Incline Realty Pvt. Ltd.

April 24, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Non-Convertible Debenture issue	250.00 (reduced from 500.00)	CARE AA+(CE); Negative (Double A Plus (Credit Enhancement); Outlook: Negative)	Reaffirmed and outlook revised to "Negative" from "Stable"
Total Instruments	**250.00 (Rupees Two Hundred and Fifty crore Only)**		

Details of instruments/facilities in Annexure-1

@ backed by corporate guarantee provided by Oberoi Realty Limited (rated CARE AA+;Stable/ A1+) for its bank facilities instruments)

Unsupported Rating [2]	**CARE A- (Single A Minus)**

Note : Unsupported Rating does not factor in the explicit credit enhancement

Detailed Rationale & Key Rating Drivers for the credit enhanced debt

The rating assigned to the long term instruments of Incline Realty Pvt. Ltd. is based on credit enhancement in the form of un-conditional and irrevocable corporate guarantee executed by Oberoi Realty Limited for the instruments issued by Incline Realty Pvt. Ltd.

Detailed Rationale & Key Rating Drivers of Oberoi Realty Limited

The reaffirmation of the ratings assigned to the bank facilities and short term instruments of Oberoi Realty Limited (ORL) continue to derive strength from the long track record and extensive experience of the promoters/management in the real estate business, the group's well-established brand image and strong foothold in the real estate market of Mumbai backed by steadily growing income from the investment properties. Furthermore, the rating continues to derive strength from ORL's strong financial risk profile marked by healthy cash accruals, favorable capital structure and strong liquidity profile.

The above rating strengths are however tempered by geographic concentration of the company's operations, risk associated with large size of ongoing and planned projects, and inherent industry risk associated with real estate sector.

Key Rating Drivers of Incline Realty Pvt Ltd

The rating assigned to the long term instruments of Incline Realty Pvt. Ltd. (IRPL) factors in strong parentage of Oberoi Realty Limited, experience and resourcefulness of the promoters, and well established brand name of the group in real estate development in the Mumbai region. The ratings also derive strength from favorable location of the project leading to robust sales momentum in the Sky City project.

The above rating strengths are however tempered by nascent stage of the planned projects Sky City F-H which exposes the company towards project execution risk and approval risk, and funding risk associated with the ongoing/planned investments projects as well as development projects. The rating is also constrained by cyclical nature of real estate industry and sluggish real estate market which may impact the sales of the project.

Rating Sensitivities

Negative Factors

- If tied-up receivables to pending project cost and outstanding debt deteriorates to less than 50%
- Achievement of lower than anticipated collections amidst slowdown in the real estate market.
- If there is any material change in the shareholding/control of the company.

Outlook: Negative

The revision in the outlook from "Stable" to "Negative" reflects expected moderation in the credit risk profile of entities involved in the real estate development owing to the ongoing lockdown in the country implemented by the central government towards containment of COVID-19. This has resulted in the disruption in operational activities i.e. stoppage of the construction work at various sites coupled with diminished sales and collection activities which is expected to impact the

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

[2] *As stipulated vide SEBI circular no SEBI/ HO/ MIRSD/ DOS3/ CIR/ P/ 2019/ 70 dated June 13, 2019. As per this circular, the suffix 'CE' (Credit Enhancement) is assigned to the ratings with explicit external credit enhancement, against the earlier used suffix 'SO' (Structured Obligation).*

cash flows of the company adversely. Moreover, CARE believes that the lockdown is expected to severely impact the already ongoing sluggish realty market in the medium term. In CARE's opinion, once the lockdown is lifted, the recovery in the residential housing segment is expected to be slow and gradual as buyers may choose to defer their purchases as they may be more averse to big ticket expenditures. This may impact sales/collection momentum as well as new sales launches as the developers may choose to wait for the demand in the residential segment to pick-up.

Besides, mandatory closure of the malls and hotel operating at a very low occupancy level owing to measures taken by the central government towards containment of COVID-19 is expected to impact the stable source of cash flows for the company, as the group may have to forgo major portion of its revenues from mall and hotel properties during Q1FY21; albeit office spaces rentals is expected to see minimal impact. While the central government's lockdown is applicable till May 03, 2020, clarity is yet to emerge on possible extension or staggered exit from the lockdown, which in turn will be contingent on the extent of spread of COVID-19.

Thus, the business risk profile of the companies in the sector will remain under pressure even after commencement of operations due to slow recovery in the real estate sector coupled with expected sparse footfalls in malls or hotels. With increasing thrust on work from home, demand for office space can be under pressure in the medium to long term. CARE will continue to monitor the situation and possible impact on the risk profile of the companies in the sector.

