

June 11, 2020

Godrej Properties Limited: [ICRA]AA (Stable) assigned to Non-convertible Debenture Programme

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based/CC	1,800	1,800	[ICRA]AA(Stable); outstanding
Long-term – Non-fund Based Limits	100	100	[ICRA]AA(Stable); outstanding
Long-term/ Short-term – Proposed	100	100	[ICRA]AA(Stable)/A1+; outstanding
Non-convertible Debenture Programme	500	500	[ICRA]AA(Stable); outstanding
Commercial Paper	1,500	1,500	[ICRA]A1+; outstanding
Non-convertible Debenture Programme	-	1,000	[ICRA]AA(Stable); assigned
Total	4,000	5,000	

*Instrument details are provided in Annexure-1

Rationale

The assigned rating draws strength from the current availability of liquidity in Godrej Properties Limited (GPL) in the form of cash and liquid investments of Rs. 2,571 crore as on March 31, 2020. The rating factors in the robust bookings achieved in GPL's residential project portfolio with total area sold and booking value for FY2020 standing at 8.8 million sq ft (as against 8.76 million sq ft in FY2019) and Rs. 5,915 crore (against Rs. 5,315 crore in FY2019). The bookings have been supported by strong traction witnessed across projects i.e. new launches during FY2019 and FY2020 as well as existing projects (launched before March 31, 2018). This helped the company to report total operating cash inflows¹ of Rs. 4,276 crore in FY2020, while rendering visibility to future collections from the pending receivables. Pending customer collections from sold inventory at the end of March 31, 2020 stood at ~Rs. 11,500 crore, thus, providing adequate cash flow visibility in the near-to-medium term. The rating notes its strong parentage by virtue of being a part of Godrej Group, with access to land holdings of Group entities. The net debt, at consolidated level, reduced to Rs. 1,159 crore as on March 31, 2020 from Rs. 2,141 crore as on March 31, 2019, on the backdrop of the equity infusion of Rs. 2,100 crore in Q1 FY2020. ICRA takes cognisance 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 FY2020, a proportionate ramp-up in collection remains to be seen. Further, the collections from projects have increased in FY2020 over FY2019. ICRA notes that most of the projects are at present in the initial to intermediate stage of construction with a predominant portion of collections linked to construction milestones. The collections are expected to ramp up in line with project execution. The rating is 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 March 31, 2020, GPL has more than 12 million sq ft area yet to be sold, with aggressive plans to launch new projects using the funds raised through the qualified institution placement (QIP) in June 2019. GPL's ability to ramp up the execution and deliveries in line with the proposed expansion of its portfolio will remain a key monitorable going forward. Additionally, the company's profitability and return indicators, though improved sequentially, remain at moderate levels, restricted by low

¹ Includes collections from projects, taxes and other receipts

margins in some of the legacy projects. The profitability in the recently acquired projects is expected to be supported by its better bargaining power. ICRA takes cognisance 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 remains high. While it has helped the company to maintain the average cost of borrowing at 7.85% as on March 2020, GPL 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 by the company as a Godrej Group entity.

Due to the coronavirus pandemic and the pan-India lockdown, contagion fears and economic uncertainties are expected to impact the operations and cash flows of real estate developers, which might ultimately result in a weakening of credit risk profile of real estate developers. The demand is expected to witness moderation and committed receivables from already booked sales are likely to be impacted, given that milestone-based payments may get deferred and some buyers may delay payments on account of economic uncertainties. However, GPL's healthy liquidity and established brand name mitigate the risk to an extent. ICRA expects that GPL will benefit from the current market consolidation, where the share of large players with execution performance and strong brand is anticipated to increase.

The Stable outlook on the [ICRA]AA rating reflects ICRA's opinion that GPL will continue to benefit from its extensive track record of operations, strong parentage, established brand and professional management. However, ICRA will continue to monitor the overall impact of the Covid-19 pandemic and the possible impact on the company's operating metrics and credit risk profile.

