

# Oberoi Realty | BUY

## Steady Operations; well placed in current environment

Oberoi reported steady operations with pre-sales value at INR 5.7bn (INR 3.5bn 2QFY18) primarily on improvement in pre-sales across projects. Oberoi recognised Eternia revenues in 2QFY19 as project crossed 25% construction threshold. While company's performance continues to improve post RERA/GST implementation, Mulund projects remain slow moving. Collections remained stable at INR 5.6bn (INR 5.7bn in 1QFY19). Net debt was reported at INR 4.1bn. Operating cash flows declined on TDR payments and higher construction spends. Company has received 97% lease commitment in Commerz II (63% at present). We believe current liquidity crisis will give lucrative business development opportunities for branded developers like Oberoi. Operations momentum will be contingent on launch of Goregaon ph 3, JVLR and Thane project. We maintain Buy with INR 515 TP.

- **PAT at INR 2.1bn as Eternia reaches revenue recognition:** Sales/EBITDA was reported at INR 5.9bn (+95% YoY) and INR 2.96bn (+81% YoY) as revenue recognition (RR) of Sky City/Eternia improved sales during the quarter. Company recognised sales on modified percentage completion method - 25% construction completion as RR threshold, where land won't be considered for calculation of RR. This will reduce the earnings volatility especially for projects with high land cost. Adjusted margins were at 43% (Exhibit 1) adjusted for one-off Ind AS 115 (reported margin at 50%; 2QFY18 margin at 54%) as Borivali margin profile is lower than Goregaon/Mulund projects. Net profit at INR 2.1bn. Cash collection for the quarter remained stable at INR 5.6bn (1QFY19: INR 5.7bn), Operating cash flow for 2Q was INR 452mn down from 1QFY19 (INR 2.3bn) primarily on TDR payments and higher construction cost.
- **Sales steady across projects; Mulund remains a concern:** During the quarter, company sold 115 units (0.24msf) worth INR 5.7bn. Pre-sales value was down 17% sequentially as previous quarter sales improved on subvention scheme launched in Goregaon/Mulund projects. Realisation improved sequentially on higher contribution from Three Sixty West (39% in 2QFY19 from 27% in 1Q19). Esquire sales stabilised (22 units vs 54 units in 1Q), Exquisite sales was at 10 units (3 units last quarter). Three Sixty West sold 5 units in 2Q at a realisation of c.INR 43,402/sf. Borivali sales improved to 57 units (vs. 38 units 1QFY19). Mulund project demand remained a concern as Enigma sold only 3 units despite launch of subvention scheme. Eternia (Mulund) sold 15 units vs 19 units in 1QFY19.
- **Key beneficiary of current environment; portfolio addition, Thane turnaround key monitorable:** We believe Oberoi is well-placed to benefit from its strong brand presence and financial strength in the current environment, where we expect organised developers to gain market share as financial stress rises. Its strategy to tap the mid-income segment would be key a monitorable. A growing annuity profile would ensure access to funds and valuation comfort. We maintain BUY with a target price of INR 515. Key risk to our call: delayed demand recovery, price correction in real estate.



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### Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	515
Upside/(Downside)	36.0%
Previous Price Target	515
Change	0.0%

### Key Data – OBER IN

Current Market Price	INR379
Market cap (bn)	INR137.7/US\$1.9
Free Float	32%
Shares in issue (mn)	339.6
Diluted share (mn)	363.6
3-mon avg daily val (mn)	INR205.7/US\$2.8
52-week range	610/351
Sensex/Nifty	34,316/10,304
INR/US\$	73.3

### Price Performance

%	1M	6M	12M
Absolute	-12.3	-27.4	-18.7
Relative*	-5.4	-26.8	-22.9

\* To the BSE Sensex

Financial Summary	(INR mn)				
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
Net Sales	13,997	11,045	12,572	24,919	27,992
Sales Growth (%)	53.7	-21.1	13.8	98.2	12.3
EBITDA	6,674	5,701	6,753	11,775	11,712
EBITDA Margin (%)	47.4	51.2	53.4	47.1	41.7
Adjusted Net Profit	4,259	3,786	4,588	8,334	13,511
Diluted EPS (INR)	12.5	11.1	13.5	22.9	37.2
Diluted EPS Growth (%)	29.8	-11.1	21.2	69.7	62.1
ROIC (%)	7.5	7.0	9.1	14.4	12.4
ROE (%)	8.6	6.9	7.8	11.8	15.6
P/E (x)	30.2	34.0	28.1	16.5	10.2
P/B (x)	2.4	2.2	2.1	1.7	1.5
EV/EBITDA (x)	19.8	23.5	21.4	11.1	11.6
Dividend Yield (%)	0.5	0.5	0.5	0.5	0.5

Source: Company data, JM Financial. Note: Valuations as of 22/Oct/2018

JM Financial Research is also available on:  
Bloomberg - JMFR <GO>,  
Thomson Publisher & Reuters  
S&P Capital IQ and FactSet

