

Oberoi Realty Ltd.

July 05, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term / Short term bank facility (Line of Credit)*	300.00 [^]	CARE AA+; Stable / CARE A1+ [Double A Plus; Outlook: Stable / A One Plus]	Reaffirmed
Total facilities	300.00		
Proposed Short-term Commercial paper	100.00	CARE A1+ [A One Plus]	Reaffirmed

Details of instruments/facilities in Annexure-1

[^]Out of the total LoC Limit of Rs.300 crores, Rs. 150 crores is earmarked for Oberoi Constructions Limited and Rs 150 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 ratings of Oberoi Realty Limited (ORL) continues to derive strength from the experienced and professional management of ORL, the group's robust business risk profile marked by its established brand and strong market position in the real estate market of Mumbai and its strong financial risk profile supported by low leverage and healthy cash accruals. The rating also favorably factors revenue visibility emanating from healthy portfolio of leased assets and an operating hotel as well as its alliance with established players for execution of various projects.

Further the rating also considers significant project development plans and the concomitant project execution and sales risk, high dependence on advances from the customers to fund the projects and ORL's concentration in premium housing segment which is susceptible to economic slowdown.

ORL's ability to launch the forthcoming projects in a timely manner and achieve healthy sales volumes as well as collections, while maintaining a comfortable capital structure amidst a challenging economic backdrop are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters supported by a strong management team

Mr. Vikas Oberoi (Promoter) has an experience of over 25 years in the real estate industry and is involved in the formulation of corporate strategy and planning, overall execution and management, and concentrates on the growth and diversification plans of the company.

ORL's successful track record of project management and execution

The group has completed 40 projects and has concrete plans for 26 ongoing and planned projects with an estimated area of approximately 28 million square feet to be executed over the next three-four years.

Low Financial Leverage and healthy cash accruals

The company has primarily funded its operations through equity contribution from promoters, internal accruals and customer advances and shown limited reliance on borrowed funds. The company has further raised equity of Rs.1200.00

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

crore in June, 2018 through QIP route. Consolidated Adj. overall comfortable at gearing stood 0.28x as on March 31, 2018 (0.24x P.Y).

Cash flow stability from rental properties and operating hotel in Mumbai

The annuity-like revenue of the company in the form of lease rentals and revenue from hotel operations together accounted for around 29% of the total operating revenue of the company in FY17 as well as FY18.

Industry Prospects

Residential property sales has for the first time since 2008 crisis been more than the new launches during the years 2015 & 2016. This also shows that developers have been going slowly with new launches of projects owing to regulatory changes like Real Estate (Regulation and Development) Act 2016. Besides, they have also tried to bring down inventories in line with the demand in the market.

The sector post-introduction of Real Estate (Regulation and Development) Act (RERA) is on the path to transformation, especially for the residential real estate segment. Some of the new regulations under RERA include disallowing the common practice among many developers of pre-launching projects without getting requisite approvals from the local authorities, making project registration mandatory with the regulator, and developers will have to disclose approval status, project layout and timeframe for completion to the regulator as well as customers. Additionally, in order to curb diversion of funds the developer will now have to deposit 70% of the project funds in a separate account which can only be used for the earmarked project. The Act also restricts developers from changing plans post approvals without the consent of the buyers further empowering the buyers.

The sector is expected to witness large scale consolidation. Smaller developers would find it difficult to meet their cash flow requirements due to prohibition on pre-sales until a project is registered post approval with the regulatory authority. This would require the small developers to merge or tie-up with large developers and then co-develop properties. The implementation of RERA may entail initial hiccups across the states and hence the more established and bigger developers would be at an advantageous position compared to the small and marginal developers when it comes to adhering to regulations.

Key Rating Weaknesses

Execution risk in large number of upcoming projects

The company has received pre-construction approvals for all the projects which it has launched. The ability of group to maintain healthy salability of new projects given the high reliance on customer advance and considerably lower requirement of external funds for projects is critical from credit perspective.

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. The premium projects comprise of the majority portion of the total sales value.

Cyclicality in the Real Estate Industry

The real estate industry is highly cyclical in nature and price movements in the real estate market causes fluctuations in the property market. This is due to the changes in the economic, demographic and policy changes in the economy.

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.

ORL Consolidated

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	1155.94	1290.21
PBILDT	613.13	701.23
PAT	378.59	458.80
Adj. Overall gearing (times)**	0.24	0.28
Interest coverage (times)*	8.51	6.39

A: Audited, NM: Not meaningful

** including the debt of Oasis Realty guaranteed by the ORL

*includes capitalized interest

Status of non-cooperation with previous CRA:

Not Applicable

Any other information:

Not Applicable

Rating History for last three years: Please refer Annexure-2

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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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

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

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CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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	-	-	-	300.00	CARE AA+; Stable / CARE A1+
Commercial Paper	-	-	-	100.00	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Commercial Paper	ST	100.00	CARE A1+	-	1)CARE A1+ (21-Sep-17)	1)CARE A1+ (30-Aug-16)	1)CARE A1+ (20-Jul-15)
2.	Fund-based/Non-fund-based-LT/ST	LT/ST	300.00	CARE AA+; Stable / CARE A1+	-	1)CARE AA+; Stable / CARE A1+ (06-Nov-17)	-	-

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