

# Oberoi Realty

**BSE SENSEX**

57,629

**S&P CNX**

16,988



Bloomberg	OBER IN
Equity Shares (m)	364
M.Cap.(INRb)/(USDb)	313.3 / 3.8
52-Week Range (INR)	1088 / 726
1, 6, 12 Rel. Per (%)	5/-12/-4
12M Avg Val (INR M)	653

## Financials & Valuations (INR b)

Y/E MARCH	FY23E	FY24E	FY25E
Sales	43.2	43.1	49.9
EBITDA	22.7	18.9	23.8
EBITDA Margin (%)	52.5	43.9	47.6
Adj PAT	39.7	12.9	16.3
Cons. EPS (Rs)	109.3	35.4	44.9
EPS Growth (%)	279.6	-67.6	26.9
BV/Share (Rs)	394	427	470

## Ratios

Net D:E	0.2	0.1	0.1
RoE (%)	32.1	8.6	10.0
RoCE (%)	11.3	7.9	9.3
Payout (%)	1.8	5.7	4.5

## Valuations

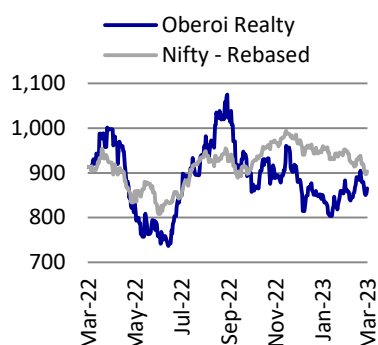
P/E (x)	7.9	24.5	19.3
EV/EBITDA (x)	2.2	2.0	1.8
Div. Yield (%)	15.0	17.6	13.7
FCF Yield (%)	0.2	0.2	0.2
EV/Sales (x)	43.2	43.1	49.9

## Shareholding pattern (%)

As On	Dec-22	Sep-22	Dec-21
Promoter	67.7	67.7	67.7
DII	12.5	11.8	8.7
FII	17.3	18.0	20.5
Others	2.5	2.5	3.1

FII Includes depository receipts

## Stock Performance (1-year)



**CMP: INR860**

**TP: INR1,100 (+28%)**

**Buy**

## Annuity portfolio on track for significant scale up

### Key residential projects expected to be launched in FY24

We recently visited Oberoi Realty (OBER)'s Goregaon and Borivali projects to understand the progress of its annuity portfolio and also the sales and leasing strategies for its residential and annuity assets. Below are the key takeaways:

### Annuity income to grow at 54% CAGR over FY23-26E

- OBER is expecting to receive OC for Commerz III (Goregaon) by end of FY24. Further, Morgan Stanley – which has leased 1.1msf (carpet area), accounting for ~50% of the total area – has commenced fit-outs and likely to start paying rentals beginning FY25.
- The leasing for the balance area will commence only six months prior to the completion and OBER expects to fully lease out the area by FY25. At full occupancy, Commerz III has the potential to generate INR6.0-6.5b of annual rentals (including CAM) beginning FY26.
- The company's Borivali mall is on track to commence operations during Oct-Nov'23. The structure is complete and OBER is progressing on internal finishing at this stage. The phase 1 of residential development at Sky City with five towers occupied by ~1,800 families will be delivered by Sep'23. A total of ~3,200 families are likely to reside in the vicinity with easy access to the mall. The mall will also be connected with both the exit points of the Metro line, which will drive more catchments.
- INOX has already come onboard as one of the anchor tenants with a 10-screen multiplex and the leasing for the balance area will commence soon. During the recent earnings call, management highlighted that it is witnessing significant demand traction and is confident of achieving full leasing within six months.
- The mall is likely to stabilize by FY25 and it has the potential to generate annual rentals of INR2.5b. Overall, the company's annuity rentals are projected to surge to INR12b by FY26 from INR3b in FY23.

### Kolshet Road launch delayed but launch of the third tower at Elysian and sales at 360-West have the potential to compensate for the delay

- The much awaited launch of Kolshet Road project in Thane (earlier expected in 4QFY23) could spill over to 1QFY24E but there is a strong possibility of a new tower launch at Elysian that could offset the delay.
- OBER has completed the settlement with its JV partner at 360-West and it now holds the entire inventory available for sale. According to the management, the pipeline of prospective buyers remains strong and will gradually materialize in the coming quarters.
- We expect the new tower launch at Elysian, Goregaon to contribute INR5b to sales in 4QFY23, while 360-West should see bookings of 3-4 units (valued at INR2.5-3.0b) leading to a total pre-sales of INR11b in 4QFY23.