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

## Other key takeaways

- **Commercial portfolio steady:** Rentals across assets remained stable during the quarter. Leasing in Commerz II was stable at 63% while committed leasing increased to 97%. However leasing in Commerz I declined to 67.8%. Management guided for commencement of Commerz II ph 2 construction in the coming quarter. Oberoi Mall occupancy was at 97% with average rentals improving significantly on rental reversions to INR 233/sf (INR220/sf in 1Q19). Rental and hospitality income were at INR 780mn and INR 317mn respectively (+37% and +9% YoY, respectively). Westin occupancy was reported at 84% (82% in 1QFY18) with RevPar improving by 8%.
- Company is planning to launch Maxima (JVL R) and Goregaon in FY19 while Thane launch could be in 4QFY19 or 1QFY20.
- Three Sixty west is expected to hit revenue recognition soon (Associate) and completion of the project is expected by Jun'19.

### Exhibit 1. Recurring margins likely at 43% (INR mn)

	Ind AS reported	Modified Financials
Oberoi Exquisite	400	400
Oberoi Esquire	1,105	1,105
Prisma	173	173
Eternia	1,207	2,343
Enigma	189	
Sky City	1,625	1,625
Total Property revenue	4,698	5,645
Total Revenue	5,867	6,869
Costs	2,963	3,911
<b>EBITDA</b>	<b>2,904</b>	<b>2,958</b>
% margin	49.5%	43.1%

Source: Company, JM Financial

### Exhibit 2. Revenue composition (INR mn)

	2QFY18	3QFY18	4QFY18	1QFY19	1QFY19
Oberoi Mall	268	280	290	354	375
Commerz I	111	111	111	107	101
Commerz II Ph 1	112	114	127	166	185
Pure Rentals	492	504	529	628	662
Westin Hotel Revenue	292	354	340	309	321
<b>Property Revenue</b>					
Oberoi Exquisite	128	412	90	120	400
Oberoi Esquire	1,752	1,566	1,849	4,000	1,105
Prisma	171	514	437	892	173
<b>Eternia</b>				<b>240</b>	<b>1,207</b>
Enigma				149	189
<b>Sky City</b>				<b>2,289</b>	<b>1,625</b>
<b>Total Property revenue</b>	<b>2,052</b>	<b>2,492</b>	<b>2,375</b>	<b>7,689</b>	<b>4,698</b>

Source: Company, JM Financial

**Exhibit 3. P&L account trends (INR mn)**

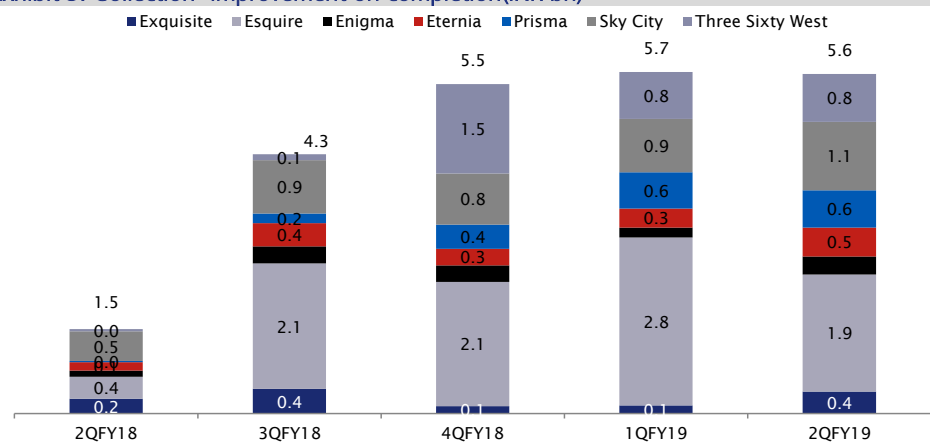
	2QFY18	1QFY19	2QFY19	%YoY	QoQ%
Revenues	3,035	8,883	5,921	95%	-33%
Income from oprns	3,016	8,840	5,905	96%	-33%
Other oprnl income	19	42	16	-16%	-62%
<b>EBITDA</b>	<b>1,638</b>	<b>4,617</b>	<b>2,958</b>	<b>81%</b>	<b>-36%</b>
EBITDA (%)	54.0	52.0	50.0	-399 bps	-202 bps
Dep and amort.	128	106	110	-14%	3%
<b>EBIT</b>	<b>1,510</b>	<b>4,511</b>	<b>2,849</b>	<b>89%</b>	<b>-37%</b>
Other income	50	71	277	457%	289%
Interest expenses	16	49	58	260%	18%
<b>Pre tax profit</b>	<b>1,544</b>	<b>4,533</b>	<b>3,067</b>	<b>99%</b>	<b>-32%</b>
Taxes	509	1,450	940	85%	-35%
Effective Tax Rate (%)	33.0	32.0	30.7	-232 bps	-132 bps
<b>Reported net profit</b>	<b>1,043</b>	<b>3,094</b>	<b>2,138</b>	<b>105%</b>	<b>-31%</b>
Margin (%)	1,043	34.8	2,138	105%	-31%

