

India Ratings Affirms Godrej Properties's NCDs at 'IND AA+' / Stable

Aug 14, 2024 | Residential | Commercial Projects

India Ratings and Research (Ind-Ra) has affirmed Godrej Properties Limited's (GPL) non-convertible debentures as follows:

Details of Instruments

Instrument Type	Date of issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating assigned along with Outlook/ Watch	Rating Action
Non-convertible debentures (NCDs)*	-	-	-	INR25,000	IND AA+/Stable	Affirmed

* details in Annexure

Analytical Approach

Ind-Ra has taken a consolidated view of GPL and all its [subsidiaries, joint ventures \(JVs\) and associates](#) (SPVs) to arrive at the ratings due to material operational and strategic ties among the entities. A portion of the debt availed at the standalone level is either on lent or invested in SPVs. Given the cash flow fungibility in the form of direct management fees and interest on loans of SPVs with GPL, the agency has taken a consolidated view.

Detailed Rationale of the Rating Action

GPL's ability to generate pre-sales was driven by strong business development during FY24, where it had launched projects with a gross development value (GDV) of about INR212 billion. The pre-sales rose 84% yoy to about INR225 billion during FY24.. The collections rose to about INR114 billion in FY24 from INR90 billion in FY23. The net debt increased to fund increased launches and project cost. GPL raised NCDs of INR26.6 billion in FY24 and INR12.7 billion in 2QFY25 (July 2024). The net debt to net working capital stood at 0.52x in FY24 (FY23: 0.45x), whereas the pre-sales to net debt ratio improved to 3.8x (3.7x). In FY24, GPL entered new micro-markets of Hyderabad, expanding its geographical presence in India. The company also announced its entry into Indore in its press release dated 31 July 2024.

List of Key Rating Drivers

Strengths

- Access to group's land bank
- Strong market position and brand recall
- Robust operational performance
- Launch pipeline underpins growth
- Launches and sales velocity key or returns
- Strong operational cash flows
- Adequate liquidity

Weaknesses

- High capex likely to increase leverage
- Refinancing risk related to short-term loans
- Inherent industry risks

Detailed Description of Key Rating Drivers

Access to Group's Land Bank: GPL is the realty arm of the well-established Godrej group. The promoter group owns about 58.48% stake in GPL, which gives the company strong financial flexibility. GPL had signed a memorandum of understanding (MoU) with the group entities, wherein if the group entities decide to develop any portion of the available land parcel situated at Vikhroli, Mumbai, GPL will act as the development manager for the same and earn a fee on it. This MoU is still valid post the execution of Family Settlement Agreement and Brand & Non-Compete agreement as declared in a joint press release by GPL and the landowner.

Strong Market Position and Brand Recall: GPL is among the largest players in the sector in terms of pre-sales and the number of homes sold. Furthermore, GPL has diversified geographical exposure, with about 44% of the pre-sales in FY24 being from the National Capital Region, about 29% from Mumbai Metropolitan Region, about 12% from Pune, about 11% from Bengaluru, and the balance 4% from other locations. GPL also benefits from its brand recall, which enables it to secure better deals from both customers and joint development partners. Furthermore, being a part of the Godrej group, GPL has access to the group's land bank across India, which will support its future launches, along with joint development models.

Robust Operational Performance: In FY24, GPL sold 20.0 million square feet (sf) (FY23: 15.2 million sf) of its saleable area, amounting to presales of about INR225 billion (INR122 billion), recording growth of 84% yoy, led by its strong product mix as well as an increase in sales volumes. Similarly, its annual collections improved 27% yoy to about INR114 billion and deliveries by 19% yoy to 12.5 million sf in FY24. The company has benefited from a shift in consumer sentiments towards top developers that have a long track record delivering projects in a timely manner. The agency expects GPL's operational performance to remain resilient on the back of the ongoing upcycle in the real estate sector, which is in favour of large, organised players due to supply consolidation. Post FY22, the increase in lending rates as well as property prices does not seem to have impacted demand, as evident from the sector's pre-sales growth. The agency expects the pricing scenario to remain favourable in FY25 as well.

