November 28, 2019

Godrej Properties Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund Based/CC	1,850	1,650	[ICRA]AA(Stable); Reaffirmed
Long Term – Non-fund Based Limits	50	100	[ICRA]AA(Stable); Reaffirmed
Long Term/ Short Term – Proposed	100	250	[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*

Rationale

The reaffirmation draws strength from the robust bookings achieved in Godrej Properties Limited (GPL) residential project portfolio with 74% of the total area available for sale tied-up as on September 30, 2019. The bookings have been supported by strong traction witnessed across projects i.e. new launches during FY2019 & H1FY2020 as well as existing projects (launched before March 31, 2018). This also helped the company to report total operating cash inflows[1] of Rs. 4,382 crore in FY2019 and Rs. 1,744 crore in H1 FY2020, while rendering visibility to future collections from pending receivables. Pending customer collections from sold inventory at the end of September 2019 stood at ~Rs. 7,300 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. The net debt at consolidated level reduced to ~Rs. 1089 crore as on September 2019 on the backdrop of the equity infusion of Rs. 2,100 crore in Q1FY2020. ICRA takes cognizance that the funds raised thereof will be utilised mainly towards investments in new projects. Nevertheless, the same provides strength to GPL's liquidity position in the near-term.

Notwithstanding the significant launches, enhancement of project portfolio and the sales traction witnessed in FY2019 (sales booking of 8.74 million sqft area in FY2019 as against 6.21 million sqft in FY2018), a proportionate ramp-up in collection remains to be seen. The collections from projects has remained at similar levels over FY2018, FY2019 and H1 FY2020. ICRA notes that majority of the projects are currently in initial to intermediate stage of construction with majority collections linked to construction milestones and the collections are expected to ramp up in line with project execution. The ratings are constrained by considerable expansion in the development portfolio undertaken by the company in the recent past and aggressive plans to further enhance the portfolio. As on September 30, 2019, GPL has more than 13 million sqft area yet to be sold and has aggressive plans to launch new projects using the funds raised through the recently concluded qualified institution placement (QIP). Ability of the company to ramp up the execution and deliveries in line with proposed expansion of the portfolio will remain a key monitorable going forward. Nevertheless, ICRA expects GPL will benefit from the current market consolidation, where the share of large players with

[1] *Includes collections from projects, taxes and other receipts*

execution performance and strong brand is expected to increase. The residential real estate market has been experiencing significant slowdown over the last few years and the outlook is negative in near term. However, GPL's leading position in the top four real estate markets (Mumbai, Pune, NCR and Bengaluru) mitigates the market risk to an extent. Additionally, the profitability and return indicators of the company, though improved sequentially, remain at moderate levels, restricted by low margins in some of the legacy projects. The profitability in the recently acquired projects is expected be better due to better bargaining power of GPL. ICRA also takes cognizance that GPL is taking measures to improve the return indicators in the new project transactions. However, translation of the potential into financial performance will remain a key rating monitorable. Further, the proportion of short-term debt to total debt continues to remain high for GPL. While it has helped the company to maintain the average cost of borrowing at 8.09% as on September 2019; the company remains exposed to refinancing or rollover risk. The risk is mitigated to a large extent by the healthy liquidity as well as the financial flexibility enjoyed being part of the Godrej Group.

The Stable outlook on the [ICRA]AA rating reflects ICRA's opinion that GPL will continue to benefit from its long track record of operations, strong parentage, established brand and professional management.

Key rating drivers and their description

Credit strengths

Healthy booking status in on-going residential projects supported by sales from significant launches in FY2019 and H1FY2020 - As on September 30, 2019, the company has been able to tie-up sales for 74% of the total ~53 million sqft area (GPL's share) available for sale. This is on account of robust sales of more than 8.74 million sqft and 3.60 million sqft achieved in FY2019 and H1FY2020 respectively. The healthy sale traction is supported by sales from some of the existing projects (launched as on March 31, 2018) as well as the projects launched in FY2019 and H1FY2020.