Source: Company, JM Financial

**Exhibit 4. Margin trends**

As % of Revenue	2QFY18	1QFY19	2QFY19	%YoY	QoQ%
Gross Margins	63.5%	57.7%	56.5%	-701 bps	-121 bps
Staff costs	6.1%	2.1%	3.3%	-284 bps	116 bps
Other Expenses	3.5%	3.7%	3.3%	-17 bps	-35 bps
EBITDA	54.0%	52.0%	50.0%	-399 bps	-202 bps
Depreciation	4.2%	1.2%	1.9%	-235 bps	66 bps
Other Income	1.6%	0.8%	4.7%	304 bps	387 bps

Source: Company, JM Financial

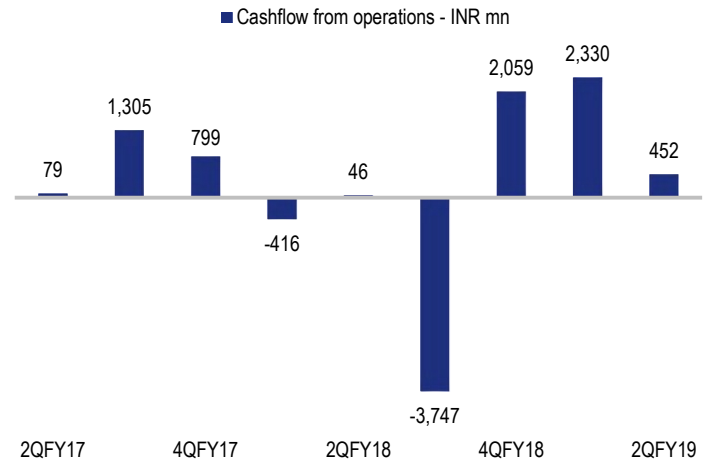
**Exhibit 5. Collection- improvement on completion(INR bn)**

Source: Company, JM Financial

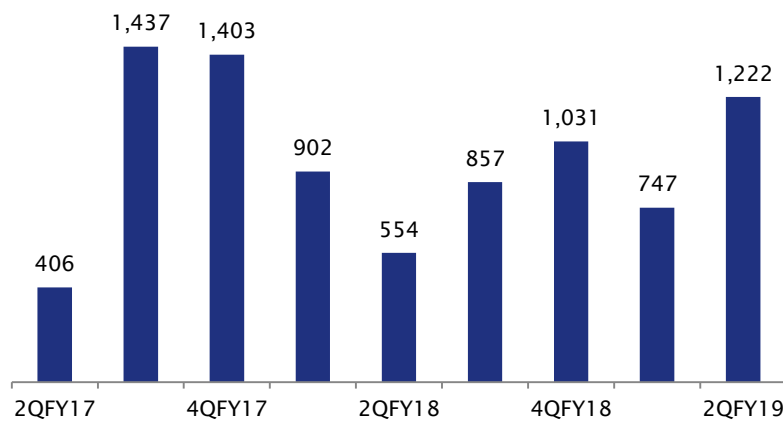
**Exhibit 6. Cash flow break up (INR bn)**

<b>Collection**</b>	<b>4.8</b>
Rentals and others	0.8
<b>Total Inflow</b>	<b>5.7</b>
Construction Spend*	2.9
Land Advances/Approvals	1.0
Other Expenses	0.4
Taxes	0.9
<b>Total outflow</b>	<b>5.2</b>
<b>Operating Cash</b>	<b>0.5</b>

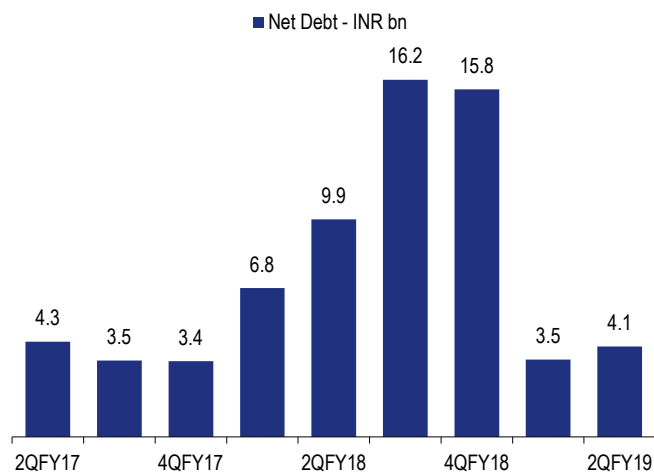
Source: Company, JM Financial \* estimated \*\* ex-Worli

