

BSE SENSEX
 59,031

S&P CNX
 17,578

CMP: INR951
TP: INR1,100 (+16%)
Buy
Site visit: 360-West – To cash in on the limited luxury RTMI supply
Sets three-year monetization target for the balance inventory

We recently visited Oberoi Realty (OBER)'s 360-West, Worli project to understand the unit offerings as well as the sales and pricing strategy post-receipt of its Occupancy Certificate (OC) in Jun'22. Below are the key takeaways:

About 200 units on offer of which 69 have been sold as of Jun'22

- The project consists of two towers: Tower A and Tower B.
- Tower A houses Hotel Ritz-Carlton upto 33 floors and 28 single-floor residential units over the hotel, having a per unit floor plate of 15,000 sqft.
- Tower B is residential with 170 units consisting of 4BHK/5BHK apartments sized at 5,600/7,500 sqft (carpet area) as well as penthouses on top floors.
- OBER has sold 69 units until now of which 68 units are in Tower B and one in Ritz Carlton tower. Hence, the total pending inventories were 129 units.

Targets sale of ~100 units in three years – optimistic or realistic?

- OBER had strategically put a pause on new sales in the project as it filed for fresh approvals under the new Development Control and Promotion Regulation (DCPR) - 2034 plan, which ensured that all additional spaces were now considered as part of carpet area and in-turn improved the salability of the project.
- Post the approvals, OBER received the OC in Jun'22 and it will now restart the sales in the project. **Exhibit 3** indicates comparable ready projects across South Mumbai with units priced ~INR400m being largely sold out.
- Thus, considering the latent demand and limited ready to move-in supply (RTMI) of luxury product in the market, the company is hopeful of improved traction for the project.
- It expects to fully monetize its balance ~100 units in Tower-B over the next three years, indicating 30-35 units per year. OBER registered sales of 22 units in FY17, which have been the highest annual sales until now.
- While we have built-in a pick-up in sales velocity in near term due to the pent-up demand, sustenance of high sales velocity will lead to faster-than-expected cash flows and meaningful re-rating potential for the stock.

Pricing likely to pick-up given limited RTMI luxury supply

- According to the registrations data, the most recent transactions in 360-West have been closed at INR75,000-80,000/sqft on carpet area while an under-construction project in the vicinity, Raheja Artesia, has traded at INR85,000-95,000/sqft despite one and half years away from delivery.
- Resale transaction in another completed project, Raheja Legend, has garnered a carpet rate of INR110,000-140,000/sqft.
- Considering limited RTMI supply of luxury projects in the vicinity, the pricing for 360-West is also likely to pick-up to INR100,000-120,000/sqft as indicated by the management, resulting in a revenue potential of INR75b for the balance inventory in Tower B.



Bloomberg	OBER IN
Equity Shares (m)	364
M.Cap.(INRb)/(USD\$b)	345.7 / 4.3
52-Week Range (INR)	1052 / 652
1, 6, 12 Rel. Per (%)	1/-/1/37
12M Avg Val (INR M)	1107

Financials & Valuations (INR b)

Y/E MARCH	2022	2023E	2024E
Sales	26.9	43.4	48.4
EBITDA	11.8	20.3	22.5
EBITDA Margin (%)	43.9	46.7	46.5
Adj PAT	10.5	19.7	18.5
Cons. EPS (INR)	28.8	54.2	50.9
EPS Growth (%)	41.6	88.3	-6.1
BV/Share (INR)	286	339	388

Ratios

Net D:E	0.2	0.2	0.1
RoE (%)	10.6	17.3	14.0
RoCE (%)	7.2	10.7	10.5
Payout (%)	10.4	3.7	3.9

Valuations

P/E (x)	32.6	17.3	18.5
EV/EBITDA (x)	3.3	2.8	2.4
Div. Yield (%)	31.1	17.9	15.7
FCF Yield (%)	0.3	0.2	0.2
EV/Sales (x)	32.6	17.3	18.5

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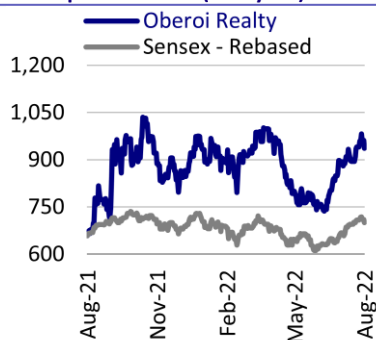
Investors are advised to refer through important disclosures made at the last page of the Research Report.

