

CMP : Rs 476

Rating : Not Rated

STOCK INFO

INDEX	
BSE	533273
NSE	OBEROIRLT
Bloomberg	OBER IN
Reuters	OEBO.BO
Sector	Realty
Face Value (Rs)	10
Equity Capital (Rsmn)	3636
Mkt Cap (Rs mn)	173147
52w H/L (Rs)	609 / 351
Avg Weekly Vol (BSE+NSE)	69243000

SHAREHOLDING PATTERN

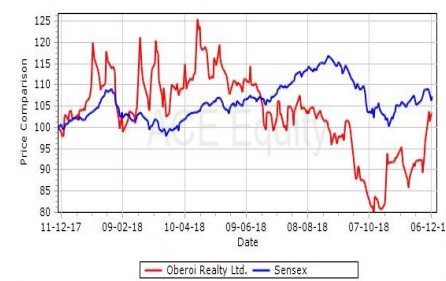
	%
(as on Sep, 2018)	
Promoters	67.7
Public & Others	32.3

Source: ACE Equity, Arihant Research

STOCK PERFORMANCE(%)	3m	6m	12m
Oberoi Realty	5.3	-7.21	2.16
SENSEX	7.73	-0.86	3.6

Source: ACE Equity, Arihant Research

Oberoi Realty v/s SENSEX



Source: ACE Equity, Arihant Research

We recently met with the Director - Finance of Oberoi Realty, Mr. Saumil Daru to understand the company's business model and its future growth strategies.

Oberoi Realty Ltd. (ORL) is India's leading real estate development company, focused on premium developments in the residential, office space, retail, hospitality and social infrastructure verticals. It is an established brand with good track record and management bandwidth to execute large projects.

Investment Rationale

■ **Key regulatory reforms driving significant momentum**

Recent regulatory changes like RERA, GST and Demonetisation will help the operating environment more transparent thereby benefitting the organised players like OBL to gain market share which in turn will drive sales momentum.

■ **Established brand with special focus on Mumbai market**

ORL is a Mumbai-focused developer with an established brand name and ample know-how of the micro market, which allows it to identify attractive opportunities in the city. Factors such as rising income levels, a discerning customer base, and increasing young, upwardly mobile professionals in Mumbai are expected to ensure substantial demand for its projects.

■ **Proven and scalable business model with outsourced execution**

OBL has been outsourcing most of its projects and delegating non-core activities (such as design and construction) to long-term service providers. Such a strategy helps to reduce execution risk, ensures business efficiency and helps keep a tab on costs/quality. The company's expertise in adhering to the regulatory norms has ensured timely approvals, and thus, project delivery. It also outsources some part of regulatory approvals and fully outsources construction contracts to reputed players like L&T and Samsung C&T.

■ **Strong cash flow visibility from ongoing and planned projects**

Currently OBL has total twenty projects under its belt, which is a mix of ongoing (13msf) and planned projects (15msf) with total 28msf of estimated area, providing revenue visibility for nearly 10-12 years. Over FY18-20E, we expect OBL to generate good sales volume which should lead to strong net cash flow over FY18-20E, which would be sufficient to fund future land acquisitions.

Future Outlook

We like ORL's business model, given the quality of its land bank coupled with its healthy balance sheet and management bandwidth to execute large projects. OBL's strong balance sheet (D/E of 0.28x as of FY18) gives the company ample room for leverage to buy new land parcels to fuel future growth. Also OBL's strong brand equity helps it to command premium pricing and enter into JD/JV contracts with other developers for mutually beneficial associations.