**Exhibit 7. Cash flow from operations- TDR Payment, higher construction spend (INR mn)**

Source: Company, JM Financial

**Exhibit 8. Worli spend trends (INR mn)**

Source: Company, JM Financial

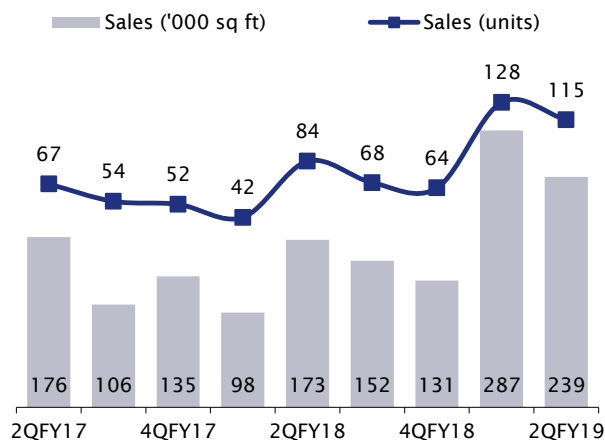
**Exhibit 9. Net debt declines on capital raise of INR 12 bn (INR bn)**

Source: Company, JM Financial

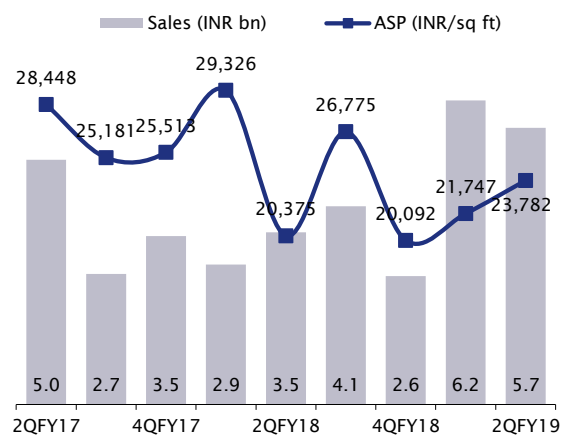
**Exhibit 10. Sales trend in Exquisite and Esquire- Subvention schemes improve Esquire sales**

	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19
<b>Exquisite</b>										
Sales (units)	9	8	1	4	8	3	10	2	3	10
Inventory Months	24	24	189	47	19	48	11	54	33	7
<b>Esquire</b>										
Sales (units)	3	10	11	9	4	18	10	16	54	22
Inventory Months	405	119	105	125	278	59	103	61	15	34

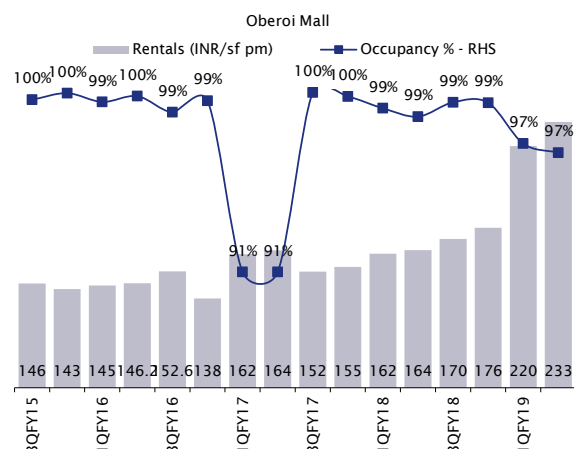
Source: Company, JM Financial

**Exhibit 11. Sales Volume trend**

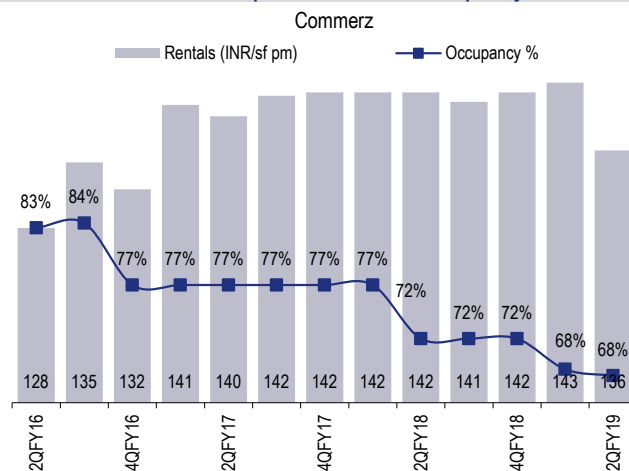
Source: Company, JM Financial

**Exhibit 12. Sales value and average selling price trends**

Source: Company, JM Financial

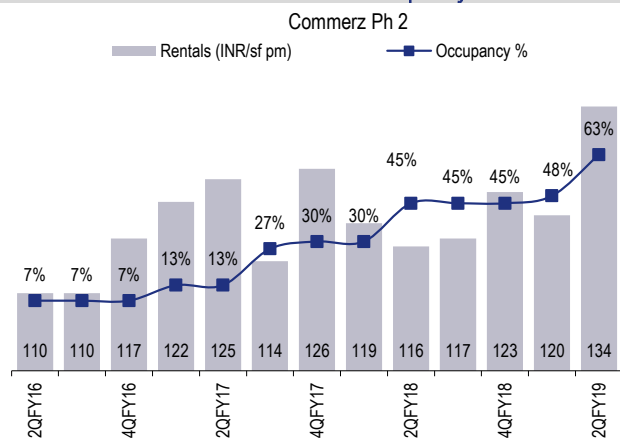
**Exhibit 13. Oberoi Mall: Rentals & occupancy- Material improvement in rentals**