Key rating drivers and their description

Credit strengths

Healthy booking status in ongoing residential projects supported by sales from significant launches in FY2019 and FY2020 – The rating factors in the robust bookings achieved in GPL's residential project portfolio with total area sold and booking value for FY2020 standing at 8.8 million sq ft (as against 8.76 million sq ft in FY2019) and Rs. 5,915 crore (against Rs. 5,315 crore for FY2019), respectively. The bookings have been supported by strong traction witnessed across projects i.e. new launches during FY2019 and FY2020, as well as the existing projects (launched before March 31, 2018).

Adequate cash flow visibility over near to medium term – Healthy sales from new launches as well as existing projects in FY2020 has translated into adequate operating cash inflows² of Rs. 4,276 crore in FY2020, while rendering visibility to future collections from pending receivables. Pending customer collections from sold inventory at the end of March 31, 2020 stood at ~Rs. 11,500 crore, thus, providing adequate cash flow visibility in the near-to-medium term. However, there might be some slowdown in realisation of the cash flows due to the ongoing Covid-19 pandemic.

Strong parentage by virtue of being part of Godrej Group; access to land holdings of group entities – The promoter group has ~65% 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 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.

² Includes collections from projects, taxes and other receipts

Credit challenges

Aggressive expansion in execution portfolio – The company has launched ~11.0 million sq. ft. in FY2019, and ~10.7 million sq. ft. in FY2020, thus significantly enhancing the project portfolio. However, the collections from projects have increased in FY2020 over FY2019. ICRA notes that, at present, a major number of the projects are in the initial to intermediate stage of construction with a predominant share of collections linked to construction milestones. The collections are expected to ramp up in line with project execution. Out of the total pending cost for the entire project portfolio, around ~80% cost is pending towards projects, which are in the 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 the current sale levels remains to be demonstrated on its enhanced project portfolio.

Exposure to market risk and slowdown in real estate sector – As on March 31, 2020, GPL had more than 12 million sqft area yet to be sold, with aggressive plans to launch new projects using the funds raised through the qualified institution placement (QIP) in June 2019. Its ability 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 the company to 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. Further, with the current Covid-19 pandemic and ongoing pan-India lockdown, the outlook for residential real estate sector is Negative in the 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 – The company's profitability and return indicators, though improved sequentially, remain at moderate levels, restricted by low margins in some of the legacy projects and marketing cost, which had to be front-loaded under IndAS accounting method. This has kept its overall operating margins for FY2020 under check at 14.1%³ (Operating margin including interest income from earned on investments and loans and advances made to JVs and associates is 23.5% in FY2020). The profitability in the recently acquired projects is expected be better due to GPL's better bargaining power. Its RoCE, though improved to 11.3% in FY2020, still remains low. ICRA takes cognisance that GPL is taking measures to improve the return indicators in the new project transactions. However, translation of the 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. 2,571 crore cash and liquid investments as on March 31, 2020. ICRA expects the liquidity position to remain strong in FY2021 as well. Though ICRA expects that some part of the liquidity will be utilised for investments towards new projects, the stabilised cash and liquid investments are expected to be healthy above Rs. 1,000 crore. The company has scheduled principal debt repayment obligation of Rs. 500 crore in FY2021.

Rating sensitivities

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

³ Not including share of profit from JVs/Associates, interest income earned on investments and loans and advances made to JVs and associates

Negative triggers – Negative pressure on GPL’s rating could arise in case of delays in project execution for sizeable portfolio. The rating may 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 impact its capital structure.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Real Estate Entities
Parent/Group Support	Not applicable
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

GPL is the real estate venture of the Godrej Group, which is involved 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. It 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 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 March 31, 2020. At present, GPL has presence in 11 cities in India and its business focuses mostly on residential real estate development.

Key financial indicators (Audited)

	FY2019	FY2020
Operating Income (Rs. crore) ⁴	3027.0	2739.60
PAT (Rs. crore) ⁵	239.2	355.8
OPBDIT ⁶ /OI (%)	3.5%	14.1%
OPBDIT/OI (%)	12.8%	23.5%
RoCE (%) ⁷	10.7%	11.3%
Total Outside Liabilities/Tangible Net Worth (times)	2.1	1.0
Total Debt/OPBDIT (times)	9.1	5.8
Interest Coverage (times) ⁸	1.7	2.9
DSCR	2.2	2.6

Source: Annual Reports and ICRA research

⁴ Includes interest income earned on investments and loans and advances made to JVs and associates for FY2019 and FY2020; Not including share of profit from JVs/Associates of Rs. 13.9 crore and Rs. (85.12) crore in FY2019 and FY2020 respectively.

