



Real Estate	Sharekhan code: OBEROIRLT	New Idea
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3R MATRIX

	+	=	-
Right Sector (RS)	✓	■	■
Right Quality (RQ)	✓	■	■
Right Valuation (RV)	✓	■	■
+ Positive = Neutral - Negative			

Reco/View

View: **Positive**

CMP: **Rs. 761**

Upside potential: **23-25%**

Company details

Market cap:	Rs. 27676 cr
52-week high/low:	Rs. 803/365
NSE volume: (No of shares)	6.3 lakh
BSE code:	533273
NSE code:	OBEROIRLT
Free float: (No of shares)	35.3 cr

Shareholding (%)

Promoters	68
FII	23
Institutions	6
Public & others	3

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	6.0	16.5	38.4	106.1
Relative to Sensex	-0.9	4.9	24.1	54.5

Sharekhan Research, Bloomberg

Summary

- ♦ We initiate viewpoint coverage on Oberoi Realty with a Positive view and expect a 23-25% upside given near-term and long-term growth levers for its residential and rental portfolio.
- ♦ Completed & ongoing residential project inventory is worth ~Rs. 17,000 crore, or 8x FY2021 revenues, which along with new launches would drive a 14% CAGR in sales booking over FY2022E-FY2024E.
- ♦ The rental portfolio is slated to rise by more than three times over FY2021-FY2024 with a mall, two offices and a hotel getting operational by FY2023 end.
- ♦ A debt-free balance sheet, venture into redevelopment projects and monetisable rental portfolio provide value creation avenues.

The Indian housing market is set to grow robustly led by increasing affordability, under-penetrated mortgage market, decadal low interest rates, negative real interest rate, favourable government and RBI policies along with frequent stimulus measures by state governments. Oberoi Limited (GPL), with its dominant presence in MMR (comprising ~30% of sales of top 7 cities in Q1FY2022) having ~Rs. 17,000 crore (8x FY2021 revenues) of inventory in completed/ongoing projects is expected to see 14% sale booking CAGR over FY2022E-FY2024E. Additionally, rental income is slated to rise three-fold over FY2021-FY2024.

- ♦ **High stock & new launches to drive sales booking:** Oberoi's 6.78 msf inventory of completed & ongoing residential projects as of Q1FY2022 is worth ~Rs. 17,000 crore providing a strong opportunity to cash in the lucrative Mumbai Metropolitan Region (MMR) market. Recently launched projects are gaining traction along with new launches in Goregaon, Borivali and Thane around Diwali is likely to drive its residential sales booking at 14% CAGR over FY2022E-FY2024E.
- ♦ **Rental income to rise three fold over FY2021-FY2024:** Oberoi's rental income of Rs. 355 crore (17% of FY2021 revenues) is likely to rise by 3.4x to Rs. 1221 crore in FY2024 with a retail, two offices and one hotel getting operational by FY2023-end.
- ♦ **Unlevered balance sheet & monetisable portfolio:** Oberoi is among the least geared real estate player with a net debt/equity at just 0.15x in FY2021 which can be levered in grabbing lucrative land deals either in MMR or in other geographies. Further, as its rental income portfolio stabilises and achieves scale, it could unlock value through the REIT route.

Our Call

Valuation – Initiate Viewpoint Coverage with a Positive view with 23-25% upside potential: A strong franchise, high residential inventory, increasing rental portfolio, unlevered balance sheet and strong housing market tailwinds provide high growth opportunity. It is currently trading at a P/B of 2.5x/2.2x on FY2023/FY2024 earnings and premium to NAV valuation. However, we see significant value unlocking emerging from planned projects and its rental portfolio over the next two years. Hence, we initiate viewpoint coverage on the stock with a potential upside of 23-25%.

Key Risks

Slowdown in real estate demand especially in MMR region is a key risk to our call. Unfavourable macro indicators like rise in interest rates can dampen demand.