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

Motilal Oswal research is available on [www.motilaloswal.com/Institutional-Equities](http://www.motilaloswal.com/Institutional-Equities), Bloomberg, Thomson Reuters, Factset and S&P Capital.

**Significant surplus cash generation should accelerate BD activity**

- While the management has always reiterated its intent to acquire new projects, except for an eight-acre land acquired from Blue Star in Thane, no major new land deal has materialized yet.
- Conversely, a few of the large residential projects such as Sky City Phase 1, 360-West and Eternia-Enigma are largely complete and have the potential to cumulatively generate INR15b+ of surplus cash annually in the next 4-5 years.
- The above coupled with gradual scale-up in rentals will lead to significant cash accumulation, which can thus accelerate business development activities.
- While OBER continues to pursue the 50-acre land transaction in Gurugram that can potentially be closed in a few months/quarters, we await more clarity on its new project pipeline.

**Valuation and view: Re-rating triggers visible; reiterate BUY**

- We revise our FY23 PAT estimates to incorporate recognition of profit from the completion of transaction with JV partner at 360-West. Our FY24E revenue increases by 5% with line-by-line consolidation of sales from 360-West instead of the JV accounting earlier.
- We see the following re-rating triggers in OBER: a) launch of the Thane project and customer response to the same, b) new project additions, c) healthy traction at 360-West and d) significant scale-up in rentals.
- We believe strong cash generation will provide a lot of comfort to the company to seek for aggressive business development opportunities, which will provide further growth visibility. **We retain our BUY rating on OBER with an SOTP-based TP of INR1,100, implying 28% upside potential.**

**Exhibit 1: Based on our SoTP approach, we arrive at a NAV of INR400b or INR1,100/share, indicating 28% upside potential**

NAV calculation	Rationale	INR b	Per share (INR)	(%)
Residential	❖ DCF of five years' cash flow at WACC of 11.3% and terminal value assuming 5% long-term growth	297	816	74%
Leasing – Offices and Malls	❖ Cap rate of 8.5% for operational assets and DCF for ongoing and planned assets	117	321	29%
Hospitality	❖ FY24E EBITDA at 17.5x EV/EBITDA	9	25	2%
<b>Gross Asset Value</b>		<b>422</b>	<b>1161</b>	<b>105%</b>
Less: Net Debt	❖ FY23 estimate	(22)	(60)	(5%)
<b>Net Asset Value</b>		<b>400</b>	<b>1101</b>	<b>100%</b>
CMP			860	
Up/down (%)			28	

Source: MOFSL, Company

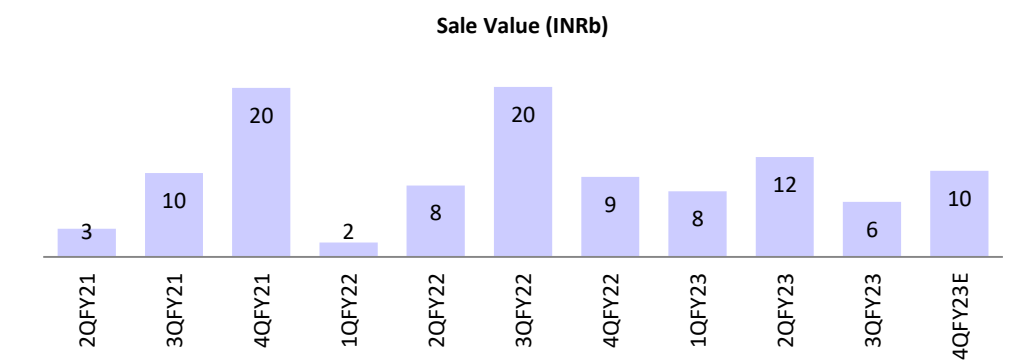
## Story in charts

**Exhibit 2: New project pipeline of 20msf, which includes 15msf development potential at Pokhran Rd, Thane**

Projects	Pending area to be launched	Comment
Sky City	0.8	❖ The last tower at Sky City could be launched in 12-18 months.
Worli	0.0	❖ OBER is still contemplating between residential and commercial projects at this site. Being adjacent to 360-West, the launch will only happen post-FY24.
Elysian	2.1	❖ After a successful launch, the company is planning to launch another tower in 4QFY23.
Pokhran Rd - Thane	15.0	❖ The company is looking to launch the first phase of Thane project in FY24E.
Kolshet Rd - Thane	2.5	❖ This project is scheduled for launch in 1QFY24E.
<b>Total</b>	<b>20</b>	

