Oberoi Realty Limited

July 05, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long term / Short term bank facility (Line of Credit)*	225.00^ (Reduced from 300.00)	CARE AA+; Stable / CARE A1+ [Double A Plus; Outlook: Stable / A One Plus]	Reaffirmed
Total facilities	**225.00 (Rupees Two Hundred and twenty five crore only)**		
Proposed Short-term Commercial paper	300.00	CARE A1+ [A One Plus]	Reaffirmed

Details of instruments/facilities in Annexure-1

^Out of the total LoC Limit of Rs.225 crores, Rs. 112.50 crores is earmarked for Oberoi Constructions Limited and Rs 112.50 crores is earmarked for Incline Realty Private Limited with primary obligor being Oberoi Realty Limited.

**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 healthy business risk profile characterised by well-established brand and strong foothold in the real estate market of Mumbai backed by steadily growing income from retail, commercial investment properties. This arises from healthy portfolio of leased assets, operating hotel as well as from the development projects. Furthermore, the rating continues to derive strength from ORL's strong financial risk profile marked by healthy cash accruals, favourable capital structure and healthy liquidity/debt coverage indicators in FY19 (refers to the period from April 01 to March 31).

The above rating strengths are however tempered by geographic concentration of the company's operations, large portfolio of ongoing and planned projects, high dependence on advances from the customers to fund the projects, and cyclical nature of real estate industry exposing the company to approval and sales risk.

Going forward, the company's ability towards timely execution of ongoing and planned projects, while maintaining its favorable capital structure and improving its sales momentum amidst slowdown in the real estate market will remain key rating sensitivities.

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

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 five 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 around three decades. Over the years, the group has been able to develop a brand value as well as have a strong foothold in the Mumbai 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 high ranked 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.

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

Robust growth in revenues from development projects supported by steady growth in rental income from investment properties

The Group derives its revenues from sale of development projects as well rental income from investment properties. During FY19, revenue booking on account of achievement of milestones led to increase in revenues from development properties. Moreover, increase in occupancy coupled with revision in rentals led to healthy increase in income from investment properties. These factors combined translated into robust growth in total operating income to Rs.2644.46 crore in FY19 from Rs.1290.24 crore in FY18.

The investment properties housed under Oberoi Group includes a shopping cum entertainment mall, two commercial buildings, and a hotel "Westin" in Mumbai suburbs. All these investment properties in aggregate helped the group to earn PBILDT of around Rs.308.84 crore during FY19, which rose from PBILDT of Rs.232.47 crore earned during FY18. Going forward, the cash flows are further expected to increase with the expected increase in the occupancy rates in its commercial buildings. Besides, the long term leasing agreements with the tenants of the mall and commercial properties provide near term cash flow visibility to the group. Furthermore, rental escalation clause with the tenants helps the group in increasing its rental income at regular intervals. Besides, these properties cater to different users segment such as retail customers, corporates, and hospitality. Diversified nature of end user provides stable cash flows to the group.

Capital structure continues to be favorable

During FY19, the company raised Rs.1,200 crore through issue of shares to qualified institutional investors. Issue of fresh equity shares coupled with plough back of profit generated from operations during the year helped the company to increase its consolidated tangible networth to Rs.8,027.5 crore as on March 31, 2019 as compared to Rs.6,090 crore as on March 31, 2018. Moreover, as the company funded its ongoing projects through cash available with the company, its reliance on external debt financing also reduced during the year, thereby helping the group to improve its capital structure. As on March 31, 2019, the company's overall gearing improved to 0.20 times as compared to 0.28 times as on March 31, 2018.

The favorable capital structure augurs well for the company. Maintaining the overall gearing at comfortable levels thereby leaving sufficient room to raise funds remains to be a key rating sensitivity.

Healthy liquidity profile

The company's liquidity position continues to be healthy with cash and cash equivalents (including liquid investments) of Rs.740.33 crore. The liquidity position maintained by the company as on March 31, 2019 is sufficient to meet its various debt obligations maturing during FY20. Moreover, sale of inventory from completed projects and the committed receivables from the sold inventory shall help the company in meeting its operational/development expenses during the year. Furthermore, strong brand and healthy capital structure of 0.20 times shall help the company to raise fund in case of any exigencies.

