Godrej Properties Limited

September 10, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount(Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Long Term – Fund Based/CC	1,600	1,850	[ICRA]AA(Stable); Reaffirmed
Long Term – Non-fund Based Limits	50	50	[ICRA]AA(Stable); Reaffirmed
Long Term/ Short Term – Proposed	350	100	[ICRA]AA(Stable)/A1+; Reaffirmed
Commercial Paper	1,250	1,250	[ICRA]A1+; Reaffirmed
Non-convertible Debenture Programme	500	500	[ICRA]AA(Stable); Reaffirmed
Total	**3,750**	**3,750**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]AA (pronounced ICRA double A) and the short-term rating of [ICRA]A1+ (pronounced A one plus) to the fund based, non-fund based and proposed bank facilities of Godrej Properties Limited (GPL) [1] aggregating to Rs. 2,000-crore[2]. ICRA has also reaffirmed the long-term rating of [ICRA]AA assigned earlier to the Rs. 500-crore non-convertible debenture programme and the short-term rating of [ICRA]A1+ assigned to Rs. 1,250-crore commercial paper programme of GPL. The outlook on the long-term rating is Stable.

Rationale

The reaffirmation of the ratings draw strength from the healthy bookings achieved in GPL's residential project portfolio with 77% of the total area available for sale tied-up as on March 31, 2018. The bookings have been supported by strong traction witnessed across projects i.e. new launches during FY2018 as well as existing projects (launched before March 31, 2017). This also helped the company to report healthy collections in FY2018 while rendering visibility to future collections from customers also. The customer collections improved to more than Rs. 3,900-crore[3] in FY2018 as compared to ~Rs. 2,500 crore a year ago. In addition, the pending customer collections from sold inventory at the end of March 2018 was Rs. ~5,600 crore, thus, providing for adequate cashflow visibility in the near-to-medium term. The ratings continue to factor in strong parentage by virtue of being part of Godrej Group and access to land holdings of Group entities. Further, ICRA's ratings also factor in the reduction in gross debt levels at the end of March 31, 2018, supported by healthy collections. The gross debt at consolidated level reduced from Rs. 3,980 crore as on March 31, 2017 to Rs. 3,723 crore at the end of March 31, 2018 and further to Rs. 3,384 crore as on June 30, 2018. The net debt at consolidated level reduced from Rs. 3,503 crore as on March 31, 2017 to Rs. 2,846crore at the end of March 31, 2018 and further to Rs. 1,776 crore as on June 30, 2018 in the backdrop of the equity infusion of Rs. 1,000 crore in Q1FY2019. ICRA takes cognizance that the funds raised thereof will be utilised mainly towards growth capex. Nevertheless, the same provides strength to the cash flows in the near-term.

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[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*

[3] *Also includes ~Rs. 136.17 crore proceeds from 50% stake sale in Godrej Two, Vikhroli project*

Notwithstanding the healthy bookings status and the sales traction witnessed in FY2018 (sales booking of more than 6 million Sqft area in FY2018 as against ~3 million sqft in FY2017), the rating strengths are offset by GPL's exposure to market risk. As on March 31, 2018, GPL has more than 8 million sqft area yet to be sold and has aggressive plans to launch new projects using the funds raised through the recent capital market action. However, GPL's leading position (among the top three developers) in the top four real estate markets (Mumbai, Pune, NCR and Bengaluru) supported by healthy sales performance in FY2018 mitigates the marketing risk to an extent. The ratings are further constrained by exposure to project execution risk. At the end of March 31, 2018, GPL had pending cost of Rs. 5,615 crore in the residential segment where-in around 37% of the pending cost is to be spent on residential projects where the execution is at nascent to pre-intermediate stage i.e. project cost spent is less than 25% of the budgeted cost. Addition of new projects going forward will further amplify the risk. In addition, the ratings also factor in the company's subdued profitability and muted return indicators. GPL has reported negative operating profitability of -0.2% in FY2018 primarily owing to one-time write-off and higher overheads (rising employee expenses and general & administrative expenses). Upon adjusting for one-time expenses and also including reported income of Rs. 272 crore from stake sale in Godrej Two, Vikhroli project, the company reported operating profitability of 19%[4] in FY2018 compared to 16% a year ago. Also, ROCE in FY2018 was 8.2%. ICRA takes cognizance that GPL is taking measures to improve the return indicators over the medium term and the same will remain one of the key monitorable. Further, the proportion of short-term debt to total debt remains high for GPL. While it has helped the company to bring down the average cost of borrowing from 8.8% in FY2017 to 7.8% in FY2018; the average maturity profile of the debt, however, remains short, thereby leading to large repayments in the near term. The risk is mitigated to an extent by the healthy liquidity as reflected by cash and cash equivalents of ~Rs. 1,607 crore as on June 30, 2018 as well as strong parentage that enhances the financial flexibility of GPL.

With aggressive addition of new projects going forward, the company's ability to sustain its sales momentum as well as collections, maintain the execution progress to meet the delivery timelines, and enhance its return indicators along with the impact of investments made in acquiring new projects on the financial risk profile of the company will remain critical from credit perspective.

Outlook: Stable

ICRA believes GPL will continue to benefit from strong parentage, established brand and professional management. The outlook may be revised to Positive if sales momentum as well as collections sustains, along with improvement in profitability and return indicators thereby strengthening the overall financial profile of the company. The outlook may be revised to 'Negative' if the customer collections or sales velocity in the on-going as well as the new projects remain slower-than-expected leading to reliance on debt for timely project execution.