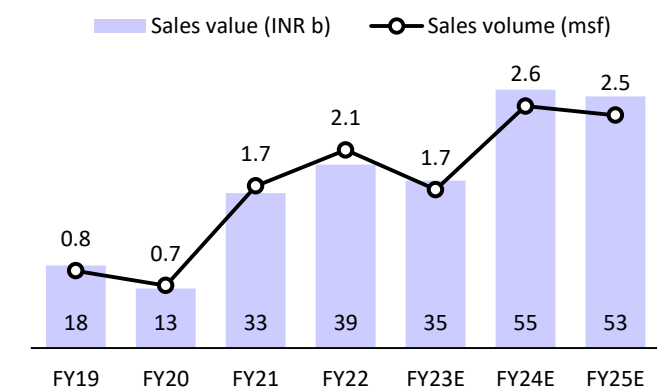
Source: MOFSL, Company

**Exhibit 3: Despite a delay in Thane launch, higher sales at Worli and Goregaon could drive its sales to INR10b in 4QFY23E**



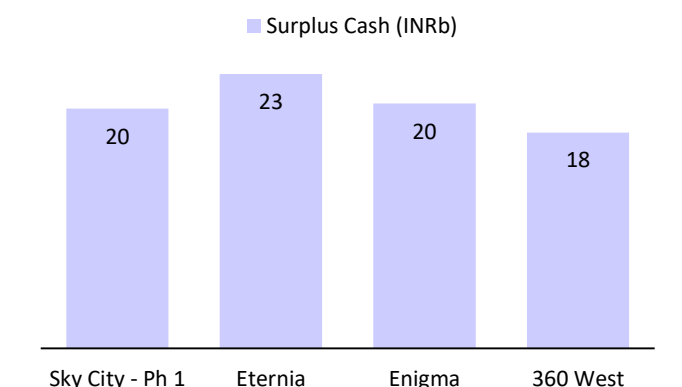
Source: Company, MOFSL

**Exhibit 4: Expect OBER's pre-sales to scale up to INR50b+ post-launch of key projects**

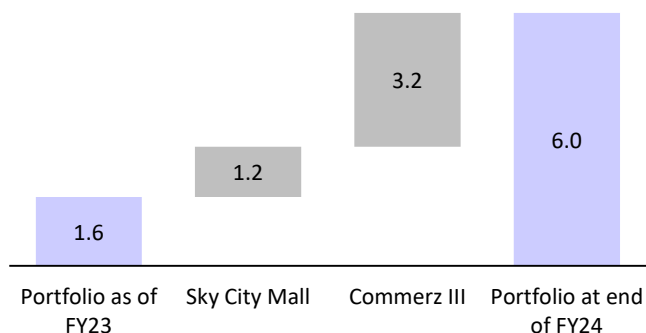


Source: Company, MOFSL

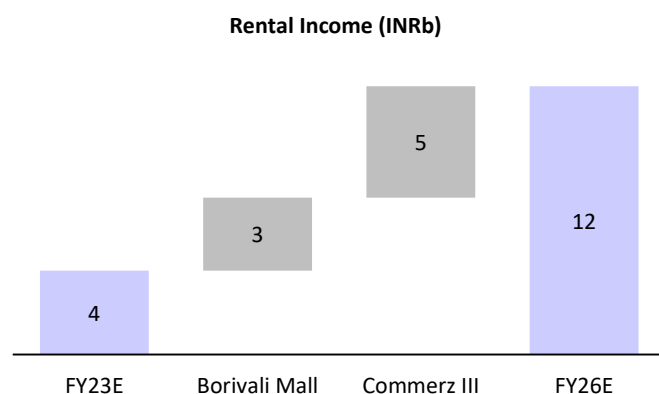
**Exhibit 5: Completed projects can generate INR80b of surplus cash**



