August 08, 2017

Godrej Properties Limited

Summary of rated instruments

Instrument*	Rated Amount	Rating Action
Non-convertible debenture	Rs. 500 crore	[ICRA]AA (Stable) assigned
Long Term - Fund Based Limits	Rs. 1,300 crore	[ICRA]AA (Stable) outstanding
Long Term -Non-Fund Based Limits	Rs. 50 crore	[ICRA]AA (Stable) outstanding
Short Term – Fund Based Limits	Rs. 395 crore	[ICRA]A1+ outstanding
Long Term/Short term-Proposed (Fund Based / Non-Fund Based Limits)	Rs. 255 crore	[ICRA]AA (Stable) / [ICRA]A1+ outstanding
Commercial Paper	Rs. 1,250 crore	[ICRA]A1+ outstanding
Fixed Deposit	Rs. 50 crore	MAA outstanding

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned a long-term rating of [ICRA]AA (pronounced ICRA double A) to the Rs. 500-crore[1] non-convertible debenture (NCD) programme of Godrej Properties Limited[2]. The outlook on the long-term rating is 'stable'. ICRA also has a long-term rating of [ICRA]AA (Stable) and a short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) outstanding on the fund based and non-fund based bank facilities of Godrej Properties Limited (GPL) aggregating to Rs. 2,000 crore. ICRA also has a short-term rating of [ICRA]A1+ outstanding on the Rs. 1,250 crore Commercial Paper programme and a medium-term rating of MAA (pronounced M double A) outstanding on the Rs. 50 crore Fixed Deposit programme of GPL.

Rationale

The rating takes into consideration the healthy performance of the GPL's residential portfolio with nearly 70% of the area launched tied-up as of March 31, 2017 supported by the strong traction in the new launches. During FY2017, GPL tied-up booking volume of 3 million square feet (sq ft) of residential development (as against 3.85 million sq ft in FY2016) as well as 0.11 million sq ft of commercial development (as against 0.47 million sq ft in FY2016). In Q1FY2018, GPL witnessed significant increase in residential sales with a total booking area of 1.80 million sq ft with a total booking value of Rs. 1,472 crore. While sales in the commercial segment have been relatively weaker, the commercial projects in GPL's portfolio have been largely completed, and thus the incremental sale of inventory is expected to result in positive cash flows for the company. The rating continues 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 rating also takes 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 has supported profitability levels in FY2017 that is expected to continue, going forward.

[1] *100 lakh = 1 crore = 10 million*

[2] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

The rating, however, is constrained by the high indebtedness of the company, with net debt (i.e. gross debt less liquid investments and cash balances) of Rs. 3,091 crore on a consolidated basis as of June 30, 2017. Further, the company's reliance on short-term sources of funding has increased significantly in the past fiscal, with working capital loans and short-term borrowings attributing to about 84% of the total debt as of June 30, 2017. ICRA, however, expects the tie-up of the residual sales of the Godrej BKC project (~0.25 million sq ft of unsold inventory) expected to create a healthy surplus thereby facilitating deleveraging of the balance sheet by the end of current fiscal. The performance of the company's legacy commercial projects, located in Chandigarh and Kolkata, remains subdued with ~ 38% of the area tied up as of March 31, 2017. 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. 440 crore as of March 31, 2017).

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.

Key rating drivers

Credit strengths

- **Strong parentage by virtue of being a part of the Godrej Group; access to land holdings of various group entities:** The promoter group holds about ~75% shareholding in the company, mainly through Godrej Industries Limited ([ICRA]AA (Stable)/[ICRA]A1+). Being a part of the Godrej group, the company enjoys healthy financial flexibility. It also has access to large land banks of the group. In the past GPL has entered into development agreement with various group entities for developing land parcels in Mumbai, Thane, Bangalore and Hyderabad
- **High pre-sales achieved in on-going residential projects supported by the new launches:** As on March 31, 2017 the company has been able to tie up sales for ~70% of the total 27 million (mn) sq ft (corresponding to GPL's share) open for sale in the residential segment. This includes 51 projects aggregating to 23 million sq ft (26 million sq ft after including partner's area share) being developed by GPL as well as 6 projects aggregating to 3.5 million sq ft under Development Management Agreement.
- **Healthy performance of the commercial office project at Mumbai (Godrej BKC) with a booking ratio of ~76%:** The company has tied up nearly 76% of the area for the BKC project at an average rate of Rs. 31,333 / sq ft. Further, of the total sale value of Rs. 2,444 crore, Rs. 2,434 crore has been received. About 0.25 million sq of the project is yet to be sold which the company is targeting to close in the current fiscal that would result in healthy sales of Rs. 950~1,000 crore at present realizations. Moreover GPL has reduced net debt level by about Rs. 400 crore due to receipt of equivalent amount from Godrej BKC project in Q1 FY2018.
- **Business model comprising of Joint Development Agreements (JDA) and Development Management Arrangements (DMA) reduces the upfront capital requirement**: GPL's business model involves entering into joint development agreements (JDA) with land owners. Further, the increasing focus on more capital efficient models, i.e. development management fee arrangements and shift towards profit sharing model from revenue sharing model, is expected to support the profitability levels.
- **Strong focus on execution:** GPL delivered 4.6 million sq ft in FY2017, which includes 3.3 million sq ft of residential and 1.3 million sq ft of commercial space across four cities. GPL has delivered over 15 million sq ft of real estate in the last four years, which demonstrates its strong execution capabilities and focus.