Valuation

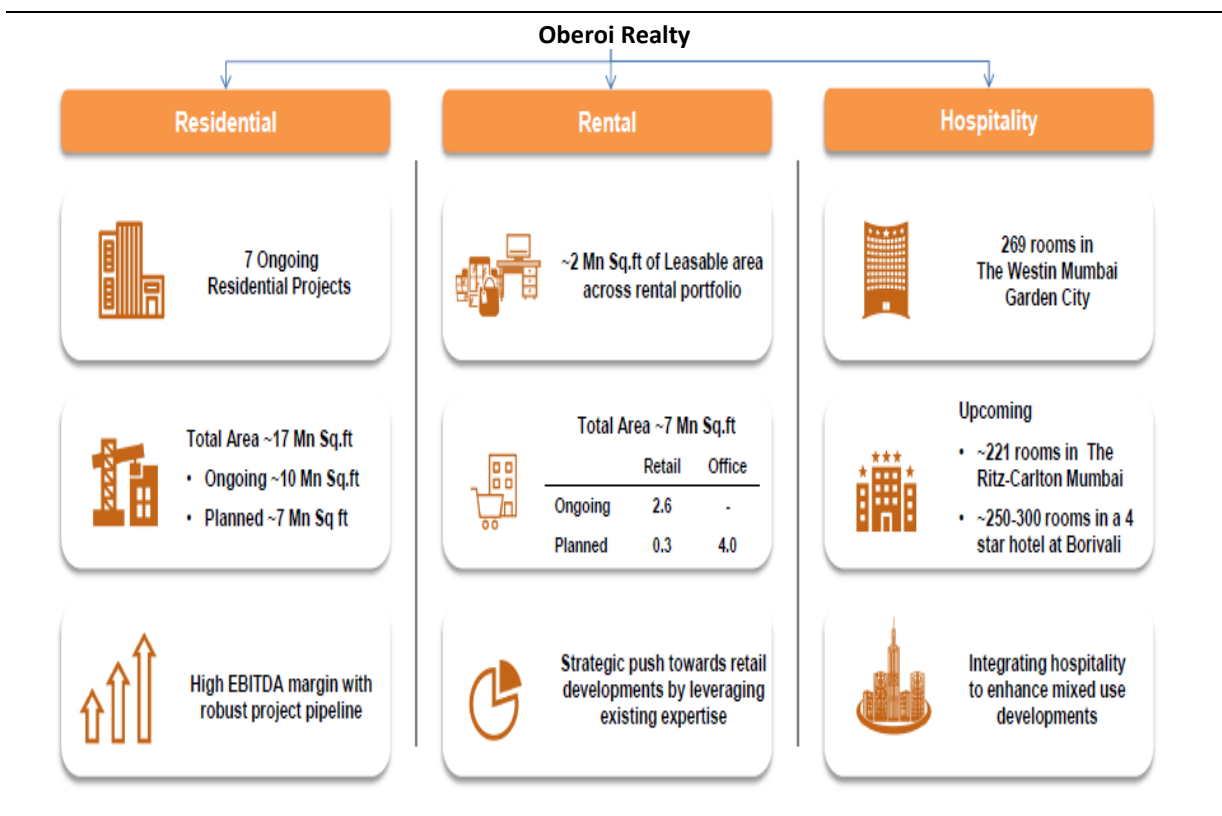
OBL did an EPS of Rs 13.5 in FY18 on consol basis, and for H1FY19 OBL already did an EPS of Rs 14.8, thus even on conservative basis, OBL can do an EPS of Rs 30 in full year of FY19E. At CMP of Rs 476, OBL is available at 15.9x its FY19E EPS of Rs 30, which is reasonable. We are positive on OBL from longer term perspective.

Company Background

Oberoi Realty Ltd. (ORL) is India's leading real estate development company, focused on premium developments in the residential, office space, retail, hospitality and social infrastructure verticals. It is an established brand with good track record and management bandwidth to execute large projects. The company is a Mumbai-focused player, with ample know-how of the micro market and the regulatory environment, which allows it to identify attractive opportunities in the city. Factors such as rising income levels, a discerning customer base, and increasing young, upwardly mobile professionals in Mumbai are expected to ensure substantial demand for ORL's projects in the days to come.