Visibility to cash flows over the near to medium term – Healthy sales from new launches as well as existing projects in FY2019 has translated into adequate operating cash inflows[2] of Rs. 4,382 crore in FY2019 and Rs. 1,744 crore in H1 FY2020. In addition, pending customer collections from sold inventory also stood at ~Rs. 7,300 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 ~65% 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 agreements with various group companies for developing land parcels in Mumbai and Thane.

Credit challenges

Aggressive expansion in execution portfolio– The company has launched ~11.0 million sq. ft. in FY2019 and ~6.4 million sq.ft. in H1FY2020 compared to ~7.4 million sq. ft. in FY2018, thus significantly enhancing the project portfolio every year. However, the collections from projects has remained at similar levels over FY2018, FY2019 and H1 FY2020. ICRA notes that majority of the projects are currently in initial to intermediate stage of construction and majority collections are linked to construction milestones and the collections are expected to ramp up in line with project execution. Out of

[2] *Includes collections from projects, taxes and other receipts*

the total pending cost for the entire project portfolio, around ~77% cost is pending towards projects which are in nascent to intermediate stage i.e. project cost incurred is less than 55% of the budgeted cost. Resultantly the project execution risk has increased and maintaining execution and delivery will remain a key monitorable. Proportionate ramp-up in collection in tandem with current sale levels remains to be demonstrated on enhanced project portfolio.

Exposure to market risk and slowdown in real estate sector– As on September 30, 2019, GPL has more than 13 million sqft area yet to be sold and has aggressive plans to launch new projects using the funds raised through the recently concluded QIP. Ability of the company to ramp up the execution and deliveries in line with proposed expansion of the portfolio will remain a key monitorable going forward. Nevertheless, ICRA expects GPL will benefit from the current market consolidation, where the share of large players with execution performance and strong brand is expected to increase. The residential real estate market has been experiencing significant slowdown over the last few years and the outlook is negative in near term. However, GPL's leading position in the top four real estate markets (Mumbai, Pune, NCR and Bengaluru) mitigates the market risk to an extent.

Profitability and return indicators partially impacted by low margin legacy projects – Robust sales at remunerative levels in the past has supported the profitability, however, low margin legacy projects and also marketing cost which had to be front-loaded under IND AS kept overall operating margins for FY2019 under check at 12.8%[3]. Company's RoCE, though improved, stood at 10.7% in FY2019. ICRA expects profitability indicators to improve going forward as revenue recognition from the recently launched projects increases, however translation of the profitability potential into financial performance and sustainable improvement in RoCE will remain essential from the credit perspective.

Liquidity position: Strong

GPL's liquidity is **Strong** with ~Rs. 3,034 crore cash and liquid investments as on September 30, 2019 and ~Rs. 500 crore sanctioned unutilized working capital limits as on June 30, 2019. Though ICRA expects that some part of the liquidity will be utilized for investments towards new projects, the stabilized level cash and liquid investments are expected to be healthy above Rs. 1,000 crore. Additionally, the cash flows from operations are expected to be ~Rs. 450-550 crore in FY2020. The company has scheduled debt repayment obligations of Rs. 500 crore over the next one year.

Rating sensitivities

Positive triggers – ICRA could upgrade GPL's rating if the company demonstrates execution track record on an expanded portfolio with significant ramp-up in collection numbers along with improvement in profitability and return indicators thereby strengthening the overall financial profile of the company.

Negative triggers – Negative pressure on GPL's rating could arise if there arise delays in project execution for sizeable portfolio. The rating may also be downgraded if there is a slower-than-expected sales velocity and collections in the ongoing as well as new projects and/or significant debt funded investments in new projects impacts capital structure of the company.