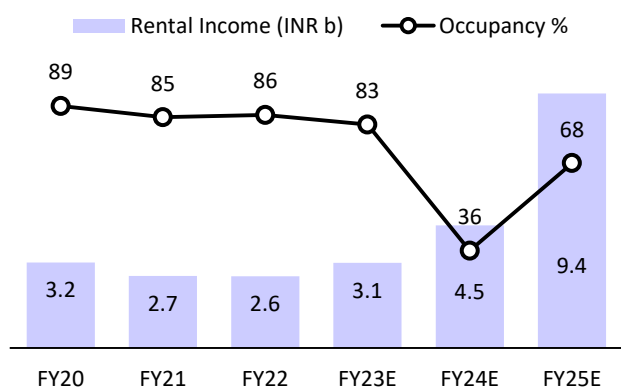
Source: Company, MOFSL

**Exhibit 6: Expect the commercial portfolio to treble to 6msf by FY24-end (msf)....**

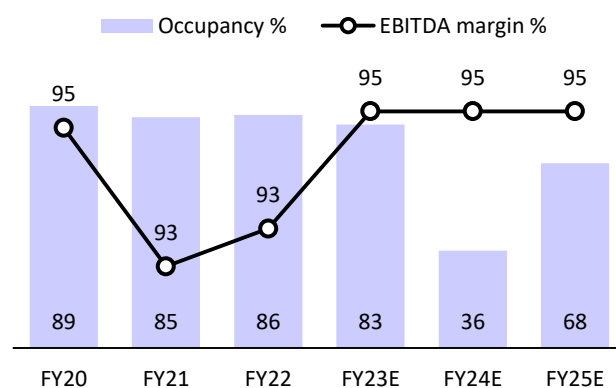
Source: Company, MOFSL

**Exhibit 7: ....and generate INR12b income by FY26**

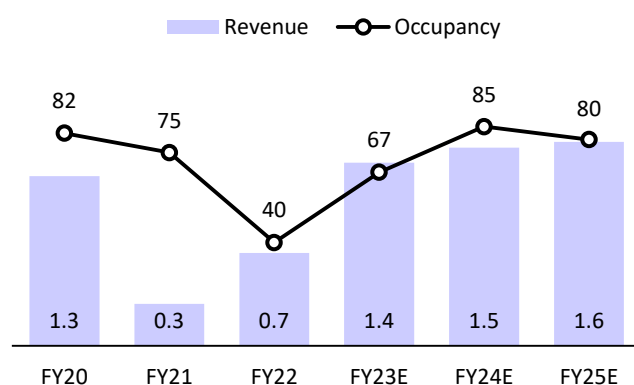
Source: Company, MOFSL

**Exhibit 8: Expect rental income to clock 73% CAGR during FY23-25**

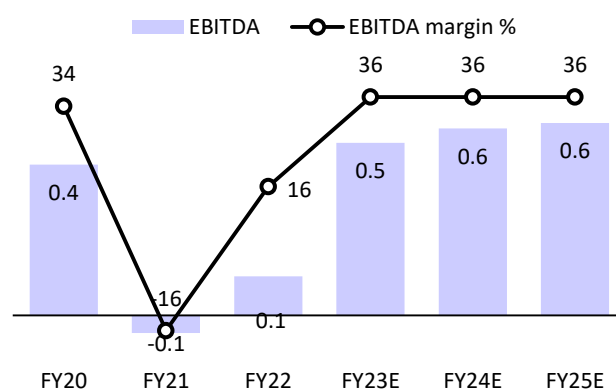
Source: MOFSL, Company

**Exhibit 9: Expect EBITDA margin to sustain over 95%**

Source: MOFSL, Company

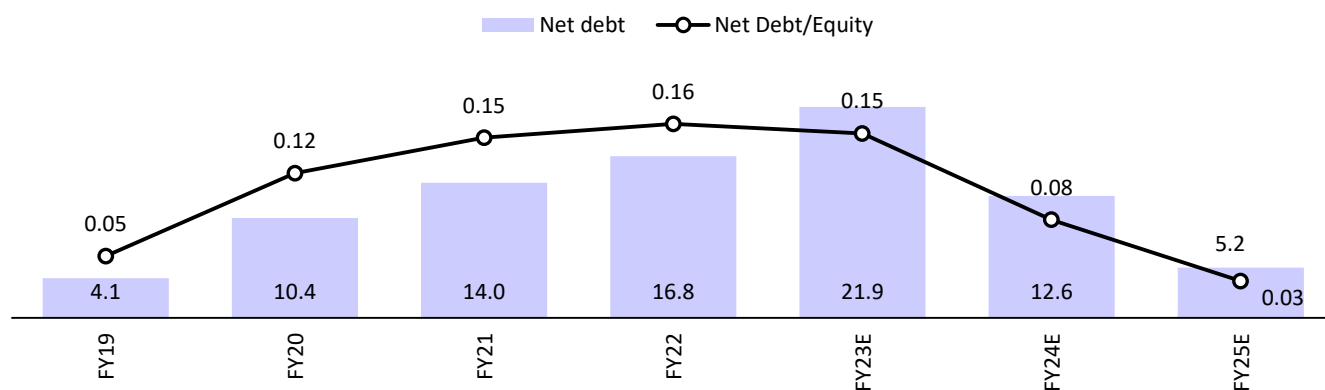
**Exhibit 10: A recovery in occupancy and higher ARR will enable hotel asset to sustain INR1.5b+ revenue**

Source: Company, MOFSL

**Exhibit 11: Expect EBITDA margin to stabilize at 35%+**

Source: Company, MOFSL

**Exhibit 12: Annual post-tax cash flow run-rate of INR15-30b over the next 3-4 years would enable OBER to retain its financial strength and focus on business development**



Source: MOFSL, Company

**Exhibit 13: Changes to our estimates**

(INR m)	Old			New			Change		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	40,503	40,885	50,491	43,199	43,068	49,937	7%	5%	-1%
EBITDA	21,076	18,614	25,546	22,689	18,902	23,766	8%	2%	-7%
Adj. PAT	17,781	14,870	19,929	39,748	12,862	16,318	124%	-14%	-18%
Pre-sales	40,437	59,710	57,562	35,451	54,699	53,250	-12%	-8%	-7%
Collections	38,009	49,286	54,460	32,887	47,143	54,100	-13%	-4%	-1%

Source: MOFSL, Company

## Financials and valuations

Consolidated Income Statement							(INR m)