Launch Pipeline Underpins Growth: The agency expects the pre-sales' growth to be supported by GPL's robust launches in FY24, with the company adding projects with a business potential of over INR212 billion. Furthermore, GPL plans to add projects worth about INR300 billion to its launch pipeline in FY25. These projects will primarily be spread across Mumbai Metropolitan Region, National Capital Region, Bengaluru and Pune, with a mix of joint development and own development, including high-rise housing and plotted projects. As per the management estimates, the launches in FY25 will total to about 22 million sf (FY24: 20 million sf).

Launches and Sales Velocity Key to Returns: The agency expects GPL to maintain project return ratios that are sufficient to achieve through-the-cycle EBITDA margin (with joint venture interest) of 20%-25%. The adjusted EBITDA margins were about 30% during FY22-FY24. For the return ratios to hold, GPL needs to have steady launches, sales velocity and timely deliveries, given the substantial investment in the launch pipeline. GPL aims to have a moderate mix of joint development projects, own development and development management (DM) projects. Given its brand reputation, GPL benefits from a competitive advantage while obtaining land for development under a joint development model while maintaining reasonable margins. While joint development projects yield lower margins compared to own land development, the former tends to be more capital efficient.

Strong Operational Cash Flows: GPL generated strong adjusted operational cash flow of about INR43 billion in FY24 (FY23: INR35 billion), supported by strong collections of about INR114 billion (INR90 billion), backed by deliveries and new launches. The agency expects the net adjusted operational cash flows to improve to INR48 billion-51 billion in FY25, led by guided deliveries of 15 million sf and robust pre-sales. However, the free cash flow is likely to remain low in FY25, since GPL plans to add about INR300 billion to its launch pipeline during the year, following the addition of INR212 billion in FY24.

Adequate Liquidity: GPL's liquidity is supported by sustained net operating cash flows. The cash and liquidity investments amounted to INR47 billion at FY24 (FY23: INR31 billion; FY22: INR46.9 billion). Moreover, GPL had committed receivables of INR275 billion at FYE24, along with the cash balance to part-fund the pending construction costs and support debt servicing. GPL has strong access to bank loan, debt capital markets and equity markets. Being part of the Godrej group, the company benefits from a competitive rate of interest on bank loans. GPL had an average interest cost of about 7.82% in FY24 (FY23: 6.65%), with a high share of short-tenor debt. The company had raised INR21 billion in FY20 and INR37.5 billion in FY21 through qualified institutional placement. The proceeds from the same were utilised towards developing the portfolio.

High Capex Likely to Increase Leverage: The agency expects the total debt to inch up to INR135 billion-150 billion at FYE25 from about INR107 billion at FYE24, given the outflows related to the large launch pipeline. The agency expects the net debt to adjusted cash flow from operations to remain below 2x over the medium term (FY24: 1.4x; FY23: 0.94x), supported by strong collections and calibrated cost outflows. GPL has a net debt equity target of 0.5x-1.0x (FY24: 0.62x). The presales to net debt ratio was 3.8x in FY24 (FY23: 3.7x) and the net debt to inventory ratio was 0.26x (0.27x). The agency expects the net debt to inventory ratio to be maintained below 0.50x over the medium term.

Refinancing Risk Related to Short-Term Loans: The debt structure is predominantly short-term in nature, exposing the company to refinancing risk. The outstanding short-term debt comprises about 75% of the total debt on the books. However, GPL has a demonstrated track record of rolling over the short-term limits. GPL's capital market debt issuances up to INR40 billion (already issued INR39 billion up to July 2024) with a maturity of three- to-five years provide some stability to the debt structure.

Inherent Industry Risks: The residential real estate demand tends to be cyclical and is affected by interest rates and household income outlook. The affordable segment has been worst affected by the increase in interest rates in the last few quarters; however, the mid and luxury segments have shown resiliency. Therefore, industry participants have largely been focusing on the mid and premium markets.