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Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	67.7	67.7	67.7
DII	10.0	9.1	6.0
FII	19.4	20.3	23.5
Others	2.9	2.9	2.8

FII Includes depository receipts

Stock's performance (one-year)**Valuation and view**

- While the company has set ambitious sales targets for 360-West, we for now retain our FY23 pre-sales estimates at INR48b with contribution of INR7.5b coming from 360-West. We will closely monitor the pick-up in sales and pricing trajectory for the project from hereon and revise our estimates accordingly.
- Apart from sustenance of high sales velocity in 360-West, we see multiple re-rating triggers in OBER including: a) the launch of Thane project and customer response to the same, b) new project additions in its core markets of Mumbai MMR and c) entry into newer markets of NCR as [reported by media](#).
- We believe healthy cash generation will provide a lot of comfort to the company in seeking aggressive business development opportunities that will provide further growth visibility. **We maintain our BUY rating on OBER with an SOTP-based TP of INR1,100 (unchanged), indicating 16% upside potential.**

Exhibit 1: Based on our SoTP approach, we arrive at a NAV of INR400b, or INR1,100 per share, indicating an upside potential of 16%

NAV calculation	Rationale	INR b	Per share (INR)	(%)
Residential	❖ DCF of five-year cash flow at WACC of 11.3% and terminal value assuming 5% long-term growth	288	793	72%
Leasing – Offices and Malls	❖ Cap rate of 8.5% for operational assets and DCF for ongoing and planned assets	113	312	28%
Hospitality	❖ FY24E EBITDA at 17.5x EV/EBITDA	15	42	4%
Gross Asset Value		417	1147	104%
Less: Net Debt	❖ FY23E estimate	(17)	(46)	(4%)
Net Asset Value		400	1100	100%
CMP			951	
Up/down (%)			16	

Source: MOFSL, Company

Key exhibits

Exhibit 2: Sales velocity in 360-West has been low but is expected to pick-up from hereon

	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	1QFY23
Estimated Total Area (msf)	1.78	1.78	1.78	1.78	2.37	2.28	2.28	2.28	2.28
Area Booked (sqft)	0.12	0.02	0.20	0.10	0.11	0.05	0.06	-0.02	0.00
Cumulative Area Booked	0.12	0.14	0.34	0.44	0.55	0.60	0.66	0.64	0.64
Units Booked	13	2	22	10	12	5	7	(2)	0
Cumulative Unit Booked	13	15	37	47	59	64	71	69	69
Area in Inventory (msf)	1.66	1.64	1.44	1.93	1.73	1.68	1.62	1.64	1.65
Booking Value (INR b)	3.5	0.7	8.6	4.8	4.8	2.3	3.0	(0.9)	0.0
Cumulative Booking Value	3.5	4.2	12.8	17.6	22.4	24.7	27.7	26.8	26.8
Amount Collected (INR b)	0.9	2.0	3.8	1.7	2.7	8.4	3.9	1.6	0.1
Cumulative Amount Collected (INR b)	0.9	2.9	6.7	8.5	11.2	19.5	23.4	25.0	25.1
Average Rate (INR/sqft)	43,027	34,627	43,520	47,516	44,077	46,532	50,413	45,299	NA