Y/E March	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
<b>Total Income from Operations</b>	<b>25,825</b>	<b>22,376</b>	<b>20,526</b>	<b>26,940</b>	<b>43,199</b>	<b>43,068</b>	<b>49,937</b>
Change (%)	104.1	-13.4	-8.3	31.2	60.4	-0.3	15.9
<b>Total Expenditure</b>	<b>14,271</b>	<b>11,897</b>	<b>10,522</b>	<b>15,126</b>	<b>20,510</b>	<b>24,166</b>	<b>26,171</b>
As a percentage of Sales	55.3	53.2	51.3	56.1	47.5	56.1	52.4
<b>EBITDA</b>	<b>11,554</b>	<b>10,480</b>	<b>10,004</b>	<b>11,813</b>	<b>22,689</b>	<b>18,902</b>	<b>23,766</b>
Margin (%)	44.7	46.8	48.7	43.9	52.5	43.9	47.6
Depreciation	440	449	412	398	399	1,129	1,859
<b>EBIT</b>	<b>11,113</b>	<b>10,031</b>	<b>9,592</b>	<b>11,416</b>	<b>22,290</b>	<b>17,773</b>	<b>21,907</b>
Int. and Finance Charges	194	885	760	860	1,440	1,328	953
Other Income	856	484	380	585	821	818	949
<b>PBT bef. EO Exp.</b>	<b>11,776</b>	<b>9,630</b>	<b>9,212</b>	<b>11,140</b>	<b>21,671</b>	<b>17,264</b>	<b>21,903</b>
EO Items	0	0	0	0	0	0	0
<b>PBT after EO Exp.</b>	<b>11,776</b>	<b>9,630</b>	<b>9,212</b>	<b>11,140</b>	<b>21,671</b>	<b>17,264</b>	<b>21,903</b>
Total Tax	3,607	2,796	1,851	3,065	5,526	4,402	5,585
Tax Rate (%)	30.6	29.0	20.1	27.5	25.5	25.5	25.5
Minority Interest/Profit from JV	0	59	32	2,396	23,603	0	0
<b>Reported PAT</b>	<b>8,169</b>	<b>6,893</b>	<b>7,393</b>	<b>10,471</b>	<b>39,748</b>	<b>12,862</b>	<b>16,318</b>
<b>Adjusted PAT</b>	<b>8,169</b>	<b>6,893</b>	<b>7,393</b>	<b>10,471</b>	<b>39,748</b>	<b>12,862</b>	<b>16,318</b>
Change (%)	78.1	-15.6	7.2	41.6	279.6	-67.6	26.9
Margin (%)	31.6	30.8	36.0	38.9	92.0	29.9	32.7