Liquidity

Adequate: GPL's liquidity will be supported by sustained net operating cash flows. The cash and liquidity investments amounted to INR47 billion at FYE24 (FYE23: INR31 billion; FYE22: INR46.9 billion). Moreover, GPL had committed receivables of INR275 billion at FYE24 along with the cash balance to part-fund the pending construction costs and support debt servicing. GPL has strong access to bank loan, debt capital markets and equity markets. Being part of the Godrej group, the company benefits from a competitive rate of interest on bank loans. GPL had an average interest cost of about 7.82% in FY24 (FY23: 6.65%), with a high share of short-tenor debt. The company had raised INR21 billion in FY20 and INR37.5 billion in FY21 through qualified institutional placement. The proceeds from the same were utilised towards developing the portfolio. The company does not have any NCD repayments in FY25 and FY26.

Rating Sensitivities

Positive: A positive rating action could result from a substantial improvement in the business profile, sales velocity, cash collections and revenue stream diversification and an improvement in the liquidity profile, which would significantly reduce the net debt to adjusted cash flow from operations on a sustained basis.

Negative: A negative rating action could result from:

- lower-than-Ind-Ra-expected sales velocity and collections, leading to the net operating cash flows being lower than Ind-Ra's expectations and deterioration in the liquidity profile, on a sustained basis
- higher-than-Ind-Ra-expected borrowings, leading to the net debt to adjusted cash flow from operations exceeding 2.5x, on a sustained basis

ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on GPL, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please [click here](#). For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please [click here](#).

About the Company

GPL, the real estate development arm of the Godrej group, was established in 1985. The group held 58.48% stake in GPL at end-June 2024. The company has a diversified portfolio of inventory situated at different locations around India. GPL has delivered about 47 million sf of real estate since 2018 and had saleable area of 223 million sf across 102 projects as on 3 May 2024.

Key Financials Indicators

Particulars (Consolidated; IND-AS; INR billion)	FY24	FY23
Pre-sales	225	122.3
Collections	114	89.9
Revenue	30	22.5
EBITDA	9.0	6.5
Adjusted EBITDA margin (%)	30	29
Interest coverage	5.9	3.8
Net debt to inventory	0.26	0.27
Source: GPL Financials, Ind-Ra		

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook
	Rating Type	Rated Limits (INR million)	Rating	16 August 2023
Non-convertible debentures	Long-term	25,000	IND AA+/Stable	IND AA+/Stable

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Non-convertible debenture	Low

For details on the complexity level of the instruments, please visit <https://www.indiaratings.co.in/complexity-indicators>.

Annexure

Instrument Type	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (INR million)	Rating / Outlook
Non-convertible debentures	INE484J08055	20 September 2023	8.30%	19 March 2027	10,000	IND AA+/Stable
Non-convertible debentures	INE484J08063	20 September 2023	8.50%	20 September 2028	1,600	IND AA+/Stable

Non- convertible debentures	INE484J08071	26 July 2024	8.55%	26 July 2029	3,400	IND AA+/Stable
Non- convertible debentures	INE484J08089	26 July 2024	8.40%	25 January 2028	9,354	IND AA+/Stable
Utilised					24,354	
Unutilised					646	IND AA+/Stable
Total					25,000	

Source: NSDL, GPL

Contact

Primary Analyst

Vinay Pathak

Senior Analyst

India Ratings and Research Pvt Ltd

Wockhardt Towers, 4th Floor, West Wing, Bandra Kurla Complex, Bandra East, Mumbai - 400051

02240001702

For queries, please contact: infogrp@indiaratings.co.in

Secondary Analyst

Vikas Anand

Associate Director

+91 22 40001700

Media Relation

Ameya Bodkhe

Marketing Manager

+91 22 40356121

About India Ratings and Research: India Ratings and Research (Ind-Ra) is committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

India Ratings is a 100% owned subsidiary of the Fitch Group.

For more information, visit www.indiaratings.co.in.

Solicitation Disclosures

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

APPLICABLE CRITERIA

Corporate Rating Methodology

Rating Approach of Residential Real Estate Entities

The Rating Process

DISCLAIMER

All credit ratings assigned by india ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: <https://www.indiaratings.co.in/rating-definitions>. In addition, rating definitions and the terms of use of such ratings are available on the agency's public website www.indiaratings.co.in. Published ratings, criteria, and methodologies are available from this site at all times. India ratings' code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the code of conduct section of this site.