Source: Company, MOFSL

Exhibit 3: Limited supply of RTMI units with ticket size of >INR400m

Project Name	Developer Name	Micro market	Launched Sqft	Launched Units	Unsold Units	Launch Date	Completion Date
Signature Island	Sunteck	BKC	0.39	64	15	Apr-09	Mar-15
Lodha Altamount	Lodha Group	Altamount Road	0.09	38	0	Sep-13	Oct-17
Carmichael Residences	Peninsula	Tardeo	0.09	28	3	Sep-14	Sep-19
Blu - Phase 4	Indiabulls Real Estate	Lower Parel	0.18	71	2	Oct-10	Jun-21
Three Sixty West	Oberoi Realty	Worli	1.82	198	129	Mar-11	Jun-22
Satellite Sesen	Group Satellite	Nepean Sea Road	0.36	28	15	Nov-17	Dec-23
Raheja Artesia	K Raheja	Worli	NA	152	43	Jan-14	Dec-23

Source: Propequity, MOFSL

Exhibit 4: OBER has a completed inventory of 129 units

	Units as per RERA	Actual units	Sold	Inventory
Tower A	28	28	1	27
Tower B	256	170	68	102
Total	284	198	69	129

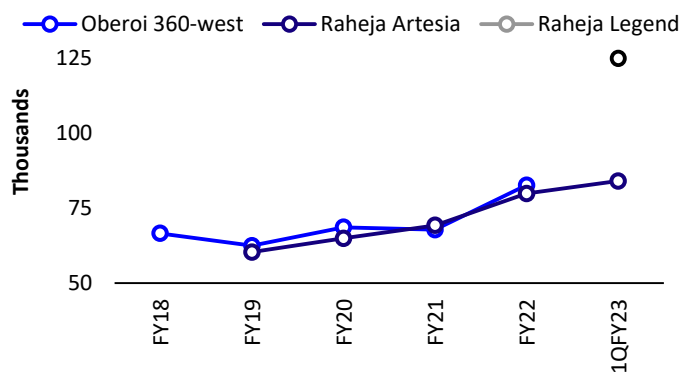
Source: Company, MOFSL

Exhibit 5: Sales in high ticket size units have picked-up post OC

Project Name	Micro market	Completion date	Bookings before OC	Bookings post OC
Lodha Altamount	Altamount Road	Oct-17	11	27
Carmichael Residences	Tardeo	Sep-19	13	15
Blu - Phase 4	Lower Parel	Jun-21	20	51

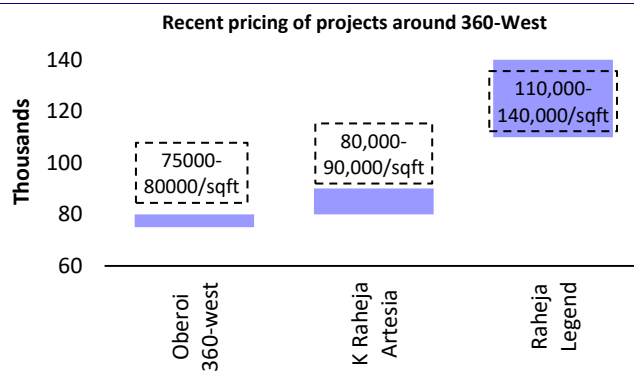
Source: Propequity, MOFSL

Exhibit 6: Price at 360-West is lower than projects in vicinity



Source: Propequity, MOFSL

Exhibit 7: OBER aims to raise it to INR100,000-120,000/sqft



Source: Propequity, MOFSL

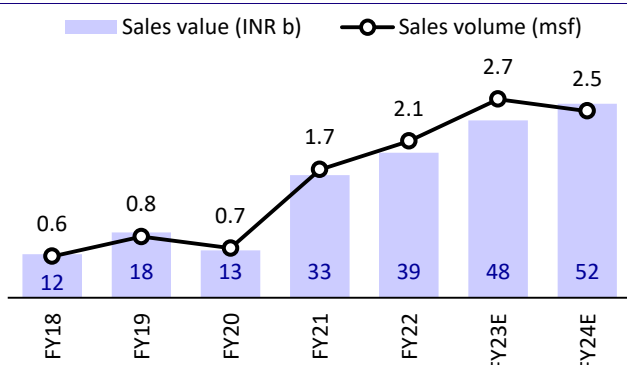
Story in charts

Exhibit 8: To launch 17msf of projects in coming years, 3msf of which will be launched over the next six months