Detailed description of the key rating drivers

Key Rating Strengths

Vast experience of the promoters in the real estate business coupled with strong management team

Mr. Vikas Oberoi, promoter and Chairman cum Managing Director (CMD) of ORL, has been on the Board of the company since its incorporation and has around three decades of experience in the real estate industry. Mr. Vikas Oberoi completed the Owner's/ President's Management Program from Harvard Business School in August 1999 and is involved in the formulation of corporate strategy and planning, overall execution and management, as well as focuses on the growth and diversification plans of the company. He is supported by a team of experienced professionals from the technical, financial, marketing, legal disciplines, taxations for evaluating, planning and constructing projects. Moreover, the company is governed by well experienced board of directors consisting of four independent directors and three non-independent directors.

Long and established track record of the company's operations in the real estate development

Incorporated in 1998, ORL has established itself as a premium real estate developer catering to the Mumbai region. The group has been present in the real estate development business since more than three decades. The group is recognized as strong player having its niche brand in Mumbai's premium residential real estate market. The group has developed over 42 projects in the Mumbai region aggregating to about 11.89 million sq. ft. Besides, the group is in the process of developing another 28.58 million sq. ft. of saleable/leasable area. Long experience in the business helps the company in timely execution of the projects. Further, In order to ensure smooth execution and maintain quality of the construction, ORL outsources construction work to reputed construction companies both domestic and international. Moreover, the company works in close tandem with leading international design and architectural firms for providing premium appeal to its projects.

Decline in new bookings of development properties; albeit lease rentals continued to grow

Owing to sluggish real estate market the group chose to postpone its new project launches: Thane project and Exquisite III which were earlier scheduled to be launched in Q3FY20 were postponed to Q1FY21. However, due to ongoing lockdown in the country the group now expects to launch the projects by August 2020. Absence of any major project launches during the year coupled with decline in bookings at some of its projects such as Esquire (which had higher sales in FY19 due to receipt of OC during the year) coupled with marginal decline in sale of Mulund projects (Eternia & Enigma) the consolidated new bookings (excluding Three sixty west) declined during 9MFY20 to 4.86 lsf as compared to 5.88 lsf booked during 9MFY19. Value of sold flats also declined to Rs.811.24 crore in 9MFY20 as compared to 1056.57 crore during 9MFY19.

However, income from the investment properties continued to grow during 9MFY20, largely due to increase in occupancy rates in Commerz II office space. In 9MFY20 income form investment properties grew by around 12.43% to Rs.424.30 crore from Rs.377.38 crore during 9MFY19.

Capital structure continues to be favorable

The company's capital structure continues to be favorable as seen from overall gearing of 0.19 times as on December 31, 2019. Low leverage provides flexibility to the group in raising debt capital in cash of any exigency.

Key Rating Weaknesses

Geographic Concentration risk

ORL's primary area of operation is concentrated in the Mumbai Metropolitan region which exposes the company to a geographic concentration risk. Further, the projects of the company are in the premium segment which makes it susceptible to economic downturns. However, on account of its strong market position, ORL commands a premium over its competitors and has been able to sell its projects at attractive price points.

Risk associated with large number of ongoing and planned projects

The group is currently executing total development area of ~13.94 msf and investment portfolio of 5.39 msf. Considering size of the projects, especially where the company is at very nascent stage of construction such as Thane Phase-1 (yet to be launched for sales) where the company plans to develop approximately 2.27 msf, and Exquisite-III (yet to be launched for sales) where the company plans to develop 1.96 msf, the group is exposed to approval risk and project execution risk. Nevertheless, the group generally outsources its construction to reputed third party contractors. Moreover, the group and its promoters are well experienced to manage such large development which reduces the project execution risk to a large extent. Moreover, long presence of the group in the Mumbai region may help the group in obtaining the requisite approvals in time which also mitigates the project approval risk to a certain extent.

Industry Outlook

CARE continues to have Negative outlook for Real Estate sector. The sector was as it is facing lower sales and collections on the back of subdued demand is further expected to witness slowdown in construction activity and weakened cash flows due to pessimistic sentiments of the buyers. This would mean the projects getting delayed and cash flow mismatch in the short term forcing the developers to raise funds through tapping the refinancing route which would mean higher cost for the developers. Our discussion with several developers has led to a conclusion that developers with lower leverage will be able to sustain these tough times with ease as compared to developers having high leverage who do not have financial flexibility to raise funds. In CARE's opinion the credit quality is expected to weaken and post lockdown, revival of the segment will take more time.

On the commercial real estate segment, CARE believes outlook to remain fairly stable. In CARE's opinion, though mall leasing activity is expected to see some impact in the short term owing to weaker cash flows as compared to office or warehousing leasing activity having robust rentals; yet comfort can be derived from the fact that majority of companies operating malls have financial flexibility in terms of liquidity or enjoy parentage of a larger business group or has lower loan to value ratio which increases its ability to raise funds if needed. Furthermore, CARE believes that the office space and warehousing leasing activity to recover faster as compared to other real estate asset classes.

Analytical approach:

CARE has followed consolidated approach. The subsidiaries/associates along with the parent company, ORL, have been consolidated on account of operational and financial linkages.