Key rating drivers

Credit strengths

Healthy booking status in on-going residential projects supported by significant ramp-up in FY2018 sales – As on March 31, 2018, the company has been able to tie-up sales for 77% of the total ~35 million sqft area (GPL's share) available for sale. This is on account of healthy sales of more than 6 million sqft achieved in FY2018. The healthy sales in FY2018 is supported from the projects launched as on March 31, 2017 as well as the projects launched in FY2018.

[4] *Not including share of profit from JVs/Associates*

Visibility to cash flows over the near to medium term – Healthy sales from new launches as well as existing projects (launched as on March 31, 2017) in FY2018 has translated into healthy collections in FY2018 with total collections at more than Rs. 3,900 crore in FY2018 as against ~ Rs. 2,500 crore in FY2017. In addition, pending customer collections from sold inventory also stood at Rs. ~5,600 crore providing cash flow visibility in near-to-medium term.

Strong parentage by virtue of being part of Godrej Group; access to land holdings of group entities – The promoter group holds about 71% shareholding in the company, mainly through Godrej Industries Limited ([ICRA]AA (Stable) / [ICRA]A1+). Being part of the Godrej group, the company enjoys healthy financial flexibility. It also has access to large land banks of the group entities. In the past GPL has entered into development agreement with various group companies for developing land parcels in Mumbai and Thane.

Credit challenges

Exposure to market risk – As on March 31, 2018, GPL has more than 8 million sqft area yet to be sold and has aggressive plans to launch new projects using the funds raised through the recent capital market action. However, GPL's leading position (among the top three developers) in the top four real estate markets (Mumbai, Pune, NCR and Bengaluru) supported by healthy sales performance in FY2018 (sales booking of more than 6 million sqft in FY2018 as against ~3 million sqft in FY2017) mitigates the market risk to an extent.

Increased project execution risk – Out of the total pending cost for the entire project portfolio, around 37% cost (~5,615 crore) is pending towards projects which are in nascent to pre-intermediate stage i.e. project cost incurred is less than 25% of the budgeted cost. The risk is further accentuated by aggressive expansion plans going forward.

Subdued profitability and return indicators – GPL has reported negative operating profitability of -0.2% in FY2018 primarily owing to one-time write-off and higher overheads. However, these one-time write offs in FY2018 gives the Company better flexibility to monetize its commercial assets in Kolkata and Chandigarh which has been reflected in sale of 0.60 Lakh sqft of area in Q1FY2019 in the commercial project in Kolkata.

High proportion of short term debt – The proportion of short-term debt to total debt remains high for GPL. While it has helped the company to bring down the average cost of borrowing from 8.8% in FY2017 to 7.8% in FY2018; the average maturity profile of the debt, however, remains short, thereby leading to large repayments in the near term. The risk is mitigated to an extent by the healthy liquidity as reflected by cash and cash equivalents of ~Rs. 1,607 crore as on June 30, 2018 as well as strong parentage that enhances the financial flexibility of GPL

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

Links to applicable criteria:

Corporate Credit Rating Methodology

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 ~53% of the company's equity share capital as on June 30, 2018. 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 (audited)

	FY2017	FY2018
Operating Income (Rs. crore)[5]	1,582.9	1,889.2
PAT (Rs. crore)[6]	175.1	228.9
OPBDIT/OI (%)	16.0%	-0.2%
RoCE (%)[7]	6.6%	8.2%
Total Debt/TNW (times)	2.0	1.7
Total Debt/OPBDIT (times)	15.8	-846.1
Interest coverage (times)[8]	2.4	0.0

Source: Annual Reports and ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

[5] *Not including income from stake sale in Godrej Two, Vikhroli project and share of profit from JVs/Associates*

[6] *Not including share of profit from JVs/Associates of Rs. 31.7 crore and Rs. 6 crore in FY2017 and FY2018 respectively*

[7] *Not including share of profit from JVs/Associates of Rs. 31.7 crore and Rs. 6 crore in FY2017 and FY2018 respectively*

[8] *Not including interest income earned by the company*

Rating history for last three years:

	Instrument	Current Rating (FY2019) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) as on 30th June 2018	Date & Rating August 2018	Chronology of Rating History for the Past 3 Years: Date & Rating in FY2018 September 2017	Date & Rating in FY2017 August 2016	Date & Rating in FY2016 October 2015
1	Long Term – Fund Based/CC	Long Term	1,850	**1,114**	**[ICRA]AA (Stable)**	**[ICRA]AA (Stable)**	**[ICRA]AA (Stable)**	**[ICRA]AA (Stable)**
2	Long Term – Non-fund Based Limits	Long Term	50	**19**	**[ICRA]AA (Stable)**	**[ICRA]AA (Stable)**	**[ICRA]AA (Stable)**	**[ICRA]AA (Stable)**
3	Long Term/ Short Term – Proposed	Short Term	100	**0**	**[ICRA]AA (Stable)/ A1+**	**[ICRA]AA (Stable)/ A1+**	**[ICRA]AA (Stable)/ A1+**	**[ICRA]AA (Stable)/ A1+**
4	Commercial Paper	Short Term	1,250	**1,175***	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**
5	Non-convertible Debenture Programme	Long Term	500	**500**	**[ICRA]AA (Stable)**	**[ICRA]AA (Stable)**	**-**	**-**

* *Represent face value of CP issued*

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 Name	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	-	-	-	1,850	[ICRA]AA (Stable)
-	Long Term - Non-Fund Based	-	-	-	50	[ICRA]AA (Stable)
-	Long Term/Short term – Proposed (Fund Based / Non-Fund Based)	-	-	-	100	[ICRA]AA (Stable) / [ICRA]A1+
-	Commercial Paper	-		-	1,250	[ICRA]A1+

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.

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