Project	Areas to be launched	Comment
Sky City	2	❖ The management expects to launch the next phase of Sky City over the next 12 months
Worli	1.7	❖ It is planning a Residential project on GLXO's land parcel in Worli, instead of a mixed-use project. Being adjacent to 360-West, the launch will only happen after FY24.
Elysian	3.4	❖ After the successful launch of the first phase, the company has launched another phase in Oct'22, which met with strong response. Another new tower is planned to be launched in FY23.
Thane	10	❖ After a long wait, the company is looking to launch Phase I of the Thane project by 2QFY23
Total	17.1	

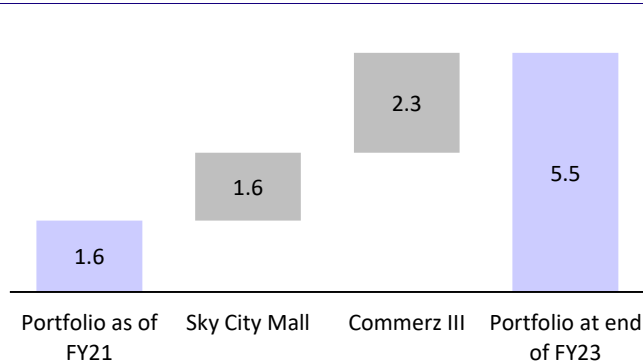
Source: MOFSL, Company

Exhibit 9: Expect OBER to deliver 15% CAGR in sales bookings over FY21-24 on a higher base



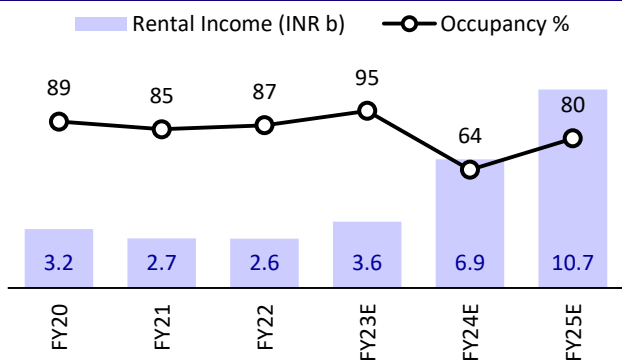
Source: Company, MOFSL

Exhibit 10: Expect the Commercial portfolio to treble to 5.5msf by FY23-end (msf)