⁵ Not including share of profit from JVs/Associates of Rs. 13.9 crore and Rs. (85.12) crore in FY2019 and FY2020 respectively.

⁶ Not including share of profit from JVs/Associates of Rs. 13.9 crore and Rs. (85.12) crore in FY2019 and FY2020 respectively and not including interest income earned on investments and loans and advances made to JVs and associates for FY2019 and FY2020.

⁷ Not including share of profit from JVs/Associates of Rs. 13.9 crore and Rs. (85.12) crore in FY2019 and FY2020 respectively.

⁸ Not including interest income earned by the company except interest income earned on investments and loans and advances made to JVs and associates for FY2019 and FY2020.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	FY2021				Rating History for the Past 3 Years						
		Type	Amount Rated	Amount Outstanding as on Mar 2020	Rating		FY2020		FY2019	FY2018		
					11-Jun-2020	27-Apr-2020	26-Dec-2019	28-Nov-2019	10-Sep-2018	24-Oct-2017	9-Oct-2017	8-Aug-2017
1	Long-term – Fund-based/CC	Long Term	1,800	1410	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[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	33	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[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	100	0	[ICRA]AA (Stable)/A1+	[ICRA]AA (Stable)/A1+	[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	1,500	1,322	[ICRA]A1+	[ICRA]A1+	[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)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
6	NCD	Long Term	1000	-	[ICRA]AA (Stable)	-	-	-	-	-	-	-

Amount in Rs. crore

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 [click here](#).

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	-	-	-	1,800	[ICRA]AA (Stable)
-	Long Term - Non-Fund Based	-	-	-	100	[ICRA]AA (Stable)
-	Long Term/Short term – Proposed (Fund Based / Non-Fund Based)	-	-	-	100	[ICRA]AA (Stable) / [ICRA]A1+
-	Commercial Paper	-	-	-	1,500	[ICRA]A1+
Yet to be placed	NCD	-	-	-	1,000	[ICRA]AA (Stable)

Source: GPL

Annexure-2: List of entities considered for consolidated analysis (as on March 31, 2020)

Entity Name	Ownership ⁹	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
Prakriti plaza 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
Wonder Space Properties Pvt. Ltd	100%	Full Consolidation
Cear Lifespace Private Limited	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 City Facilities Management LLP	100%	Full Consolidation

⁹ Share of profits in case of LLPs

Embellish Houses LLP	100%	Full Consolidation
Godrej Florentine LLP	100%	Full Consolidation
Godrej Olympia LLP	100%	Full Consolidation
Ashank Realty Management LLP	100%	Full Consolidation
Ashank Facility Management LLP	100%	Full Consolidation
Joint Ventures (JV)		
Godrej Odyssey LLP	55%	Equity Method
Godrej Realty Pvt. Ltd	51%	Equity Method
Godrej Redevelopers (Mumbai) Pvt. Ltd	51%	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 Private Limited (formerly known as 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
Godrej Amitis Developers LLP (formerly known as Amitis Developers LLP)	46%	Equity Method
A R Landcraft LLP	40%	Equity Method
Prakhhyat Dwellings LLP	50%	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
Godrej Reserve LLP (formerly known as Sai Srushti Onehub Projects LLP)	21.7%	Equity Method
Maan-Hinge Township Developers LLP	40%	Equity Method
Mahalunge Township Developers LLP	40%	Equity Method
Manyata Industrial Parks LLP	1%	Equity Method
Manjari Housing Projects LLP	40%	Equity Method
Godrej Vestamark LLP	58.8%	Equity Method
Munjal Hospitality Private Limited	12%	Equity Method
Yujya Developers Private Limited	20%	Equity Method

Universal Metro Properties LLP	49%	Equity Method
Vivrut Developers Private Limited	20%	Equity Method
Associate Company		Equity Method
Godrej One Premises Management Pvt. Ltd	30%	Equity Method

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