

Weak results, margin suffered due to non-recognition of residential margin in Enigma & Sky City, keeping faith due to strong brand and future cash flow visibility, Maintain Hold

Current	Previous
CMP: Rs 545	
Rating: Hold	Rating: Hold
Target: Rs 577	Target: Rs 568

(NR-Not Rated)

Stock Info	
INDEX	
BSE	533273
NSE	OBEROIRLTY
Bloomberg	OBER IN
Reuters	OEBO.NS
Sector	Real Estate
Face Value (Rs)	10
Equity Capital (Rs Mn)	3636
Market Cap (Rs Mn)	198,162
52w H/L (Rs)	642 / 351
Avg Weekly Vol (BSE+NSE)	2,211,750

Shareholding Pattern	%
(As on June, 2019)	
Promoters	67.7
Public & Others	32.3

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
OBEROI REALTY	2.1	18.7	17.6
SENSEX	-2.3	5.0	2.6

Source: ACE Equity, Arihant Research



Source: ACE Equity, Arihant Research

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Oberoi Realty (ORL) came out with weak set of numbers which were below our estimates. Q1FY20 results also look weak due to high base of last year, though on QoQ basis numbers were mostly flat. Revenue for the quarter fell 32.1% YoY to Rs 6033 mn against our estimate of Rs 6833 mn, EBITDA fell 49.1% YoY to Rs 2352 mn, below our estimate of Rs 2870 mn, while PAT declined 50.9% YoY to Rs 1521 mn, below our estimate of Rs 2187 mn. EBITDA margin stood at 39% against our estimate of 42%, a decline of 1300bps YoY mainly due to subdued margin of residential segment as Enigma and Sky City (tower E) are yet to reach margin recognition threshold. Despite weak results, we keep our faith intact on ORL due to its strong brand name and a dominant position in each of its micro market, which gives ORL enough bandwidth to tide over the current market slowdown with a strong visibility of future cash flows. We maintain our Hold rating with a revised target price of Rs 577.

Q1FY20 Highlights

- In Q1FY20 ORL reported 32.1% YoY decline in revenue to Rs 6033 mn against Rs 8883 mn in Q1FY19. While sequentially revenue witnessed 5.2% QoQ growth against Rs 5735 mn in Q4FY19.
- EBITDA for Q1FY20 saw de-growth of 49.1% YoY to Rs 2352 mn against Rs 4617 mn in Q1FY19. However on sequential basis EBITDA grew 12.1% QoQ against Rs 2097 mn in Q4FY19. Due to muted margin of residential segment blended EBITDA margin contracted by 1299 bps YoY to 39% in Q1FY20 against 52% in Q1FY19. Though on QoQ basis margin expanded by 242bps against 36.6% in Q4FY19.
- ORL adopted new account policy in Q1FY20 which has inflated interest costs ~4x to Rs 239mn against Rs 49 mn in Q1FY19. As per new practice, interest cost is now charged through P&L account post launch of a project vis-à-vis earlier practice of including it in WIP and then routing through P&L as per percentage completion method. Due to subdued margin and high interest cost, PAT fell 50.9% YoY to Rs 1521 mn against Rs 3094 mn in Q1FY19. Though on QoQ basis PAT was flat (-2.4%).

Valuations

At CMP of Rs 546, ORL is trading at FY20E and FY21E, P/E multiples of 21.3x and 17.8x respectively. After factoring in Q1FY20 results, we keep our FY20E/FY21E estimates intact, and **maintain our Hold rating on the stock with a DCF based revised target price of Rs 577 (price change due to change in risk free rate from 7.5% to 7%)**.