Source: Company, JM Financial

**Exhibit 14. Commerz office space: Rentals & occupancy**

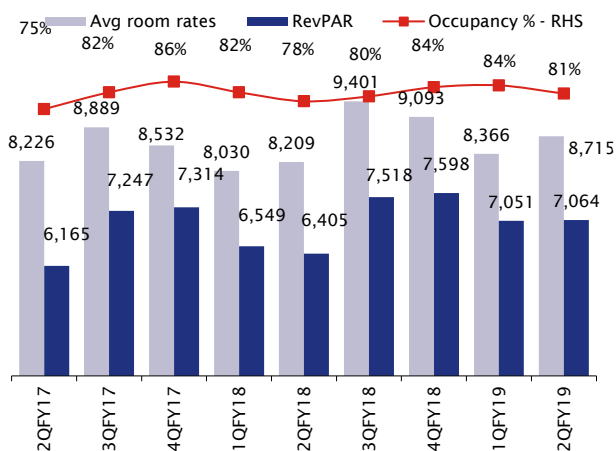
Source: Company, JM Financial

Exhibit 15. Commerz Ph 2: Rentals &amp; occupancy



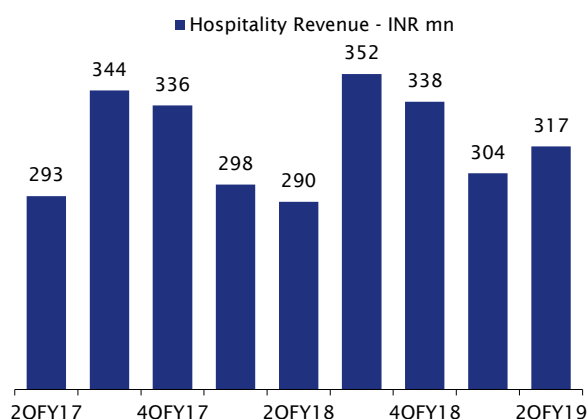
Source: Company, JM Financial

Exhibit 16. Westin hotel key parameters



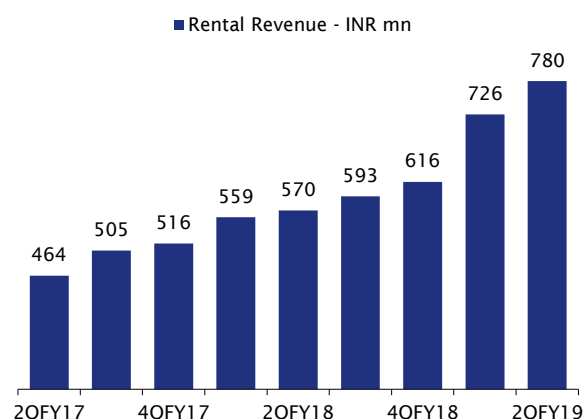
Source: Company, JM Financial

Exhibit 17. Rental revenue trends- INR mn



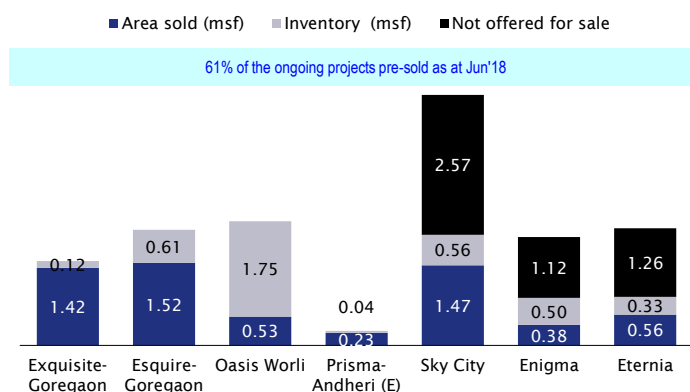
Source: Company, JM Financial

Exhibit 18. Hotel revenue trends INR mn



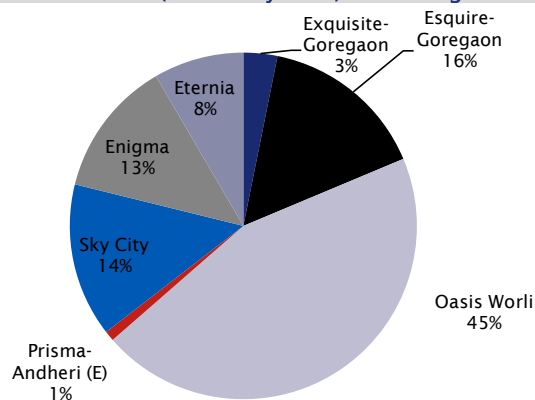
Source: Company, JM Financial

Exhibit 19. Project Inventory



Source: Company, JM Financial

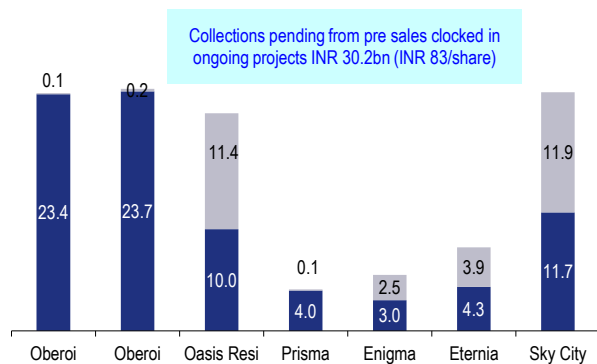
Exhibit 20. Worli Oasis (Three Sixty West) has the highest share



