

Godrej Properties Limited

Instrument	Amount	Rating Action (Mar-16)
Medium Term, Fixed Deposits	Rs. 50.00 crore (revised from Rs. 349.61 crore)	MAA (Stable) / <i>reaffirmed</i>

ICRA has reaffirmed the medium-term rating of MAA (pronounced M double A)¹ outstanding on the Fixed Deposit programme aggregating to Rs.50.00 crore² (revised from Rs. 349.61 crore) of Godrej Properties Limited (GPL). The outlook for the medium term rating is stable. ICRA has a long term rating of [ICRA]AA (pronounced ICRA double A) with stable outlook and a short term rating of [ICRA]A1+ (pronounced ICRA A one plus) outstanding on the Rs. 2,000 crore bank lines of the company. ICRA also has a short term rating of [ICRA]A1+ outstanding on the Rs. 1,100 crore commercial paper programme of GPL.

The reaffirmation of rating takes into account GPL's strong operating performance in the current fiscal evidenced by strong sales tie up both in the residential as well as commercial segment. During 9M FY2016 the company tied up ~3.1 million square feet (sqft) of residential space, supported by the healthy performance of the new launches in Mumbai and Gurgaon, and ~0.5 million sqft of commercial space supported by the monetization of Mumbai based project. 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 profit sharing model from revenue sharing model which is expected to lead to higher profitability levels going forward.

The rating, however, is constrained by the high indebtedness of the company, with total debt of ~Rs. 3,200 crore on a consolidated basis as of December 31, 2015, as against ~Rs. 3,500 crore as of March 31, 2015. ICRA notes that the healthy cash surplus expected from the Godrej BKC project, through the committed cash flows as well as incremental sales tie up, would help deleverage the balance sheet over the next 12 months. The same was evidenced in Q2 FY2016 and Q3 FY2016, with the prepayment of ~Rs. 750 crore of debt availed against Godrej BKC project. The rating continues to take into account the company's subdued profitability on account of cost escalations and sale of commercial projects at and below break-even levels as well as the delays witnessed in 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 gradual improvement in the profitability of the residential portfolio (given the high margins associated with new projects, shift to profit sharing model from revenue sharing and growing focus on development management arrangements) along with the recognition of more recent sales of Godrej BKC project would help support the profitability. The performance of the legacy commercial projects, located in Chandigarh and Kolkata, remains subdued with ~ 32% of the area tied up. 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 (~Rs. 400 crore as of March 31, 2015). Considering that most of the cost on these projects has been incurred, incremental sales are expected to be cash flow positive.

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, remains 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.

Company Profile

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. 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

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

Godrej Soaps Limited), which holds ~53% of the company's equity share capital as on December 31, 2015. GPL currently has a presence in 12 cities in India and its business focuses on residential, commercial and township developments.

For the nine month period ending December 2015, GPL reported an operating income of Rs. 2,118 crore and a profit after tax of Rs. 251 crore as against an operating income of Rs. 1,145 crore and a profit after tax of Rs. 164 crore in the corresponding period last fiscal.

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For further details please contact:

Analyst Contacts:

Mr. Rohit Inamdar (Tel. No. +91-124-4545847)
rohit.inamdar@icraindia.com

Relationship Contacts:

Mr. L. Shivakumar, (Tel. No. +91 22 6114 3406)
shivakumar@icraindia.com

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**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office**Mr. Vivek Mathur**

Mobile: **9871221122**

Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai**Mr. L. Shivakumar**

Mobile: **9821086490**

Email: shivakumar@icraindia.com

3rd Floor, Electric Mansion
Appasaheb Marathe Marg, Prabhadevi
Mumbai—400025,
Board : +91-22-61796300; Fax: +91-22-24331390

Kolkata**Mr. Jayanta Roy**

Mobile: **+91 9903394664**

Email: jayanta@icraindia.com

A-10 & 11, 3rd Floor, FMC Fortuna
234/3A, A.J.C. Bose Road
Kolkata—700020
Tel +91-33-22876617/8839 22800008/22831411,
Fax +91-33-22870728

Chennai**Mr. Jayanta Chatterjee**

Mobile: **9845022459**

Email: jayantac@icraindia.com

5th Floor, Karumuttu Centre
634 Anna Salai, Nandanam
Chennai—600035
Tel: +91-44-45964300; Fax: +91-44 24343663

Bangalore**Bangalore****Mr. Jayanta Chatterjee**

Mobile: **9845022459**

Email: jayantac@icraindia.com

'The Millenia'
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,
Murphy Road, Bangalore 560 008
Tel: +91-80-43326400; Fax: +91-80-43326409

Ahmedabad**Mr. L. Shivakumar**

Mobile: **989986490**

Email: shivakumar@icraindia.com

907 & 908 Sakar -II, Ellisbridge,
Ahmedabad- 380006
Tel: +91-79-26585049, 26585494, 26584924; Fax:
+91-79-25569231

Pune**Mr. L. Shivakumar**

Mobile: **989986490**

Email: shivakumar@icraindia.com

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range
Hills Road, Shivajinagar, Pune-411 020
Tel: + 91-20-25561194-25560196; Fax: +91-20-
25561231

Hyderabad**Mr. Jayanta Chatterjee**

Mobile: **9845022459**

Email: jayantac@icraindia.com

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj
Bhavan Road, Hyderabad—500083
Tel:- +91-40-40676500