Project Portfolio

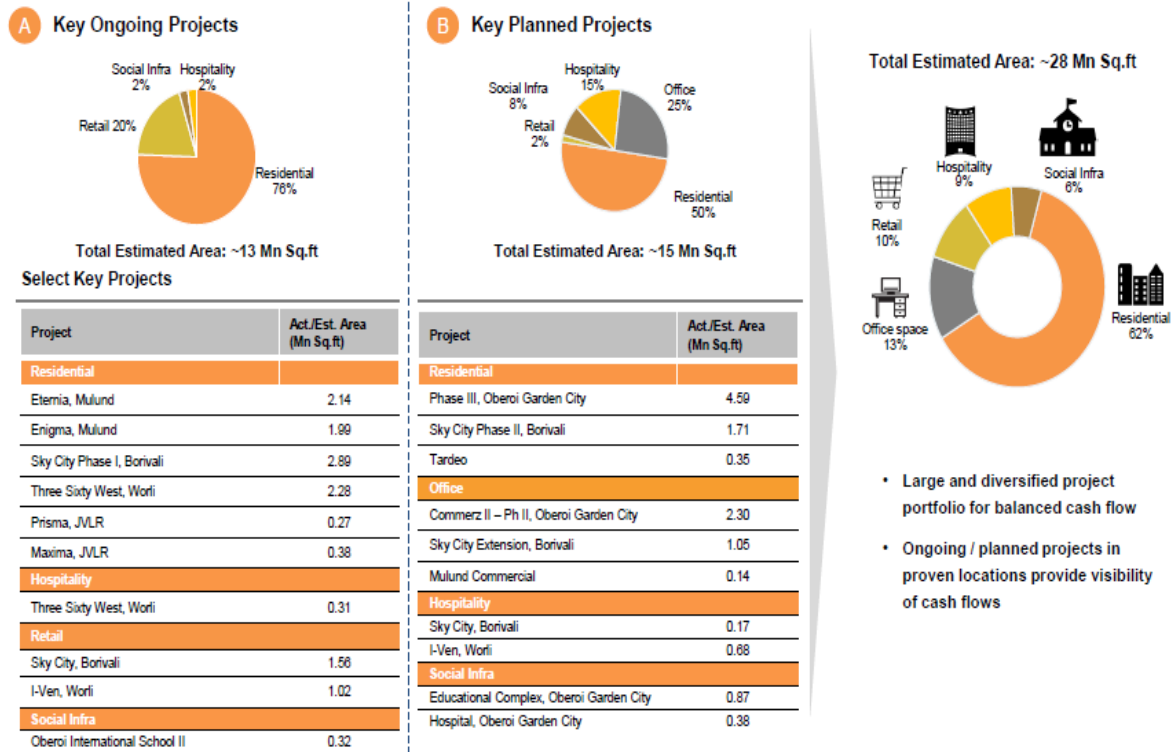
ORL has ~22msf of premium developable/unsold area in prime locations of Mumbai/Thane, which is suitable for large-format integrated development. It typically buys large land parcels of over 25 acres, which are developed in phases over 10-12 years. Integrated development consisting of residential, social infrastructure, malls, hotels and offices uplifts the image of the micro market, creating value for itself. ORL's superior product quality and timely delivery have enabled it to create a trusted brand. This helps its projects to command premium over prevailing rates in the vicinity, resulting in superior EBITDA margins of >50%. Also, it enjoys >20% bookings within a quarter of project launch.



Source: Company, Arianth Research

Robust pipeline of ongoing and planned projects across segments

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Source: Company, Arianth Research

Key highlights of the meeting with Director – Finance

- Three projects under rental yield are Borivali, Worli mall and Commerz Phase III, -- with these three additional projects ORL expects its total rental yield to rise to Rs 12bn in 3-4 years (approx) from around Rs 3bn at present.
- The unsold inventory data that industry bodies report are mostly under-construction projects, while the unsold inventory data reported by OBL are basically ready to sell apartments, hence the slowdown in realty market due to huge unsold inventory data as depicted by Industry Data are not true reflection of OBL's business, as the company is mostly insulated from the current slowdown plaguing the realty sector. Developers who have ready to sell apartments are doing well just like OBL.
- Projects Average rate per sq ft is around 16-20k and for company it cost around 5000 per Sq Ft.
- It takes 4 years to complete a project and 1 year additional to sale.
- 25%-30% is the threshold level for the company to start revenue recognition.
- Both Mulund projects are doing well expected to get completed in time.
- Goregaon projects: Exquisite is almost complete and few units are left and Esquire has done pretty well in last two quarters and company expecting the momentum will remain same in this project and can defiantly close the project by March 20.
- Commerz 1 rental will remain in same range (135-140 per sqft), Commerz Phase III work has started
- Work has commenced on both Worli and Borivali malls
- 360 West project will start revenue recognition in sometime from now

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Peer Comparison

ORL's closest peer companies are Brigade Enterprises, Sunteck Realty, Prestige Estates and Sobha Developers. In the following table we have compared ORL with its peers Brigade Enterprises, Sunteck Realty, Prestige Estates and Sobha Developers on key parameters.