Liquidity: Strong

The group's liquidity position continues to be strong with unencumbered cash and cash equivalents (including liquid investments) of Rs.90 crore as on March 31, 2020. In addition to the group has undrawn sanction bank facilities of Rs.302.48 crore as on March 31, 2020. On the other hand as the group has already prepaid its NCDs maturing in April 23, 2020 and line of credit to be repaid on September 2020, the group's debt obligations confine to the interest to be serviced on its debt obligations which is approximately Rs.10 crore per month. Moreover, considering that the group is at moderate to advance stage of execution for its various development projects and healthy lease rentals, the group is well placed in terms of liquidity.

Analytical approach:

CARE has followed consolidated approach. The subsidiaries/associates along with the parent company, ORL, have been consolidated on account of operational and financial linkages.

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
CARE's methodology for Short Term Ratings
Rating Methodology: Factoring Linkages in Ratings
Rating Methodology – Real Estate Sector

About the Company – Oberoi Realty Limited

Oberoi Realty Limited (ORL, CIN No. L45200MH1998PLC114818) is the flagship company of Oberoi Realty Group. Its promoter and promoter group have been developing real estate since 1983, initially as a proprietorship firm and, since 1993, through various project-specific entities. ORL (formerly known as Kingston Properties Private Limited), was incorporated in 1998. In

2006, the principal business operations of various group entities were consolidated under ORL and following the consolidation, majority of real estate development activity has been executed by ORL. The principal business of ORL is development of residential projects, however; the group has diversified presence in retail, commercial, hospitality and social infrastructure projects.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	1,290.24	2,644.46
PBILDT	804.17	1,360.81
PAT	458.80	816.93
Overall gearing (times)	0.28	0.20
Interest coverage (times)	7.33	8.38

A: Audited

About the Company – Incline Realty Pvt. Ltd.

Incline Realty Pvt. Ltd. (IRPL) is a wholly owned subsidiary of ORL formed on March 25, 2014 for the purpose of undertaking real estate development in Borivali. IRPL has purchased 25 acres land at Borivali from Tata Steel Ltd. with a transaction value of Rs.1155 crore and has issued NCD to the tune of Rs.750 crore. The balance was funded out of closing cash and operational cash flows of ORL. **ORL has extended unconditional irrevocable corporate guarantee to the NCD issue of IRPL**.

The project "Sky City" is a mix-use development comprising of Residential Towers and a Departmental Store of an estimated saleable/leasable area of 70.02 lakh square feet (lsf)

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	1.08	873.33
PBILDT	-2.82	263.62
PAT	-2.36	187.64
Overall gearing (times)	2394.46	7.06
Interest coverage (times)	NM	NM

A: Audited

Status of non-cooperation with previous CRA: Not Applicable.

Any other information: Not Applicable.

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN No.	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Debentures-Non Convertible Debentures	INE568Q07078	June 30, 2016	9.25%	April 2021	250.00	CARE AA+ (CE); Negative
Un Supported Rating	-	June 30, 2016	9.25%	April 2021	0.00	CARE A-

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Debentures-Non Convertible Debentures	LT	250.00	CARE AA+ (CE); Negative	-	1)CARE AA+ (CE); Stable (05-Jul-19)	1)CARE AA+ (SO); Stable (05-Jul-18)	1)CARE AA+ (SO); Stable (21-Sep-17)
2.	Un Supported Rating	LT	0.00	CARE A-	-	-	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument		Detailed explanation
A.	**Financial covenants**	
I.	Step Up/Step Down Coupon Rate	I. Coupon Rate will be stepped up by 25 basis points per annum on downgrade below AA-. II. In case of rating downgrade below A-, Issuer shall have the call option on the Debenture. Current coupon rate to increase by 1.00% in case the call option is not exercised by Issuer.
II.	Coupon payments	Semi annually- First interest payment on 23rd October, 2016 and thereafter on 23rd April and 23rd October every year.
III.	Maintenance of ratios	Covenants on Company: a) Oberoi Realty Limited should ensure that Company maintains positive total net worth during the term of the Debentures. b) Minimum security cover 1.50 times. Covenants on Oberoi Realty Limited (based on consolidated financials): a) Net debt excluding construction finance and working capital finance not to exceed 50% of the networth or Rs. 2,750 crores whichever is higher. The borrowing above the said specified amount will be subject to the approval of two-third of the Debenture holders Net debt shall include (i) all debt of the Company; (ii) consolidated debt of Oberoi Realty Limited as per accounting standards, including corporate guarantees given by Oberoi Realty Limited and/or Company to the extent of loan outstanding under the guarantee. This calculation shall exclude double counting of debt, if any. It is clarified that the net debt above shall exclude construction finance and working capital finance and the corporate guarantee given for the same.
B.	**Non financial covenants**	
I.	**Credit enhancement**	Oberoi Realty Limited shall provide an unconditional and irrevocable guarantee for payment of Outstanding Amount.
II.	**Shareholing**	Oberoi Realty Limited shall hold minimum 51% unencumbered stake in Company at all points of time throughout the term of the Debentures, except in the case of dilution to private equity/financial investor, in which case, minimum 50% unencumbered stake shall be maintained.

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:
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