Source: Company, JM Financial

**Exhibit 21. Ongoing projects – cash collections (INR bn)**

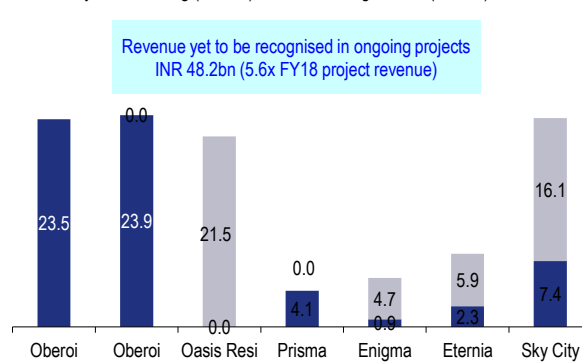
■ Pending collection (INR bn) ■ Cash collected till date (INR bn)



Source: Company, JM Financial

**Exhibit 22. Ongoing projects – rev recognition (INR bn)**

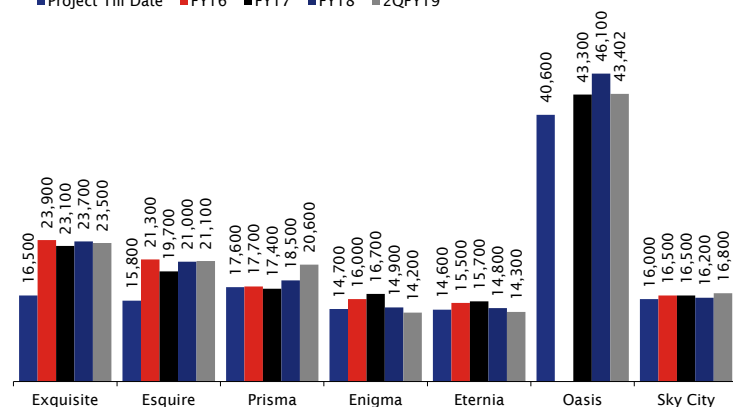
■ Rev yet to be recog (INR bn) ■ Rev Recog till date (INR bn)



Source: Company, JM Financial

**Exhibit 23. Realisation trends (INR/sf)**

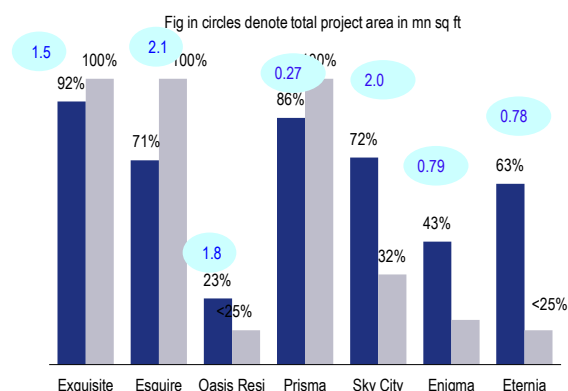
■ Project Till Date ■ FY16 ■ FY17 ■ FY18 ■ 2QFY19



Source: Company, JM Financial

**Exhibit 24. Pre-sales & PoCM trends**

■ Pre-Sales % ■ PoCM %



Source: Company, JM Financial

**Exhibit 25. Balance sheet snapshot- (INR mn)**

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19
<b>Shareholder's funds</b>	<b>58,189</b>	<b>58,419</b>	<b>59,628</b>	<b>60,924</b>	<b>75,067</b>	<b>77,223</b>
Equity Share Capital	3,395	3,396	3,396	3,396	3,636	3,636
Reserves & Surplus	54,794	55,023	56,232	57,528	71,431	73,587
Loan Funds	8,385	11,198	17,193	16,941	9,909	9,639
Deferred tax liability (net)	0	62	0	371	392	857
<b>Total liabilities</b>	<b>66,574</b>	<b>69,679</b>	<b>76,822</b>	<b>78,235</b>	<b>85,369</b>	<b>87,719</b>
Net Block incl CWIP	10,719	10,778	10,793	10,890	10,916	10,899
Goodwill	0	0	0	0	0	0
Investments	19,628	21,552	23,554	24,200	32,862	33,108
Deferred tax asset	1,006	1,202	985	1,458	1,488	1,513
Inventories	38,409	39,095	40,583	42,467	37,854	39,261
Sundry Debtors	2,772	3,363	2,043	1,813	1,564	1,200
Cash & bank balance	1,207	694	690	1,167	5,750	5,145
Loans & advances	1,395	1,440	1,514	1,573	1,688	1,776
Other current assets	11,269	11,720	18,776	18,678	19,213	18,930
Trade payables	941	438	486	1,454	474	760
Current liabilities / other liabilities	18,865	19,701	21,609	22,537	25,472	23,331
Provisions	24	25	19	21	20	21
<b>Net current assets</b>	<b>35,221</b>	<b>36,147</b>	<b>41,491</b>	<b>41,687</b>	<b>40,103</b>	<b>42,200</b>
<b>Total assets</b>	<b>66,574</b>	<b>69,679</b>	<b>76,822</b>	<b>78,235</b>	<b>85,369</b>	<b>87,719</b>