Company Name (FY19E estimates)	Sales (Rs Mn)	EBITDA (Rs Mn)	EBITDA Margin (%)	PAT (Rs Mn)	EPS (Rs)	P/E (x)	P/BV (x)	ROE (%)
Sunteck Realty*	9483	3698	39.0	2234	15.9	21.9	1.9	8.5
Brigade Enterprises	27029	7511	27.8	2403	18.7	10.1	1.0	10.0
Oberoi Realty	28900	14610	50.5	11134	30.7	15.1	2.0	14.9
Prestige Estates	54183	12307	22.7	3664	9.9	19.8	1.5	7.9
Sobha Developers	29214	5983	20.5	2470	25.8	17.0	1.5	9.0

Source: Company, Bloomberg, Arianth Research

* under Arianth active coverage

Consolidated Financials

Income Statement (Rs Mn)

Year End - March	FY 15	FY 16	FY 17	FY 18
Net Sales	9,227	14,161	11,137	12,654
<u>Operating expenses</u>				
Operating Cost	21,038	9,694	8,597	9,503
Change in inventory	-17,890	-3,399	-4,310	-4,825
Excise duty	0	1	1	0
Employee benefit expense	526	571	642	672
Other Expense	414	531	510	551
<u>Total Operating Costs</u>	4,089	7,399	5,440	5,902
Operating Profit	5,138	6,763	5,698	6,753
Other Income	175	428	476	266
PBIDT	5,313	7,190	6,174	7,018
Depreciation	403	490	495	491
PBIT	4,910	6,700	5,679	6,528
Interest	18	68	56	69
Profit before tax and joint venture share of profit	4,892	6,632	5,623	6,459
Share of profit (J.V)		16	31	36
Profit before tax	4,892	6,648	5,654	6,495
Total Tax	1,721	2,293	1,868	1,907
Minority Interest (PL)				0
P/L of Assoc Co				0
Net Profit	3,171	4,355	3,786	4,588

Source: Company, Aриhant Research

Balance Sheet (Rs Mn)				
Year End March	FY15	FY16	FY17	FY18
ASSETS				
I) Non-current assets	10286	10258	10545	10890
a) Property, plant and equipments	2627	2440	2275	2062
b) Capital work in progress	423	488	1090	1124
c) Investment properties	7055	7304	7154	7677
d) Intangible assets	15	26	21	24
e) Intangible assets under development	166	0	5	2
f) Financial assets	12073	13766	16077	24107
i) Investments	12073	13766	16018	24066
ii) Other financial assets	0	0	59	41
g) Deferred tax assets (net)	1022	1029	1258	1458
h) Other non-current assets	1430	1401	1431	1462
	24811	26455	29310	37916
II) Current assets				
a) Inventories	29970	33392	37664	42467
b) Financial assets	4020	5676	8103	4712
i) Investments	0	745	2225	135
ii) Trade receivables	753	1122	1058	1813
iii) Cash and cash equivalents	1578	2114	933	811
iv) Bank balances other than (iii) above	1290	1005	2525	357
v) Loans	399	690	1337	1573
vi) Other financial assets	0	0	25	23
c) Current tax assets (net)	374	191	231	186
d) Other current assets	9733	9124	9546	16966
	44097	48383	55545	64331
TOTAL ASSETS (I+II)	68909	74838	84855	102247
EQUITY AND LIABILITIES				
I) Equity				
a) Equity share capital	3282	3393	3395	3396
b) Other equity	44125	50018	53864	57528
TOTAL EQUITY	47407	53411	57260	60924
II) Liabilities				
i) Non-current liabilities				
a) Financial liabilities	6069	3566	8200	7778
i) Borrowings	5986	3494	7494	6786
ii) Trade payables	10	38	66	146
iii) Other financial liabilities	73	34	640	845
b) Provisions	0	0	17	17
c) Deferred tax liabilities (net)	12	14	260	371
d) Other non-current liabilities	722	462	76	145
	6803	4042	8553	8310
ii) Current liabilities				
a) Financial liabilities	2283	1704	3221	13622
i) Borrowings	1071	1071	1193	2659
ii) Trade payables	349	425	469	1308
iii) Other financial liabilities	864	209	1559	9656
b) Other current liabilities	12377	15651	15748	19349
c) Provisions	38	29	20	4
d) Current tax liabilities (net)	0	0	53	38
	14698	17385	19042	33014
TOTAL LIABILITIES (i+ii)	21501	21426	27595	41324
TOTAL EQUITY AND LIABILITIES (I+II)	68909	74838	84855	102247

Source: Company, Arianth Research

Arihant Research DeskEmail: research@arihantcapital.com

Tel. : 022-42254800

Head Office

#1011, Solitaire Corporate Park,
Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road
Chakala, Andheri (E).
Mumbai – 400093
Tel: (91-22) 42254800
Fax: (91-22) 42254880

Registered Office

Arihant House
E-5 Ratlam Kothi
Indore - 452003, (M.P.)
Tel: (91-731) 3016100
Fax: (91-731) 3016199

Stock Rating Scale

	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	<-5%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	research@arihantcapital.com

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Arihant Capital Markets Ltd.

1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880