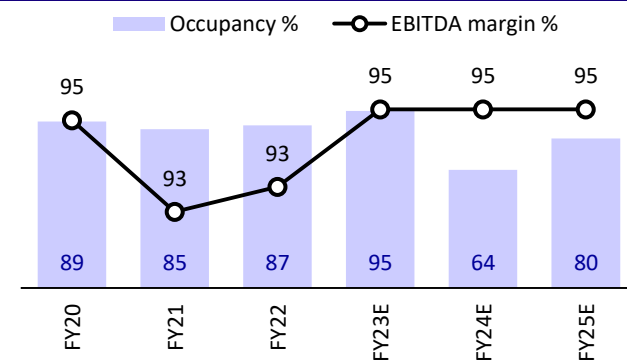
Source: Company, MOFSL

Exhibit 11: Expect Rental income to clock 59% CAGR over FY22-25



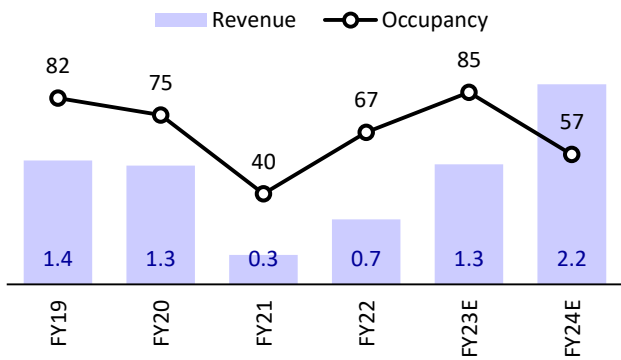
Source: MOFSL, Company

Exhibit 12: Expect EBITDA margin to recover to over 95% by FY23



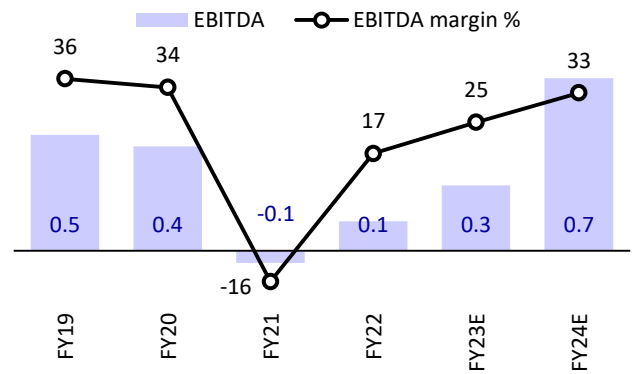
Source: MOFSL, Company

Exhibit 13: A recovery in occupancies and revenue from the Worli Hotel will boost Hospitality sales to INR2.3b by FY24E



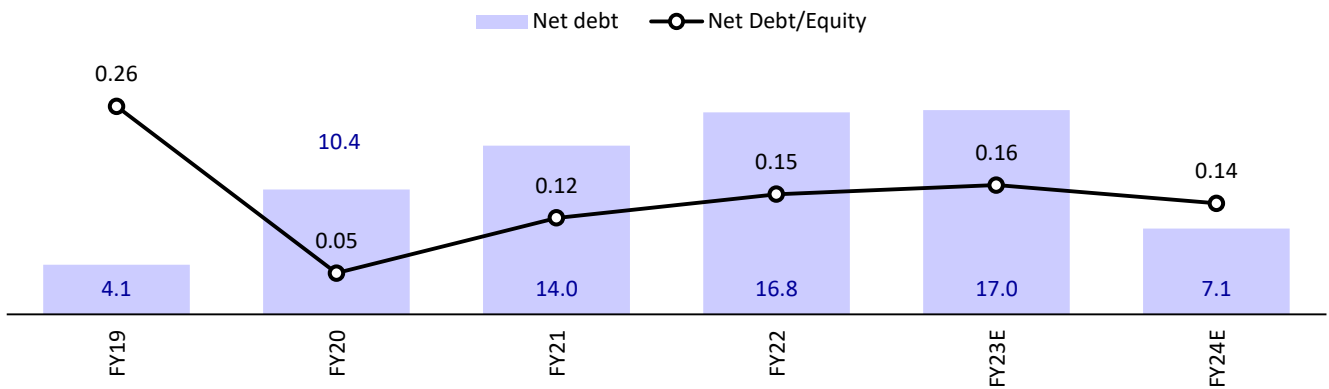
Source: Company, MOFSL

Exhibit 14: Expect blended EBITDA margin to reach 33% by FY24 and improve thereafter as the Ritz Carlton stabilizes



Source: Company, MOFSL

Exhibit 15: Annual post-tax cash flow run-rate of INR15-30b over the next three-to-four years to enable OBER to retain financial strength and focus on business development