- **Healthy geographical spread to help cushion slowdowns in certain markets**: GPL's geographical spread minimizes its risk and should cushion slowdowns in certain markets. However, dependence on a few key markets remains high with Ahmedabad, Gurgaon and Mumbai together attributing to ~50% of the total development.

Credit weaknesses

- **High level of indebtedness on a consolidated basis:** GPL's net debt levels were high at Rs. 3,499 crore as of March 31, 2017 (as against Rs. 2,894 crore as on March 31, 2016) primarily owing to the capital locked in commercial projects and deposits given to land owners. Moreover, the reliance on short term sources of funding has increase significantly in the past fiscal, with short-term borrowing attributing to over 84% of the total debt as of March 31, 2017. In Q1 FY2018, the company has been able to reduce the net debt levels by about ~ Rs. 400 crore due to receipt of equivalent amount from Godrej BKC project. As a result, the company's net debt level has reduced to Rs. 3091 crore as on June 30, 2017. Further, with a large part of the cost towards Godrej BKC incurred, the monetization of the project is expected to help deleverage the balance sheet in the near term.
- **Subdued performance of the legacy commercial projects in Chandigarh and Kolkata; Considering that most of the cost on these projects has been incurred, incremental sales are expected to be cash flow positive:** The sales tie-up in the two older commercial projects (Kolkata and Chandigarh) continues to remain low. As of March 31, 2017 about 38% of the area was tied up (up from 34% as of March 31, 2016) while nearly Rs. 625 crore of cost (~94% of total) was incurred towards these projects. However, since most of the cost on these projects has been incurred, sales from these projects would add to the company's cash inflows, going forward. While these projects form a small proportion of the portfolio, the timely monetization of the area remains critical to recoup the capital locked in the same.
- **Delays witnessed in launch of several projects across geographies primarily on account of approval related issues:** The launch of several projects has been delayed primarily on account of approval related issues. While the company has a healthy line-up of projects, its ability to be ensure timely launch of the same remain critical from a cash flow perspective, particularly considering that the company's pre-sales have been supported by the new launches.

Analytical approach: For arriving at the rating, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:
Rating Methodology for Real Estate Entities

About the company

Godrej Properties Limited (GPL) is the real estate venture of the Godrej Group, which is engaged 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 56.7% of the company's equity share capital as on March 31, 2017. GPL currently has a 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.

Key Financial Indicators

	FY2016	FY2017	Q1 FY2018 (P)
Operating Income (Rs. crore)	2,204.7	1,685.3	248.6
PAT (Rs. crore)	159.5	206.1	23.4
OPBDIT/ OI (%)	9.9%	20.9%	-7.2%
RoCE (%)	5.2%	7.1%	
Total Debt/ TNW (times)	1.8	1.9	1.9
Total Debt/ OPBDIT (times)	14.2	11.3	
Interest coverage (times)	5.4	3.5	2.5

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress); NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:

Table: Rating History

S. No.	Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
				August 2017	August 2016	October 2015	October 2014
1	Non-convertible Debenture (NCD)	Long Term	500	[ICRA]AA (Stable)	-	-	-
2	Fund Based	Long Term	1,300	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Stable)
3	Non-Fund Based	Long Term	50	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Stable)
4	Fund based	Short Term	395	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-
5	Proposed (Fund Based / Non-Fund Based)	Long Term/Short Term	255	[ICRA]AA (Stable) / [ICRA]A1+	[ICRA]AA (Stable) / [ICRA]A1+	[ICRA]AA (Stable) / [ICRA]A1+	[ICRA]AA- (Stable) / [ICRA]A1+
6	Commercial Paper	Short Term	1,250	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
7	Fixed Deposit	Medium Term	50	MAA	MAA	MAA	-

Complexity level of the rated instrument:
ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Instrument Details

ISIN No	Instrument	Date of Issuance /Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	NCD	Yet to be placed	-	-	500	[ICRA]AA (Stable)
NA	Long Term -Fund Based	-	-	-	1,300	[ICRA]AA (Stable)
NA	Long Term -Non-Fund Based	-	-	-	50	[ICRA]AA (Stable)
NA	Short Term – Fund based	-	-	-	395	[ICRA]A1+
NA	Long Term/Short term-Proposed (Fund Based / Non-Fund Based)	-	-	-	255	[ICRA]AA (Stable) / [ICRA]A1+
NA	Commercial Paper	-	6.50% to 6.87%	2 to 3 months	1,250	[ICRA]A1+
NA	Fixed Deposit	-	-	-	50	MAA

Source: GPL, NA: Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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