ICRA

October 09, 2017

Godrej Properties Limited

Summary of rated instruments

Instrument*	Rated Amount	Rating Action
Non-convertible debenture	Rs. 500 crore	[ICRA]AA (Stable); reaffirmed
Long Term - Fund Based Limits	Rs. 1,500 crore	[ICRA]AA (Stable); reaffirmed
Long Term -Non-Fund Based Limits	Rs. 50 crore	[ICRA]AA (Stable); reaffirmed
Short Term – Fund Based Limits	Rs. 195 crore	[ICRA]A1+; reaffirmed
Long Term/Short term-Proposed (Fund Based / Non-Fund Based Limits)	Rs. 255 crore	[ICRA]AA (Stable) / [ICRA]A1+; reaffirmed
Commercial Paper	Rs. 1,250 crore	[ICRA]A1+; reaffirmed
Fixed Deposit	Rs. 50 crore	MAA(Stable); reaffirmed

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed a long-term rating of [ICRA]AA (pronounced ICRA double A) and short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) to the fund based, non-fund based and proposed bank facilities of Godrej properties Limited (GPL) aggregating to Rs. 2,000 crore[1]. The outlook on the long-term rating is stable. ICRA has also reaffirmed long-term rating of [ICRA]AA (Stable) to the Rs. 500 crore non-convertible debenture (NCD) programme, short-term rating of [ICRA]A1+ to the Rs. 1250 crore commercial paper programme and medium-term rating of MAA (pronounced M double A) to the Rs. 50 crore fixed deposit programme of GPL[2]. The outlook on medium-term rating is stable.

Rationale

The reaffirmation of the ratings takes into consideration the healthy performance of the GPL's residential portfolio with nearly 79% of the area launched tied-up as of June 30, 2017 supported by the strong traction in the new launches. In Q1 FY2018, the company witnessed strong sales in its residential portfolio, despite the sluggishness in the overall real estate market, with a total booking area of 1.80 million sq ft and a total booking value of Rs. 1,474 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.

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 remained high though it is expected to reduce with the recent issuance of fresh NCDs of Rs. 500 crore. ICRA expects the tie-up of the residual sales of the Godrej BKC project (~0.25 million sq ft of unsold inventory) to create a healthy

[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*

surplus, which coupled with the payment of Rs. 350~400 crore received from Jet Airways (India) Limited towards old dues, would facilitate the deleveraging of the balance sheet by the end of the current fiscal. The ratings also take into account the subdued performance of the company's legacy commercial projects, located in Chandigarh and Kolkata, 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). The rating is further constrained by exposure to project execution risk mainly owing to large area under development coupled with continuing slowdown in the real estate sector. The rating also takes into consideration the risks of high investments as JDA advances in the recent past and delays witnessed in few projects due to regulatory approvals.

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 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 and Hyderabad.
- **High pre-sales achieved in on-going residential projects supported by the new launches:** As on June 30, 2017 the company has been able to tie up sales for ~79% of the total 29 million (mn) sq ft (corresponding to GPL's share) open for sale in the residential segment. This includes 53 projects aggregating to 24.8 million sqft (27.2 million sq ft after including partner's area share) being developed by GPL as well as 7 projects aggregating to 3.7 million sq ft under Development Management Agreement
- **Healthy performance of the commercial office project at Mumbai (Godrej BKC) with a booking ratio of ~75%:** The company has tied up nearly 75% 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. 950~1000 crore at present realizations.
- **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.
- **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, NCR, Mumbai, Pune & Bangalore together attributing to ~ 50% of the total development.

Credit weaknesses

- **High level of indebtedness on a consolidated basis:** GPL's gross debt levels were high at Rs., 4,021 crore as of June 30, 2017 (as against Rs. 3,976 crore as on March 31, 2017) 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 70% of the total debt as of March 31, 2017. However, In Q1 FY2018, the company has been able to reduce the net debt levels to Rs. 3,100 crore on the back of reimbursement of expenses of Rs. 400 crore. 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:** 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 ratings, 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 57% of the company's equity share capital as on June 30, 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
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 in FY2018		Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
				October 2017	August 2017	August 2016	October 2015	October 2014
1	Non-convertible Debenture (NCD)	Long Term	500	[ICRA]AA (Stable)	[ICRA]AA (Stable)	-	-	-
2	Fund Based	Long Term	1,500	[ICRA]AA (Stable)	[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)	[ICRA]AA- (Stable)
4	Fund based	Short Term	195	[ICRA]A1+	[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+	[ICRA]AA- (Stable) / [ICRA]A1+
6	Commercial Paper	Short Term	1,250	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
7	Fixed Deposit	Medium Term	50	MAA (Stable)	MAA (Stable)	MAA (Stable)	MAA (Stable)	-

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
INE484J08014	NCD	September 2017	7.82%	September 2020	500	[ICRA]AA (Stable)
	Long Term - Fund Based				1,500	[ICRA]AA (Stable)
	Long Term - Non-Fund Based				50	[ICRA]AA (Stable)
	Short Term – Fund based				195	[ICRA]A1+
	Long Term/Short term-Proposed (Fund Based / Non-Fund Based)				255	[ICRA]AA (Stable) / [ICRA]A1+
	Commercial Paper		6.50% to 6.87%		1,250	[ICRA]A1+
	Fixed Deposit				50	MAA

Source: GPL

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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.

For more information, visit **www.icra.in**

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