Financial Performance

YE March (Rs Mn)	Net Sales	EBITDA	PAT	EPS (Rs)	EBITDA Margin %	RoE (%)	P/E (x)
FY18	12,654	6,753	4,588	13.5	53.4	7.5	40.3
FY19	25,825	11,554	8,169	22.5	44.7	10.2	24.3
FY20E	30,371	13,002	9,314	25.6	42.8	11.0	21.3
FY21E	35,838	15,466	11,122	30.6	43.2	12.5	17.8

Source: Company, Arihant Research

Q1FY20 Financial Performance

Rs Mn (Consolidated)	Q1FY20	Q4FY19	Q1FY19	Q-o-Q	Y-o-Y
Net Revenue	6033	5735	8883	5.2%	-32.1%
Operating Cost	3207	3168	3755	1.2%	-14.6%
Employee cost	175	181	186	-3.4%	-6.2%
Other Expenses	299	289	325	3.5%	-8.0%
EBITDA	2352	2097	4617	12.1%	-49.1%
EBITDA margin %	39.0%	36.6%	52.0%	+242bps	-1299bps
Other Income	149	238	71	-37.6%	108.6%
Depreciation	111	110	106	0.5%	4.5%
EBIT	2390	2225	4582	7.4%	-47.8%
Finance cost	239	38	49	535.4%	385.6%
Exceptional Item	0	0	0		
PBT	2151	2187	4533	-1.7%	-52.6%
Tax Expense	643	644	1450	-0.2%	-55.7%
Effective tax rate %	29.9%	29.4%	32.0%	+45bps	-211bps
Reported Net Profit	1508	1544	3083	-2.3%	-51.1%
MI & Associates	12	14	11	-11.4%	13.8%
Consolidated PAT	1521	1558	3094	-2.4%	-50.9%
PAT Margin %	25.2%	27.2%	34.8%	-195bps	-963bps
EPS (Rs)	4.2	4.3	8.5	-2.4%	-50.9%

Source: Company, Arianth Research

Post Result Conference Call Highlights

- The quarter saw strong pre-sales (0.24 msf which is 50% of total pre-sales volume for Q1FY20) from its Sky City project in Borivali courtesy the revised subvention scheme that ORL adopted last quarter to drive sales momentum. Almost 30-40% of Sky City pre-sales came through subvention.
- The company believes that the recent diktat of NHB to the HFCs to stop giving loans which have interest subvention like developers paying EMIs on behalf of home buyers will have negligible impact on ORL as it has pricing power and strong brand name and will ultimately impact those developers who have stressed balance sheets and facing liquidity issues. This in turn will help consolidate the industry further and will result in price cuts by the stressed developers.
- ORL faced continued stress in its Mulund projects, Enigma and Eternia with slow pace of booking. Eternia performed relatively better with 12 units booked in Q1FY20 against 6/19 in Q4FY19/Q1FY19. Enigma booking was 7 units in Q1FY20 against 5 each in Q1FY19 and Q4FY19.
- As far as status of other projects are concerned, the company will be launching its Thane project and Goregaon (Phase 3) project during Diwali. While other projects like Worli is mostly on track and will come up for revenue recognition in next quarter (Q2FY20E). The company is hopeful of receiving OC in its Worli project before third quarter (Q3FY20E).

Consolidated Financials

Income Statement (Rs Mn)

Year End-March	FY18	FY19	FY20E	FY21E
Revenues	12,654	25,825	30,371	35,838
<i>Change (%)</i>	13.6%	104.1%	17.6%	18.0%
Operating Costs	4,679	12,472	15,034	17,704
Employee costs	672	734	911	1,075
Other expenses	551	1,066	1,425	1,593
Total Expenses	5,901	14,271	17,369	20,372
EBITDA	6,753	11,554	13,002	15,466
Other Income	266	788	911	1,075
Depreciation	491	440	456	473
Interest	69	194	152	179
PBT	6,459	11,707	13,305	15,889
Extra-ordinary	0	0	0	0
PBT after ext-ord.	6,459	11,707	13,305	15,889
Tax	1,907	3,607	3,992	4,767
<i>Rate (%)</i>	29.5%	30.8%	30.0%	30.0%
PAT	4,552	8,100	9,314	11,122
MI & Associates	36	69	0	0
Consolidated PAT	4,588	8,169	9,314	11,122
<i>Change (%)</i>	21.2%	78.1%	14.0%	19.4%

Source: Company, Aриhant Research

Balance Sheet (Rs Mn)