Source: Company, JM Financial

## Financial Tables (Consolidated)

Income Statement (INR mn)					
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
Net Sales	13,997	11,045	12,572	24,919	27,992
Sales Growth	53.7%	-21.1%	13.8%	98.2%	12.3%
Other Operating Income	84	92	82	86	91
<b>Total Revenue</b>	<b>14,081</b>	<b>11,138</b>	<b>12,654</b>	<b>25,005</b>	<b>28,082</b>
Cost of Goods Sold/Op. Exp	6,297	4,372	4,775	11,592	14,548
Personnel Cost	576	642	672	739	813
Other Expenses	533	423	455	899	1,010
<b>EBITDA</b>	<b>6,674</b>	<b>5,701</b>	<b>6,753</b>	<b>11,775</b>	<b>11,712</b>
EBITDA Margin	47.4%	51.2%	53.4%	47.1%	41.7%
EBITDA Growth	29.9%	-14.6%	18.5%	74.4%	-0.5%
Depn. & Amort.	490	495	491	658	567
EBIT	6,185	5,206	6,262	11,116	11,145
Other Income	362	473	266	656	978
Finance Cost	2	56	69	80	129
PBT before Excep. & Forex	6,545	5,623	6,459	11,692	11,994
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	6,545	5,623	6,459	11,692	11,994
Taxes	2,286	1,869	1,907	3,394	3,422
Extraordinary Inc./Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	0	-31	-36	-36	-4,939
Reported Net Profit	4,259	3,786	4,588	8,334	13,511
<b>Adjusted Net Profit</b>	<b>4,259</b>	<b>3,786</b>	<b>4,588</b>	<b>8,334</b>	<b>13,511</b>
Net Margin	30.2%	34.0%	36.3%	33.3%	48.1%
Diluted Share Cap. (mn)	339.6	339.6	339.6	363.6	363.6
<b>Diluted EPS (INR)</b>	<b>12.5</b>	<b>11.1</b>	<b>13.5</b>	<b>22.9</b>	<b>37.2</b>
Diluted EPS Growth	29.8%	-11.1%	21.2%	69.7%	62.1%
Total Dividend + Tax	790	817	817	817	814
Dividend Per Share (INR)	1.9	2.0	2.0	1.9	1.9

Source: Company, JM Financial

Cash Flow Statement (INR mn)					
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
Profit before Tax	6,545	5,623	6,459	11,692	11,994
Depn. & Amort.	490	495	491	658	567
Net Interest Exp. / Inc. (-)	364	529	334	737	1,107
Inc (-) / Dec in WCap.	-995	-2,180	-6,771	1,379	1,181
Others	-19	-903	-463	-1,313	-1,956
Taxes Paid	-2,118	-1,825	-2,108	-3,394	-3,422
<b>Operating Cash Flow</b>	<b>4,267</b>	<b>1,738</b>	<b>-2,058</b>	<b>9,760</b>	<b>9,472</b>
Capex	-465	-763	-773	-5,375	-14,277
Free Cash Flow	3,802	976	-2,831	4,385	-4,805
Inc (-) / Dec in Investments	139	-2,932	-7,231	0	0
Others	-2,108	-1,897	2,122	656	978
<b>Investing Cash Flow</b>	<b>-2,434</b>	<b>-5,591</b>	<b>-5,883</b>	<b>-4,719</b>	<b>-13,299</b>
Inc / Dec (-) in Capital	3,258	60	17	240	0
Dividend + Tax thereon	-1,607	0	-817	-817	-814
Inc / Dec (-) in Loans	-2,600	3,820	8,306	0	0
Others	-862	-527	-996	10,031	-1,609
<b>Financing Cash Flow</b>	<b>-1,812</b>	<b>3,353</b>	<b>6,510</b>	<b>9,453</b>	<b>-2,423</b>
<b>Inc / Dec (-) in Cash</b>	<b>21</b>	<b>-500</b>	<b>-1,431</b>	<b>14,494</b>	<b>-6,251</b>
Opening Cash Balance	2,937	3,209	3,458	1,167	15,661
Closing Cash Balance	2,958	2,709	2,027	15,661	9,411