Source: MOFSL, Company

Financials and valuations

Consolidated Income Statement								(INR m)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Total Income from Operations	11,138	12,654	25,825	22,376	20,526	26,940	43,394	48,358
Change (%)	-21.4	13.6	104.1	-13.4	-8.3	31.2	61.1	11.4
Total Expenditure	5,440	5,902	14,271	11,897	10,522	15,126	23,126	25,891
As a percentage of Sales	48.8	46.6	55.3	53.2	51.3	56.1	53.3	53.5
EBITDA	5,698	6,753	11,554	10,480	10,004	11,813	20,268	22,467
Margin (%)	51.2	53.4	44.7	46.8	48.7	43.9	46.7	46.5
Depreciation	495	491	440	449	412	398	399	1,129
EBIT	5,203	6,262	11,113	10,031	9,592	11,416	19,869	21,338
Int. and Finance Charges	56	69	194	885	760	860	1,303	1,053
Other Income	508	302	856	484	380	585	824	919
PBT bef. EO Exp.	5,655	6,495	11,776	9,630	9,212	11,140	19,391	21,204
EO Items	0	0	0	0	0	0	0	0
PBT after EO Exp.	5,655	6,495	11,776	9,630	9,212	11,140	19,391	21,204
Total Tax	1,869	1,907	3,607	2,796	1,851	3,065	5,335	5,834
Tax Rate (%)	33.0	29.4	30.6	29.0	20.1	27.5	27.5	27.5
Minority Interest/Profit from JV	0	0	0	59	32	2,396	5,658	3,135
Reported PAT	3,786	4,588	8,169	6,893	7,393	10,471	19,714	18,505
Adjusted PAT	3,786	4,588	8,169	6,893	7,393	10,471	19,714	18,505
Change (%)	-12.4	21.2	78.1	-15.6	7.2	41.6	88.3	-6.1
Margin (%)	34.0	36.3	31.6	30.8	36.0	38.9	45.4	38.3

Consolidated Balance Sheet								(INR m)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity Share Capital	3,636	3,636	3,636	3,636	3,636	3,636	3,636	3,636
Total Reserves	76,656	82,659	90,055	1,05,265	1,23,116	1,00,525	1,19,513	1,37,290
Net Worth	80,292	86,295	93,691	1,08,901	1,26,752	1,04,161	1,23,149	1,40,926
Minority Interest	0	0	0	0	0	0	0	0
Total Loans	8,361	11,439	15,338	19,338	12,338	28,555	23,555	18,555
Deferred Tax Liabilities	260	284	348	348	348	247	247	247
Capital Employed	88,912	98,018	1,09,378	1,28,587	1,39,438	1,32,964	1,46,951	1,59,728
Gross Block	12,526	12,824	12,907	12,907	50,407	12,965	12,965	60,465
Less: Accum. Deprn.	1,910	2,359	2,771	3,171	4,153	3,169	3,568	4,697
Net Fixed Assets	10,616	10,465	10,136	9,736	46,255	9,796	9,398	55,769
Goodwill on Consolidation	0	0	0	0	0	0	0	0
Capital WIP	1,261	3,055	19,799	28,698	2,199	32,975	44,357	1,500
Total Investments	29,378	24,062	16,196	21,339	27,128	26,794	32,452	35,587
Curr. Assets, Loans, and Adv.	69,983	74,632	74,405	83,974	80,659	87,340	81,910	88,051
Inventory	41,655	53,173	46,626	49,865	47,225	50,361	48,691	43,957
Account Receivables	1,094	1,153	1,280	944	1,052	1,246	1,189	1,325
Cash and Bank Balance	4,253	1,083	1,331	2,161	1,664	2,932	1,655	6,500
Loans and Advances	22,981	19,223	25,168	31,003	30,718	32,802	30,375	36,268
Curr. Liability and Prov.	22,325	14,196	11,158	15,160	16,803	23,942	21,167	21,179
Account Payables	2,323	859	938	1,337	1,395	4,247	1,584	1,773
Other Current Liabilities	19,974	13,294	10,194	13,779	15,359	19,108	19,527	19,343
Provisions	28	43	26	44	49	587	56	62
Net Current Assets	47,658	60,436	63,247	68,814	63,856	63,398	60,744	66,872
Appl. of Funds	88,912	98,018	1,09,378	1,28,588	1,39,439	1,32,964	1,46,951	1,59,729