Year End-March	FY18	FY19	FY20E	FY21E
Sources of Funds				
Share Capital	3,396	3,636	3,636	3,636
Reserves & Surplus	57,528	76,656	81,033	85,343
Net Worth	60,924	80,292	84,669	88,979
Loan Funds	9,445	8,361	7,361	6,361
Deferred Tax & Other Liabilities	553	618	618	618
Capital Employed	70,922	89,270	92,649	95,957
Application of Funds				
Gross Block	11,209	12,522	13,022	13,522
Less: Depreciation	1,446	1,886	2,342	2,815
Net Block	9,763	10,636	10,680	10,707
CWIP	1,126	1,261	1,261	1,261
Other Non-Current Assets	1,462	2,215	2,215	2,215
Deferred Tax Assets	1,458	1,348	1,348	1,348
Net Fixed Assets	13,809	15,459	15,503	15,530
Investments	24,242	29,378	29,378	29,378
Debtors	1,813	1,094	832	982
Inventories	42,467	41,655	24,962	29,456
Cash & Bank Balance	1,167	4,253	9,387	8,776
Loans & Advances & Other CA	18,749	19,467	37,575	41,320
Total Current Assets	64,197	66,469	72,757	80,534
Current Liabilities	31,304	22,007	24,962	29,456
Provisions	21	28	28	28
Net Current Assets	32,871	44,434	47,767	51,050
Total Assets	70,922	89,270	92,647	95,957

Source: Company, Aриhant Research

Cash Flow Statement (Rs Mn)

Year End-March	FY18	FY19	FY20E	FY21E
PBT	6,459	11,707	13,305	15,889
Depreciation	491	440	456	473
Interest & Others	-161	-525	-759	-896
Cash Flow before WC changes	6,789	11,623	13,002	15,466
(Inc)/dec in Working Capital	-3,914	-16,019	-6,422	-13,562
Operating CF after WC changes	2,875	-4,396	6,580	1,904
Less: Taxes	-1,907	-3,607	-3,992	-4,767
Operating Cash Flow	968	-8,003	2,589	-2,863
(Inc)/dec in F.A + CWIP	-826	-1,439	-500	-500
(Pur)/sale of Investment	-6,170	-5,779	0	0
Cash Flow from Investing	-6,997	-7,219	-500	-500
Free Cash Flow (FCF)	142	-9,443	2,089	-3,363
Loan Raised/(Repaid)	759	-1,084	-1,000	-1,000
Equity Raised	1	240	0	0
Interest & Others	59	553	828	896
Dividend	-817	-727	-1,091	-1,454
Cash Flow from Financing Activities	3,738	18,307	3,046	2,751
Net Inc/(Dec) in Cash	-2,291	3,086	5,134	-612
Opening Balance of Cash	3,458	1,167	4,253	9,387
Closing Balance of Cash	1,167	4,253	9,387	8,776

Source: Company, Aриhant Research

Key Ratios

Year End-March	FY18	FY19	FY20E	FY21E
Per Share (Rs)				
EPS	13.5	22.5	25.6	30.6
CEPS	15.0	23.7	26.9	31.9
BVPS	179.4	220.8	232.9	244.7
DPS	2.4	2.0	3.0	4.0
Payout (%)	17.8%	8.9%	11.7%	13.1%
Valuation (x)				
P/E	40.3	24.3	21.3	17.8
P/CEPS	36.4	23.0	20.3	17.1
P/BV	3.0	2.5	2.3	2.2
EV/EBITDA	28.6	17.5	15.1	12.7
Dividend Yield (%)	0.4%	0.4%	0.6%	0.7%
Return Ratio (%)				
EBIDTA Margin	53.4%	44.7%	42.8%	43.2%
PAT Margin	36.3%	31.6%	30.7%	31.0%
ROE	7.5%	10.2%	11.0%	12.5%
ROCE	8.8%	12.4%	13.5%	15.6%
Leverage Ratio (%)				
Total D/E	0.2	0.1	0.1	0.1
Net D/E	0.1	0.1	0.0	0.0
Turnover Ratios				
Asset Turnover (x)	0.2	0.3	0.3	0.4
Inventory Days	1225	589	300	300
Receivable Days	52	15	10	10
Payable days	904	311	300	300

Source: Company, Aриhant Research

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Stock Rating Scale

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

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