

***Capital structure continues to be favorable***

The company's capital structure continues to be favorable as seen from overall gearing of 0.19 times as on December 31, 2019. Low leverage provides flexibility to the group in raising debt capital in cash of any exigency.

**Key Rating Weaknesses**

***Geographic Concentration risk***

ORL's primary area of operation is concentrated in the Mumbai Metropolitan region which exposes the company to a geographic concentration risk. Further, the projects of the company are in the premium segment which makes it susceptible to economic downturns. However, on account of its strong market position, ORL commands a premium over its competitors and has been able to sell its projects at attractive price points.

***Risk associated with large number of ongoing and planned projects***

The group is currently executing total development area of ~13.94 msf and investment portfolio of 5.39 msf. Considering size of the projects, especially where the company is at very nascent stage of construction such as Thane Phase-1 (yet to be launched for sales) where the company plans to develop approximately 2.27 msf, and Exquisite-III (yet to be launched for sales) where the company plans to develop 1.96 msf, the group is exposed to approval risk and project execution risk. Nevertheless, the group generally outsources its construction to reputed third party contractors. Moreover, the group and its promoters are well experienced to manage such large development which reduces the project execution risk to a large extent. Moreover, long presence of the group in the Mumbai region may help the group in obtaining the requisite approvals in time which also mitigates the project approval risk to a certain extent.

**Industry Outlook**

CARE continues to have Negative outlook for Real Estate sector. The sector was as it is facing lower sales and collections on the back of subdued demand is further expected to witness slowdown in construction activity and weakened cash flows due to pessimistic sentiments of the buyers. This would mean the projects getting delayed and cash flow mismatch in the short term forcing the developers to raise funds through tapping the refinancing route which would mean higher cost for the developers. Our discussion with several developers has led to a conclusion that developers with lower leverage will be able

to sustain these tough times with ease as compared to developers having high leverage who do not have financial flexibility to raise funds. In CARE's opinion the credit quality is expected to weaken and post lockdown, revival of the segment will take more time.
On the commercial real estate segment, CARE believes outlook to remain fairly stable. In CARE's opinion, though mall leasing activity is expected to see some impact in the short term owing to weaker cash flows as compared to office or warehousing leasing activity having robust rentals; yet comfort can be derived from the fact that majority of companies operating malls have financial flexibility in terms of liquidity or enjoy parentage of a larger business group or has lower loan to value ratio which increases its ability to raise funds if needed. Furthermore, CARE believes that the office space and warehousing leasing activity to recover faster as compared to other real estate asset classes.

**Analytical approach:**
CARE has followed consolidated approach. The subsidiaries/associates along with the parent company, ORL, have been consolidated on account of operational and financial linkages.

**Liquidity: Strong**
The group's liquidity position continues to be strong with unencumbered cash and cash equivalents (including liquid investments) of Rs.90 crore as on March 31, 2020. In addition to the group has undrawn sanction bank facilities of Rs.302.48 crore as on March 31, 2020. On the other hand as the group has already prepaid its NCDs maturing in April 23, 2020 and line of credit to be repaid on September 2020, the group's debt obligations confine to the interest to be serviced on its debt obligations which is approximately Rs.10 crore per month. Moreover, considering that the group is at moderate to advance stage of execution for its various development projects and healthy lease rentals, the group is well placed in terms of liquidity.

**Analytical approach:**
CARE has followed consolidated approach. The subsidiaries/associates along with the parent company, ORL, have been consolidated on account of operational and financial linkages.

**Applicable Criteria**
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
CARE's methodology for Short Term Ratings
Rating Methodology: Factoring Linkages in Ratings
Rating Methodology – Real Estate Sector

**About the Company**
Oberoi Realty Limited (ORL, CIN No. L45200MH1998PLC114818) is the flagship company of Oberoi Realty Group. Its promoter and promoter group have been developing real estate since 1983, initially as a proprietorship firm and, since 1993, through various project-specific entities. ORL (formerly known as Kingston Properties Private Limited), was incorporated in 1998. In 2006, the principal business operations of various group entities were consolidated under ORL and following the consolidation, majority of real estate development activity has been executed by ORL. The principal business of ORL is development of residential projects, however; the group has diversified presence in retail, commercial, hospitality and social infrastructure projects.

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

| Brief Financials (Rs. crore) | FY18 (A) | FY19 (A) |
|---|---|---|
| Total operating income | 1,290.24 | 2,644.46 |
| PBILDT | 804.17 | 1,360.81 |
| PAT | 458.80 | 816.93 |
| Overall gearing (times) | 0.28 | 0.20 |
| Interest coverage (times) | 7.33 | 8.38 |

*A: Audited*

**Status of non-cooperation with previous CRA:** Not Applicable.
**Any other information:** Not Applicable.
**Rating History for last three years:** Please refer Annexure-2

**Annexure-1: Details of Instruments/Facilities**

| Name of the Instrument | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. crore) | Rating assigned along with Rating Outlook |
|---|---|---|---|---|---|
| Fund-based/Non-fund-based-LT/ST | - | - | August 31, 2021 | 150.00 | CARE AA+; Negative / CARE A1+ |
| Commercial Paper | - | - | - | 300.00 | CARE A1+ |

**Annexure-2: Rating History of last three years**

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating history | | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Outstanding (Rs. crore) | Rating | Date(s) & Rating(s) assigned in 2020-2021 | Date(s) & Rating(s) assigned in 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 |
| 1. | Commercial Paper | ST | 300.00 | CARE A1+ | - | 1)CARE A1+ (05-Jul-19)<br>2)CARE A1+ (26-Apr-19) | 1)CARE A1+ (05-Jul-18) | 1)CARE A1+ (21-Sep-17) |
| 2. | Fund-based/Non-fund-based-LT/ST | LT/ST | 150.00 | CARE AA+; Negative / CARE A1+ | - | 1)CARE AA+; Stable / CARE A1+ (05-Jul-19) | 1)CARE AA+; Stable / CARE A1+ (05-Jul-18) | 1)CARE AA+; Stable / CARE A1+ (06-Nov-17) |

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

| Name of the Instrument | Detailed explanation |
|---|---|
| **A. Financial covenants** | |
| **I. Maintenance of ratios** | Fixed asset coverage ratio to be maintained at 1.5 times ;<br>TTL/TNW not to exceed 1 times (TTL includes sum of senior debt, Junior debt, lease obligations, and unsecured loans other than promoters unsecured loans (to the extent of undertaking for non-interest bearing, non-repayable during tenor of the bank facilities) |
| **B. Non financial covenants** | |
| **I. Prior approval from the lender** | The borrower shall not, without the prior written approval of the bank, permit any change in ownership/ Control/ management (including by pledge of promoter/sponsor/shareholding in the borrower to any third party), which results in promoter holding/shareholding to go below 51%. |

***Note on complexity levels of the rated instrument:*** *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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**About CARE Ratings:**
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.



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