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 has portfolio of more than 20 ongoing and planned projects with a total saleable area of 28.58 mn. sq. ft. The major projects under execution include Worli Project (Three Sixty West, I-Ven), JVLR projects (Maxima), Mulund project (Eternia and Enigma) and Borivali Project (Sky City). Further, the group has acquired approximately 60 acres of land in Thane, which is expected to be launched for sale in Q3FY20. The group has also planned extension of its Goregaon project where it would be building a commercial building with leasable area of 1.89 msf and residential building with saleable area of 1.95 msf. Considering size and initial stage of the planned projects, especially Thane where the company has planned new project, the company is exposed to risk of approvals. Moreover, as the group majorly relies on customer advances and equity to fund its projects, maintaining healthy sales momentum is important to sustain its favorable capital structure. Although favorable location of projects and its strong brand has helped the company in the past, the sales remain susceptible to the factors affecting industry.

Going forward, the group's ability to maintain the envisaged sales momentum will remain crucial for the group form credit perspective.

Cyclical nature of the Industry

Real estate sector demand is linked to the overall economic prospect of the country. Change in the economic outlook affects the expected cash inflows to a household thereby also influencing their buying decision. Besides, as leverage forms an important part of funding for the buyer, availability of loan and interest rates also affects the demand of real estate properties. On the other hand land, labor, cement and metal prices being some of major cost centers for the sector availability of these factors plays important role in pricing and supply of new units. Hence, cyclicality associated with economic outlook, interest rates, metal prices etc. also renders the real estate sector towards cyclicality. Moreover, the companies in the sector are also exposed to regulatory changes, especially in the countries such as India with evolving regulations.

Industry Prospects

The prospective end users continue to remain cautious and want to avoid the construction risk. Due to this, the developers will focus on completing the ongoing projects rather than launching new projects. This in turn will keep the inventory levels in check and the prices are expected to remain stagnant for some more time. The strong end user demand and government incentives for both developers and end users in the affordable residential segment will drive the growth of residential real estate segment. The commercial and warehouse segments are expected to remain buoyant, driven by demand from BFSI, e-commerce, manufacturing and co-working space. In the next few quarters, supply is expected to remain lower than the demand resulting in growth in rentals.

Moreover, as NBFCs formed an important part of developer loans, the recent liquidity issues faced by various NBFCs may also impact real estate developers, especially leveraged and smaller developers. This may further escalate the liquidity issues faced by developers and consolidation in the sector is expected to gain pace. Also, with the implementation of RERA, the developers are required to bring in more transparency as well as accountability in their processes; It is expected to increase the confidence of home buyers and may result in higher and sustainable demand in the long run. Thus, developers with higher financial flexibility and sound business risk profile are expected to sustain the slowdown in the real estate industry. This in a way is expected to reach the equilibrium between the demand and supply metrics of the real estate industry.

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]
[CARE's methodology for Short Term Ratings]
[Rating Methodology: Factoring Linkages in Ratings]

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.

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; *as per abridged financials published on BSE*

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	225.00	CARE AA+; Stable / 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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Commercial Paper	ST	300.00	CARE A1+	1)CARE A1+ (26-Apr-19)	1)CARE A1+ (05-Jul-18)	1)CARE A1+ (21-Sep-17)	1)CARE A1+ (30-Aug-16)
2.	Fund-based/Non-fund-based-LT/ST	LT/ST	225.00	CARE AA+; Stable / CARE A1+	-	1)CARE AA+; Stable / CARE A1+ (05-Jul-18)	1)CARE AA+; Stable / CARE A1+ (06-Nov-17)	-

Annexure-3:
Companies consolidated in the financials

Subsidiaries
Oberoi Constructions Limited
Oberoi Mall Limited
Expressions Realty Pvt. Ltd.
Incline Realty Pvt. Ltd.
Integrus Realty Pvt. Ltd.
Sight Realty Pvt. Ltd.
Kingston Hospitality and Developers Pvt. Ltd.
Kingston Property Services Limited
Buoyant Realty LLP
Astir Realty LLP
Perspective Realty Private Limited
Pursuit Realty LLP

Joint Ventures
Siddhivinayak Realties Private Limited ('SRPL')
Sangam City Township Private Limited ('SCTPL')
Metropark Infratech And Realty Developments Private Limited ('MIRD')
Saldanha Realty And Infrastructure LLP ('SRIL')
Shri Siddhi Avenues LLP ('SSAL')
Oasis Realty ('OR')
Schematic Estate LLP ('SELLP') (incorporated on February 10, 2017)
I-Ven Realty Limited ('I-Ven')
Zaco Aviation (AoP)

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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