Godrej Properties Limited

Instrument	Amount	Rating Action
Long Term – Fund Based	Rs. 1,300 crore	[ICRA]AA (Stable) reaffirmed
Long Term – Non-Fund Based	Rs. 50 crore	[ICRA]AA (Stable) reaffirmed
Short Term – Fund based	Rs. 395 crore	[ICRA]A1+ reaffirmed
Long Term/Short term-Proposed (Fund Based / Non-Fund Based)	Rs. 255 crore	[ICRA]AA (Stable) / [ICRA]A1+ reaffirmed
Commercial Paper	Rs. 1,250 crore (enhanced from Rs. 1,100 crore)	[ICRA]A1+ reaffirmed
Fixed Deposit	Rs. 50 crore	MAA (Stable) reaffirmed

ICRA has reaffirmed the long term rating of [ICRA]AA (pronounced ICRA double A)[1] and the short term rating of [ICRA]A1+ (pronounced ICRA A one plus) outstanding on the fund based, non fund based and proposed bank facilities of Godrej Properties Limited (GPL) aggregating to Rs. 2,000 crore[2]. The outlook on the long term rating is Stable. ICRA has also reaffirmed the short term rating of [ICRA]A1+ outstanding on the Rs. 1,250 crore (enhanced from Rs. 1,100 crore) Commercial Paper programme and the medium-term rating of MAA (pronounced M double A) outstanding on the Rs. 50 crore Fixed Deposit programme of GPL.

The ratings reaffirmation takes into consideration the healthy performance of the residential portfolio with nearly 80% of the area launched tied up as of March 31, 2016 supported by the strong traction in the new launches. The company reported an uptick in the commercial segment in the past fiscal, supported by the block sale in the Godrej BKC project, which is its largest commercial project under execution. Moreover, with the commercial projects in GPL's portfolio being largely completed, the incremental sale of inventory is expected to result in positive cash flows for the company. During FY2016, GPL tied up sale for 3.85 million square feet (sqft) of residential development (including the projects under development management agreement) as well as 0.47 million sqft of commercial development. The ratings continue to derive comfort from the strong parentage of Godrej Industries Limited (GIL) and access to the land holdings of various group entities by virtue of this relationship. The ratings also take into account GPL's business model of entering into Joint Development Agreements (JDA) with the land owners which reduces the upfront capital requirement. Further, the increasing focus on development management fee arrangements and shift towards the profit-sharing model from the revenue-sharing model which is expected to lead to higher profitability levels going forward.

The ratings, however, are constrained by the high indebtedness of the company, with Net Debt of ~Rs. 2,600 crore on a consolidated basis as of March 31, 2016, albeit lower than ~Rs. 2,800 crore as of March 31, 2015. Further the reliance on short term sources of funding has increased significantly in the past fiscal, with working capital facility and short term borrowing attributing to over 80% of the Total Debt as of March 31, 2016. Going forward, the tie-up of the residual sales of the Godrej BKC project is expected to create a healthy surplus thereby facilitating deleveraging of the balance sheet by the end of current fiscal. The ratings continue to take into account the company's subdued profitability on account of lower margins associated with the commercial projects due to cost escalations coupled with the recognition of sales tied-up at lower rates as well as delays witnessed in the launch of several projects across geographies primarily on account of delays in obtaining approvals, which has also deferred the cash inflows expected from these projects. Going forward, the profitability of the residential portfolio is expected to improve gradually, given the high margins associated with new projects, shift to profit sharing model from revenue sharing and growing focus on development management arrangements. This, along with the recognition of more recent sales of Godrej BKC project would help support the company's overall profitability. The performance of the legacy commercial projects, located in Chandigarh and Kolkata, remains subdued with ~ 34% of the area tied up as of March 31, 2016. While these projects form a small proportion of the portfolio, the timely monetisation of the area remains critical to recoup the capital locked in the same (~Rs. 400 crore as of March 31, 2016). Considering that most of the cost on these projects has been incurred, incremental sales are expected to be cash flow positive.

[1] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.
[2] 100 lakh = 1 crore = 10 million

Going forward, the company's ability to monetize the commercial projects in a timely manner, maintain sales momentum in its residential portfolio and achieve healthy collections, remain critical from a credit perspective. Further, the extent of investments made in acquiring new projects and its consequent impact on GPL's financial risk profile, and the movement in its debt levels will be other key monitorables.

Company Profile

Godrej Properties Limited (GPL) is the real estate venture of the Godrej Group, which is involved in diverse business segments spanning home appliances, FMCG, consumer products, industrial products (process plant and equipment), oleo chemicals, animal feed, real estate development and oil palm plantation through various group companies. The company is a subsidiary of the Godrej Industries Limited (erstwhile Godrej Soaps Limited), which holds ~57% of the company's equity share capital as on June 30, 2016. GPL currently has presence in 12 cities in India and its business focuses on residential, commercial and township developments. While assigning the rating, ICRA has taken a consolidated view of GPL, its subsidiaries and joint ventures given the strong operational, financial and management linkages among various entities.

For the twelve month period ending March 2016, GPL reported an operating income of Rs. 2,634 crore and a profit after tax of Rs. 289 crore (before minority interest) as against an operating income of Rs. 1,843 crore and a profit after tax (before minority interest) of Rs. 236 crore in the previous fiscal.

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