Consolidated Balance Sheet							(INR m)
Y/E March	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Equity Share Capital	3,636	3,636	3,636	3,636	3,636	3,636	3,636
Total Reserves	76,656	82,659	90,055	1,00,525	1,39,546	1,51,680	1,67,271
<b>Net Worth</b>	<b>80,292</b>	<b>86,295</b>	<b>93,691</b>	<b>1,04,161</b>	<b>1,43,182</b>	<b>1,55,316</b>	<b>1,70,907</b>
Minority Interest	0	0	0	0	0	0	0
Total Loans	8,361	11,439	15,338	28,555	29,055	24,055	14,055
Deferred Tax Liabilities	260	284	348	247	247	247	247
<b>Capital Employed</b>	<b>88,912</b>	<b>98,018</b>	<b>1,09,378</b>	<b>1,32,964</b>	<b>1,72,484</b>	<b>1,79,618</b>	<b>1,85,209</b>
Gross Block	12,526	12,824	12,907	12,965	12,965	60,465	60,465
Less: Accum. Deprn.	1,910	2,359	2,771	3,169	3,568	4,697	6,556
<b>Net Fixed Assets</b>	<b>10,616</b>	<b>10,465</b>	<b>10,136</b>	<b>9,796</b>	<b>9,398</b>	<b>55,769</b>	<b>53,909</b>
Goodwill on Consolidation	0	0	0	0	0	0	0
Capital WIP	1,261	3,055	19,799	32,975	46,191	9,829	18,822
<b>Total Investments</b>	<b>29,378</b>	<b>24,062</b>	<b>16,196</b>	<b>26,794</b>	<b>20,397</b>	<b>20,397</b>	<b>20,397</b>
<b>Curr. Assets, Loans, and Adv.</b>	<b>69,983</b>	<b>74,632</b>	<b>74,405</b>	<b>87,340</b>	<b>1,17,398</b>	<b>1,16,008</b>	<b>1,09,916</b>
Inventory	41,655	53,173	46,626	50,361	93,656	90,105	86,232
Account Receivables	1,094	1,153	1,280	1,246	1,184	1,180	1,368
Cash and Bank Balance	4,253	1,083	1,331	2,932	4,159	6,421	3,858
Loans and Advances	22,981	19,223	25,168	32,802	18,399	18,301	18,459
<b>Curr. Liability and Prov.</b>	<b>22,325</b>	<b>14,196</b>	<b>11,158</b>	<b>23,942</b>	<b>20,900</b>	<b>22,383</b>	<b>17,836</b>
Account Payables	2,323	859	938	4,247	1,405	1,655	1,793
Other Current Liabilities	19,974	13,294	10,194	19,108	19,440	20,673	15,980
Provisions	28	43	26	587	55	55	64
<b>Net Current Assets</b>	<b>47,658</b>	<b>60,436</b>	<b>63,247</b>	<b>63,398</b>	<b>96,498</b>	<b>93,624</b>	<b>92,080</b>
<b>Appl. of Funds</b>	<b>88,912</b>	<b>98,018</b>	<b>1,09,378</b>	<b>1,32,964</b>	<b>1,72,485</b>	<b>1,79,619</b>	<b>1,85,209</b>