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

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Real Estate Entities
Parent/Group Support	Parent/Group Company: Godrej industries Limited We expect GPL's parent, Godrej Industries Limited (GIL) [rated [ICRA]AA (Stable)/[ICRA]A1+], to be willing to extend financial support to GPL, should there be a need, given the high strategic importance that GPL holds for GIL for meeting its diversification objectives. Both GPL and GIL also share a common name, which in ICRA's opinion would persuade GIL to provide financial support to GPL to protect its reputation from the consequences of a group entity's distress.
Consolidation/Standalone	Consolidation: ICRA has consolidated GPL along with its operational subsidiaries, joint ventures and associate companies (mentioned in Annexure 2) on account of the strong business and financial linkages between these 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), chemicals, animal feed, real estate development and oil palm plantation through various group companies. GPL was incorporated as Sea Breeze Constructions and Investments Private Limited on February 8, 1985 by Mr. Mohan Khubchand Thakur and Mrs. Desiree Mohan Thakur. In the year 1987, it became a part of the Godrej group and in 1989 it became a subsidiary of Godrej Industries Limited (erstwhile Godrej Soaps Limited), which holds 48.8% of the company's equity share capital as on September 30, 2019. GPL currently has a presence in 11 cities in India and its business focuses mostly on residential real estate development.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)[4]	1732.4	3027.0
PAT (Rs. crore)[5]	123.5	239.2
OPBDIT/OI (%)	-2.9%	12.8%
RoCE (%)[6]	5.6%	10.7%
Total Outside Liabilities/Tangible Net Worth (times)	5.3	2.1
Total Debt/OPBDIT (times)	-73.7	9.1
Interest Coverage (times)[7]	-0.3	1.7
DSCR	0.5	2.2

Source: Annual Reports and ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

[4] *Includes interest income earned on investments and loans and advances made to JVs and associates; Not including share of profit from JVs/Associates of Rs. (36.6) crore and Rs. 13.9 crore in FY2018 and FY2019 respectively.*

[5] *Not including share of profit from JVs/Associates of Rs. (36.6) crore and Rs. 13.9 crore in FY2018 and FY2019 respectively.*

[6] *Not including share of profit from JVs/Associates of Rs. (36.6) crore and Rs. 13.9 crore in FY2018 and FY2019 respectively.*

[7] *Not including interest income earned by the company except interest income earned on investments and loans and advances made to JVs and associates*

Rating history for past three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years					
		Type	Amount Rated	Amount Outstanding as of June 2019	Rating	FY2019	FY2018				FY2017
					28-Nov-2019	10-Sep-2018	24-Oct-2017	9-Oct-2017	8-Aug-2017		16-Aug-2016
1	Long Term – Fund Based/ CC	Long Term	1,650	-	[ICRA]AA(Stable)	[ICRA]AA(Stable)	[ICRA]AA(Stable)	[ICRA]AA(Stable)	[ICRA]AA(Stable)		[ICRA]AA(Stable)
2	Long Term – Non-fund Based Limits	Long Term	100	-	[ICRA]AA(Stable)	[ICRA]AA(Stable)	[ICRA]AA(Stable)	[ICRA]AA(Stable)	[ICRA]AA(Stable)		[ICRA]AA(Stable)
3	Long Term/ Short Term – Proposed	Long Term/ Short Term	250	-	[ICRA]AA(Stable)/A1+	[ICRA]AA(Stable)/A1+	[ICRA]AA(Stable)/A1+	[ICRA]AA(Stable)/A1+	[ICRA]AA(Stable)/A1+		[ICRA]AA(Stable)/A1+
4	Commercial Paper	Short Term	1,250	1,250*	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+		[ICRA]A1+
5	NCD	Long Term	500	500	[ICRA]AA(Stable)	[ICRA]AA(Stable)	[ICRA]AA(Stable)	[ICRA]AA(Stable)	[ICRA]AA(Stable)		-

*Amount in Rs. crore; * - Represents 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	-	-	-	1,650	[ICRA]AA (Stable)
-	Long Term - Non-Fund Based	-	-	-	100	[ICRA]AA (Stable)
-	Long Term/Short term – Proposed (Fund Based / Non-Fund Based)	-	-	-	250	[ICRA]AA (Stable) / [ICRA]A1+
-	Commercial Paper	-		-	1,250	[ICRA]A1+

Source: GPL

Annexure-2: List of entities considered for consolidated analysis(as on March 31, 2019)