Source: Company, JM Financial

Balance Sheet (INR mn)					
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
Shareholders' Fund	53,043	57,260	60,924	80,321	93,018
Share Capital	3,393	3,395	3,396	3,636	3,636
Reserves & Surplus	49,650	53,864	57,528	76,685	89,382
Preference Share Capital	0	0	0	0	0
Minority Interest	0	0	0	0	0
Total Loans	6,415	8,686	16,941	16,941	16,941
Def. Tax Liab. / Assets (-)	229	-1,176	-1,236	-1,236	-1,236
<b>Total - Equity &amp; Liab.</b>	<b>59,687</b>	<b>64,770</b>	<b>76,629</b>	<b>96,026</b>	<b>1,08,723</b>
Net Fixed Assets	12,964	10,545	10,890	17,136	32,326
Gross Fixed Assets	11,855	10,417	11,211	18,115	18,115
Intangible Assets	2,654	0	0	0	0
Less: Depn. & Amort.	2,083	968	1,446	2,104	2,672
Capital WIP	539	1,095	1,125	1,125	16,882
Investments	744	18,243	24,200	24,237	29,175
Current Assets	63,889	54,578	65,513	79,753	73,502
Inventories	39,306	37,664	42,467	54,108	54,108
Sundry Debtors	1,170	1,058	1,813	1,813	1,813
Cash & Bank Balances	3,209	3,458	1,167	15,661	9,411
Loans & Advances	19,937	1,337	1,573	1,731	1,731
Other Current Assets	267	11,062	18,492	6,439	6,439
Current Liab. & Prov.	17,911	18,595	23,974	25,099	26,280
Current Liabilities	17,867	18,558	23,953	25,078	26,259
Provisions & Others	44	37	21	21	21
Net Current Assets	45,978	35,983	41,539	54,653	47,222
<b>Total - Assets</b>	<b>59,687</b>	<b>64,770</b>	<b>76,629</b>	<b>96,026</b>	<b>1,08,723</b>

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
Net Margin	30.2%	34.0%	36.3%	33.3%	48.1%
Asset Turnover (x)	0.2	0.2	0.2	0.3	0.3
Leverage Factor (x)	1.2	1.1	1.2	1.2	1.2
RoE	8.6%	6.9%	7.8%	11.8%	15.6%

Key Ratios					
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
BV/Share (INR)	156.2	168.6	179.4	220.9	255.8
ROIC	7.5%	7.0%	9.1%	14.4%	12.4%
ROE	8.6%	6.9%	7.8%	11.8%	15.6%
Net Debt/Equity (x)	0.1	0.1	0.3	0.0	0.1
P/E (x)	30.2	34.0	28.1	16.5	10.2
P/B (x)	2.4	2.2	2.1	1.7	1.5
EV/EBITDA (x)	19.8	23.5	21.4	11.1	11.6
EV/Sales (x)	9.4	12.0	11.4	5.2	4.9
Debtor days	30	35	52	26	24
Inventory days	1,019	1,234	1,225	790	703
Creditor days	881	1,246	1,481	692	586

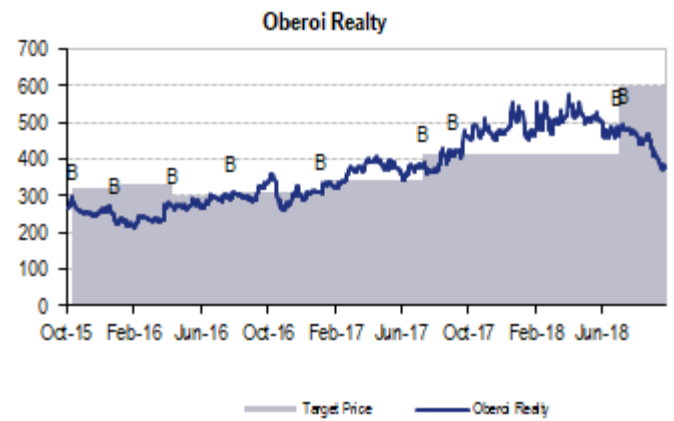
Source: Company, JM Financial



## History of Earnings Estimate and Target Price

Date	Recommendation	Target Price	% Chg.
4-Nov-15	Buy	320	
19-Jan-16	Buy	330	3.1
2-May-16	Buy	300	-9.1
18-Aug-16	Buy	310	3.3
27-Jan-17	Buy	340	9.7
1-Aug-17	Buy	415	22.1
25-Sep-17	Buy	415	0.0
23-Jul-18	Buy	600	44.6
1-Aug-18	Buy	600	0.0
19-Aug-18	Buy	515	-14.2

## Recommendation History



## APPENDIX I

**JM Financial Institutional Securities Limited**

(formerly known as JM Financial Securities Limited)

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd., National Stock Exchange of India Ltd. and Metropolitan Stock Exchange of India Ltd.

SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst – INH000000610

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Definition of ratings	
Rating	Meaning
Buy	Total expected returns of more than 15%. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 15% upside from the current market price.
Sell	Price expected to move downwards by more than 10%

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