## Financials and valuations

### Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
<b>Basic (INR)</b>							
<b>EPS</b>	<b>22.5</b>	<b>19.0</b>	<b>20.3</b>	<b>28.8</b>	<b>109.3</b>	<b>35.4</b>	<b>44.9</b>
Cash EPS	23.7	20.2	21.5	29.9	110.4	38.5	50.0
BV/Share	220.8	237.3	257.7	286.5	393.8	427.2	470.0
DPS	2.3	2.3	0.0	3.0	2.0	2.0	2.0
Payout (%)	10.0	14.3	0.0	10.4	1.8	5.7	4.5
<b>Valuation (x)</b>							
P/E	38.5	45.7	42.6	30.1	7.9	24.5	19.3
Cash P/E	36.6	42.9	40.3	29.0	7.8	22.5	17.3
P/BV	3.9	3.6	3.4	3.0	2.2	2.0	1.8
EV/Sales	12.4	14.5	16.0	12.6	7.9	7.7	6.5
EV/EBITDA	27.6	31.0	32.9	28.8	15.0	17.6	13.7
Dividend Yield (%)	0.3	0.3	0.0	0.3	0.2	0.2	0.2
FCF per share	-0.7	-14.0	-17.1	-7.0	-73.2	26.7	26.8
<b>Return Ratios (%)</b>							
RoE	11.6	8.3	8.2	10.6	32.1	8.6	10.0
RoCE	10.0	8.0	7.7	7.2	11.3	7.9	9.3
RoIC	14.8	11.5	10.8	11.6	19.3	10.8	11.4
<b>Working Capital Ratios</b>							
Fixed Asset Turnover (x)	2.1	1.7	1.6	2.1	3.3	0.7	0.8
Asset Turnover (x)	0.3	0.2	0.2	0.2	0.3	0.2	0.3
<b>Leverage Ratio (x)</b>							
Net Debt/Equity	0.1	0.1	0.1	0.2	0.2	0.1	0.1

### Consolidated Cash Flow Statement

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
OP/(Loss) before Tax	11,776	9,689	9,244	13,536	45,274	17,264	21,903
Depreciation	440	449	412	398	399	1,129	1,859
Interest and Finance Charges	-251	885	760	860	1,440	1,328	953
Direct Taxes Paid	-3,243	-2,221	-2,031	-2,911	-5,526	-4,402	-5,585
(Inc.)/Dec. in WC	-6,997	-11,205	-998	1,765	-31,873	5,136	-1,020
<b>CF from Operations</b>	<b>1,725</b>	<b>-2,404</b>	<b>7,387</b>	<b>13,648</b>	<b>9,714</b>	<b>20,454</b>	<b>18,110</b>
Others	-269	-416	-362	-2,961	-24,424	-818	-949
<b>CF from Operations incl. EO</b>	<b>1,456</b>	<b>-2,820</b>	<b>7,025</b>	<b>10,687</b>	<b>-14,710</b>	<b>19,636</b>	<b>17,161</b>
(Inc.)/Dec. in FA	-1,707	-2,261	-13,241	-13,241	-11,920	-9,942	-7,424
<b>Free Cash Flow</b>	<b>-251</b>	<b>-5,081</b>	<b>-6,216</b>	<b>-2,554</b>	<b>-26,630</b>	<b>9,694</b>	<b>9,738</b>
(Pur.)/Sale of Investments	0	5,863	39	171	30,000	0	0
Others	-5,053	-857	6,687	-7,438	821	818	949
<b>CF from Investments</b>	<b>-6,760</b>	<b>2,745</b>	<b>-6,515</b>	<b>-20,509</b>	<b>18,901</b>	<b>-9,124</b>	<b>-6,475</b>
Issue of Shares	11,827	0	0	0	0	0	0
Inc./(Dec.) in Debt	-1,103	-508	317	13,250	500	-5,000	-10,000
Interest Paid	-1,516	-1,711	-1,480	-1,628	-2,736	-2,523	-2,523
Dividend Paid	-819	-877	0	0	-727	-727	-727
Others	0	0	-1	-199	0	0	0
<b>CF from Fin. Activity</b>	<b>8,389</b>	<b>-3,095</b>	<b>-1,164</b>	<b>11,422</b>	<b>-2,964</b>	<b>-8,250</b>	<b>-13,250</b>
<b>Inc./Dec. in Cash</b>	<b>3,085</b>	<b>-3,169</b>	<b>-654</b>	<b>1,601</b>	<b>1,227</b>	<b>2,262</b>	<b>-2,564</b>
Opening Balance	1,167	4,253	1,985	1,331	2,932	4,159	6,421
<b>Closing Balance</b>	<b>4,253</b>	<b>1,083</b>	<b>1,331</b>	<b>2,932</b>	<b>4,159</b>	<b>6,421</b>	<b>3,858</b>

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

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