Entity Name	Ownership[8]	Consolidation Approach
Subsidiaries		
Godrej Projects Development Limited	100%	Full Consolidation
Godrej Garden City Properties Private Limited	100%	Full Consolidation
Godrej Hillside Properties Private Limited	100%	Full Consolidation
Godrej Home Developers Private Limited	100%	Full Consolidation
Godrej Prakriti Facilities Private Limited	100%	Full Consolidation
Prakritiplaza Facilities Management Pvt. Ltd	100%	Full Consolidation
Godrej Highrises Properties Pvt. Ltd	100%	Full Consolidation
Godrej Genesis Facilities Management Pvt. Ltd	100%	Full Consolidation
Citystar InfraProjects Ltd	100%	Full Consolidation
Godrej Residency Pvt. Ltd	100%	Full Consolidation
Godrej Properties Worldwide Inc., USA	100%	Full Consolidation
Godrej Landmark Redevelopers Pvt. Ltd	100%	Full Consolidation
Godrej Highrises Realty LLP	100%	Full Consolidation
Godrej Project Developers & Properties LLP	100%	Full Consolidation
Godrej Skyview LLP	100%	Full Consolidation
Godrej Green Properties LLP	100%	Full Consolidation
Godrej Projects (Soma) LLP	100%	Full Consolidation
Godrej Projects North LLP	100%	Full Consolidation
Godrej Athenmark LLP	100%	Full Consolidation
Godrej Vestamark LLP	100%	Full Consolidation
Godrej City Facilities Management LLP	100%	Full Consolidation
Embellish Houses LLP	100%	Full Consolidation
Joint Ventures (JV)		
Godrej Realty Pvt. Ltd	51%	Equity Method

[8] *Share of profits in case of LLPs*

Entity Name	Ownership[8]	Consolidation Approach
Godrej Redevelopers (Mumbai) Pvt. Ltd	51%	Equity Method
Wonder Space Properties Pvt. Ltd	25.1%	Equity Method
Wonder City Buildcon Pvt. Ltd	25.1%	Equity Method
Godrej Home Constructions Pvt. Ltd	25.1%	Equity Method
Godrej Greenview Housing Pvt. Ltd	20%	Equity Method
Wonder Projects Development Pvt. Ltd	20%	Equity Method
Godrej Real View Developers Pvt. Ltd	20%	Equity Method
Pearlite Real Properties Pvt. Ltd	49%	Equity Method
Godrej Skyline Developers Pvt. Ltd	26%	Equity Method
Godrej Green Homes Ltd	50%	Equity Method
Ashank Macbricks Pvt. Ltd	20%	Equity Method
Godrej Property Developers LLP	32%	Equity Method
Mosiac Landmarks LLP	1%	Equity Method
Dream World Landmarks LLP	40%	Equity Method
Oxford Realty LLP	35%	Equity Method
Godrej SSPDL Green Acres LLP	37%	Equity Method
Oasis Landmarks LLP	38%	Equity Method
M S Ramaiah Ventures LLP	49.5%	Equity Method
Caroa Properties LLP	35%	Equity Method
Godrej Construction Projects LLP	34%	Equity Method
Godrej Housing Projects LLP	50%	Equity Method
Amitis Developers LLP	46%	Equity Method
A R Landcraft LLP	40%	Equity Method
Prakhhyat Dwellings LLP	42.5%	Equity Method
Bavdhan Realty @ Pune 21 LLP	45%	Equity Method
Godrej Highview LLP	40%	Equity Method
Godrej Irismark LLP	50%	Equity Method
Godrej Projects North Star LLP	55%	Equity Method
Godrej Developers & Properties LLP	37.5%	Equity Method
Roseberry Estate LLP	49%	Equity Method
Suncity Infrastructures (Mumbai) LLP	50%	Equity Method
Sai Srushti Onehub Projects LLP	21.7%	Equity Method
Maan-Hinge Township Developers LLP	40%	Equity Method
Mahalunge Township Developers LLP	40%	Equity Method
Manjari Housing Projects LLP	40%	Equity Method
Associate Company		
Godrej One Premises Management Pvt. Ltd	30%	Equity Method

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About ICRA Limited:

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