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Basic (INR)								
EPS	10.4	12.6	22.5	19.0	20.3	28.8	54.2	50.9
Cash EPS	11.8	14.0	23.7	20.2	21.5	29.9	55.3	54.0
BV/Share	157.5	167.6	220.8	237.3	257.7	286.5	338.7	387.6
DPS	0.0	2.2	2.3	2.3	0.0	3.0	2.0	2.0
Payout (%)	0.0	17.8	10.0	14.3	0.0	10.4	3.7	3.9
Valuation (x)								
P/E ratio	90.3	74.5	41.8	49.6	46.2	32.6	17.3	18.4
Cash P/E ratio	79.8	67.3	39.7	46.6	43.8	31.4	16.9	17.3
P/BV ratio	6.0	5.6	4.3	4.0	3.6	3.3	2.8	2.4
EV/Sales ratio	31.2	28.3	13.4	15.7	17.3	13.6	8.3	7.3
EV/EBITDA ratio	60.9	53.0	29.9	33.6	35.6	31.1	17.9	15.7
Dividend Yield (%)	0.0	0.2	0.2	0.2	0.0	0.3	0.2	0.2
FCF per share	2.7	-7.7	-0.7	-14.0	-17.1	-7.0	16.8	32.1
Return Ratios (%)								
RoE	6.8	7.8	11.6	8.3	8.2	10.6	17.3	14.0
RoCE	6.2	6.4	10.0	8.0	7.7	7.2	10.7	10.5
RoIC	9.4	9.6	14.8	11.5	10.8	11.6	20.8	16.8
Working Capital Ratios								
Fixed Asset Turnover (x)	1.1	1.1	2.1	1.7	1.6	2.1	3.3	0.8
Asset Turnover (x)	0.2	0.2	0.3	0.2	0.2	0.2	0.3	0.3
Leverage Ratio (x)								
Net Debt/Equity ratio	0.1	0.3	0.1	0.1	0.1	0.2	0.2	0.1

Consolidated Cash Flow Statement

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
(INR m)								
OP/(Loss) before Tax	5,623	6,495	11,776	9,689	9,244	13,536	25,049	24,339
Depreciation	495	491	440	449	412	398	399	1,129
Interest and Finance Charges	-319	-129	-251	885	760	860	1,303	1,053
Direct Taxes Paid	-1,825	-2,108	-3,243	-2,221	-2,031	-2,911	-5,335	-5,834
(Inc.)/Dec. in WC	-2,180	-6,754	-6,997	-11,205	-998	1,765	1,378	-1,283
CF from Operations	1,794	-2,005	1,725	-2,404	7,387	13,648	22,794	19,403
Others	-56	-17	-269	-416	-362	-2,961	-6,483	-4,054
CF from Operations incl. EO	1,738	-2,022	1,456	-2,820	7,025	10,687	16,311	15,350
(Inc.)/Dec. in FA	-763	-773	-1,707	-2,261	-13,241	-13,241	-10,209	-3,696
Free Cash Flow	976	-2,795	-251	-5,081	-6,216	-2,554	6,102	11,654
(Pur.)/Sale of Investments	82	0	0	5,863	39	171	0	0
Others	-4,071	-6,006	-5,053	-857	6,687	-829	824	919
CF from Investments	-4,752	-6,779	-6,760	2,745	-6,515	-13,900	-9,385	-2,777
Issue of Shares	60	17	11,827	0	0	0	0	0
Inc./(Dec.) in Debt	3,820	8,306	-1,103	-508	317	13,250	-5,000	-5,000
Interest Paid	-527	-996	-1,516	-1,711	-1,480	-1,628	-2,475	-2,000
Dividend Paid	0	-818	-819	-877	0	0	-727	-727
Others	0	0	0	0	-1	-199	0	0
CF from Fin. Activity	3,353	6,510	8,389	-3,095	-1,164	11,422	-8,202	-7,727
Inc./Dec. in Cash	339	-2,291	3,085	-3,169	-654	8,210	-1,276	4,845
Opening Balance	3,119	3,458	1,167	4,253	1,985	1,331	2,932	1,655
Closing Balance	3,458	1,167	4,253	1,083	1,331	9,541	1,655	6,500

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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