Oberoi Realty Limited (Revised)

October 06, 2020

Ratings

Facilities/Instrument	Amount (Rs. crore)	Rating1	Rating Action
Long-term / Short-term bank facility (Line of Credit)	75.00 (reduced from 150.00)	**CARE AA+; Negative/CARE A1+ (Double A Plus; Outlook: Negative/A One Plus)**	**Reaffirmed**
Total Facilities	**75.00 (Rs. Seventy five crore only)**		
Commercial Paper Issue (Standalone)	300.00 **(Rs. Three hundred crore only)**	**CARE A1+ (A One Plus)**	**Reaffirmed**

Details of facilities/instruments in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation in ratings assigned to the long term/short bank facilities and instruments of Oberoi Realty Limited (ORL) factors in the long track record and extensive experience of the promoters in the real estate business, the group's well-established brand image and strong foothold in the real estate market of Mumbai backed by steady income from the investment properties. Furthermore, the rating also 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, slowdown as a result of the covid pandemic and inherent industry risk associated with real estate sector.

Outlook: Negative

The outlook continues to remain Negative on account of expected moderation in the credit risk profile of entities involved in the real estate development owing to the prolonged impact of lockdown in the country implemented by the government from time to time towards containment of COVID-19 in the recent past. This resulted in disruption of operational activities i.e. stoppage of the construction work at various sites coupled with diminished sales and collection activities which has impacted the cash flows of the company adversely. CARE notes that with the impact of pandemic expected to continue into Q2 & Q3 FY2021, particularly in Mumbai (ORL's key market), recovery in sales and collection is expected to take some more time. Further, in CARE's opinion, despite various measures implemented by the government towards lifting the lockdown in various phases, 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. Besides, committed receivables from already booked sales are likely to be impacted, given that milestone-based payments may get deferred or some buyers may delay payments on account of economic uncertainties and contagion fears. As a result, sales/collection momentum as well as new sales launches is likely to be impacted as the developers may choose to wait for the demand in the residential segment to pick-up.

Further, despite lockdown being lifted, ORL's mall operations have commenced with sparse footfalls while hotel is operating at a lower occupancy level now as compared to pre-covid levels. This has also impacted the cash flows of the company to an extent as the company had to forgo major portion of its revenues from mall and hotel properties during Q1FY21. However, revenue from mall and hotel properties has started to pick-up gradually post unlock guidelines announced by government in phased manner.

Nevertheless, the credit risk profile of the company is expected to remain under pressure even after commencement of operations due to adverse impact of covid-19 on the operations of the company as the cash flows are expected to remain subdued in the near term. The outlook may be revised to 'Stable' if the company is able to achieve the improvement in the cash flows resulting in cash coverage ratio above 2.5x on a sustained basis.

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

However, CARE will continue to monitor the performance of the company with regard to achievability of envisaged sales, collection and cash flows as well as its possible impact on the credit risk profile of the company.

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

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 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 in FY20

Owing to sluggishness in real estate market coupled with impact of nationwide lockdown on account of COVID-19 outbreak, 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 Q4FY21 respectively. 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) as well a marginal decline in sale of Mulund project (Eternia) the consolidated new bookings (excluding Three sixty west) declined during FY20 to 6.11 lsf as compared to 7.09 lsf booked during FY19. Value of sold flats also declined to Rs.1084 crore in FY20 as compared to 1,270 crore during FY19.

However, income from the investment properties continued to grow during FY20, largely due to increase in occupancy rates in Commerz II office space. During FY20 income form investment properties grew by around 8.58% to Rs.497.84 crore from Rs.458.50 crore during FY19.

Capital structure continues to be favorable

The company's capital structure continues to be favorable as seen from overall gearing of 0.18 times as on June 30, 2020 (0.18 times as on March 31, 2020). Low leverage provides flexibility to the group in raising debt capital in case 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 ~12.90 msf and investment portfolio of ~6.16 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 ~1.90 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.

Liquidity: Strong

The group's liquidity position continues to be strong with unencumbered cash and cash equivalents (including liquid investments) of Rs.90.60 crore as on June 30, 2020. In addition to this, group has undrawn sanction bank facilities of Rs.158.19 crore as on August 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 August 31, 2020, the group's debt obligations confine to the interest to be serviced on its debt obligations. 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. The list of entities whose financials have been consolidated is mentioned in **Annexure 3**.

Applicable Criteria

Criteria on assigning Outlook and Credit Watch to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Financial ratios – Non-Financial Sector
Rating Methodology: Consolidation and Factoring Linkages in Ratings
Rating Methodology – Real Estate Sector
Liquidity Analysis of Non-financial sector entities

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-4*

Brief Financials –Consolidated (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	2,636.99	2,282.79
PBILDT	1,353.33	1,171.06
PAT	816.93	689.33
Overall gearing (times)	0.20	0.18
Interest coverage (times)	8.34	7.05

A: Audited; The financials have been reclassified as per CARE Standards

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 Facilities/Instruments

Name of the Instrument	ISIN No.	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	-	-	-	-	75.00	CARE AA+; Negative / CARE A1+
Commercial Paper-Commercial Paper (Standalone)	-	-	-	7 days to 364 days	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-Commercial Paper (Standalone)	ST	300.00	CARE A1+	1)CARE A1+ (24-Apr-20)	1)CARE A1+ (05-Jul-19) 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	75.00	CARE AA+; Negative / CARE A1+	1)CARE AA+; Negative / CARE A1+ (24-Apr-20)	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)
3.	Debentures-Non Convertible Debentures	LT	700.00	CARE AA+; Negative	1)CARE AA+; Negative (29-Sep-20)	-	-	-

Annexure-3: List of subsidiaries, associates and joint ventures of ORL getting consolidated (list as on March 31, 2020)

S. No.	Name of the company	% shareholding of ORL
1	Oberoi Construction Limited	100.00
2	Oberoi Mall Limited	100.00
3	Incline Realty Private Limited	100.00
4	Perspective Realty Private Limited	100.00
5	Kingston Property Services Limited	100.00
6	Kingston Hospitality and Developers Private Limited	100.00
7	Expressions Realty Private Limited	100.00
8	Buoyant Realty Private Limited	100.00
9	Sight Realty Private Limited	100.00
10	Integrus Realty Private Limited	100.00
11	Evenstar Hotels Private Limited	100.00
12	Astir Realty LLP	100.00
13	Aion Realty LLP	50.00
14	Saldanha Realty and Infrastructure LLP	50.00
15	Siddhivinayak Realties Private Limited	50.00
16	Shri Siddhi Avenues LLP	60.00
17	Metropark Infratech & Realty Developments Private Limited	33.00
18	I Ven Realty Private Limited	50.00
19	Sangam City Township Private Limited	31.67
20	Oasis Realty	32.50

Annexure-4: Detailed explanation of covenants of the rated instrument/facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	
I. Maintenance of ratios	Minimum security cover to be maintained at 1.5 times; 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) Total Debt to Equity should not exceed 0.90 x during the tenor of the debenture
B. Non-financial covenants	
I. Prior approval from the lender	- Promoters to collectively hold minimum 51% of equity share capital in the Company (taken on a fully diluted basis) - Vikas Oberoi shall hold (directly or indirectly) minimum 51% unencumbered stake in Company at all points of time throughout the term of the Debentures. - Promoters to have the ability to control and direct the business operations and functioning of the Company - Promoters to have the ability to appoint majority of the directors of the Board of Directors of the Company

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Commercial Paper (Standalone)	Simple
2.	Fund-based/Non-fund-based-LT/ST	Simple

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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