Valuation (Consolidated)

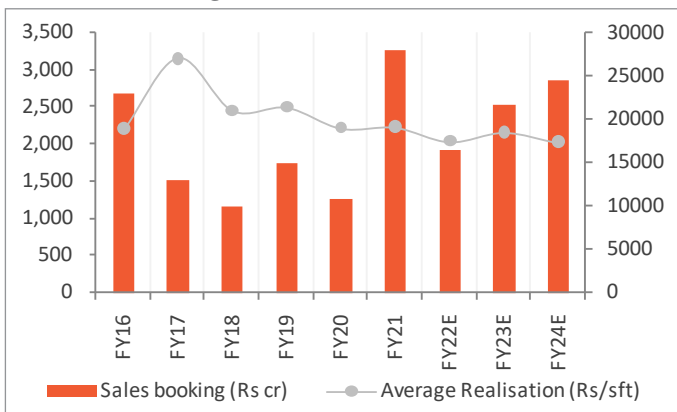
Particulars	Rs cr				
	FY20	FY21	FY22E	FY23E	FY24E
Revenue	2,238	2,053	1,905	2,876	3,684
OPM (%)	46.8	48.7	52.0	46.8	56.2
Adjusted PAT	689	739	627	868	1363
% YoY growth	-15.6	7.2	-15.2	38.5	57.0
Adjusted EPS (Rs.)	19.0	20.3	17.2	23.9	37.5
P/E (x)	40.1	37.4	44.2	31.9	20.3
P/B (x)	3.1	2.8	2.7	2.5	2.2
EV/EBITDA (x)	27.5	28.8	29.1	21.4	13.9
RoNW (%)	8.3	8.2	6.5	8.4	12.0
RoCE (%)	7.8	7.7	6.1	7.7	11.0

Source: Company; Sharekhan estimates

Expect 14% residential sales booking over FY2022E-FY2024E

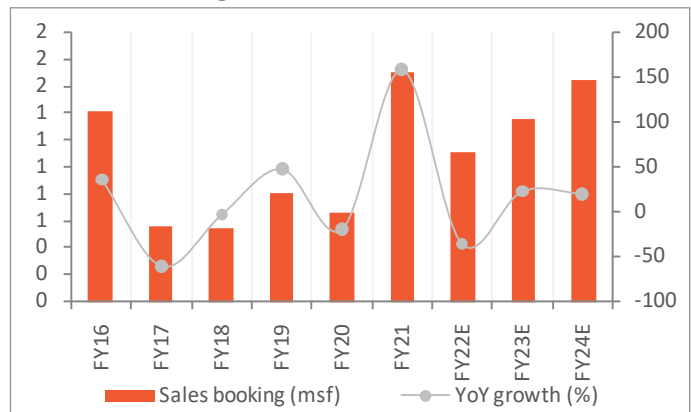
Oberoi Realty has achieved sales booking area and value CAGR of 32% and 21% over FY2017-FY2021 to Rs. 3,279 crore and 1.72 million square feet (msf) despite the sector getting hit by COVID- led lockdowns/restrictions since March 2020. The company will be launching one tower each in Goregaon, Borivali and Thane projects this Diwali. The company's ongoing projects Elysian, Goregaon (1.18msf, 0.54msf booked) launched in Q4FY2021 is expected to gain traction in sales, being the only new supply in the Goregaon area. Its Eternia, Mulund (2.16msf, 0.78msf booked) has started to see pick up in sales and is expected to gather pace going ahead. The company's Three Sixty West project in Worli, Mumbai (2.28msf, 0.66msf booked) is expected to receive an occupation certificate in a month's time post which the sales is expected to gather pace. Overall, we expect company's sales booking to clock a 14% CAGR over FY2022E-FY2024E aided by existing projects and new launches.

Residential booking value/Realisation trend



Source: Company, Sharekhan Research

Residential booking area trend



Source: Company, Sharekhan Research

Sales potential of almost Rs. 17,000 crore in completed/ongoing projects

Oberoi Realty has 6.78msf of inventory in its completed and ongoing residential projects as of Q1FY2022. We estimate the value of unsold inventory to be ~Rs. 17,000 crore considering an average realisation per square feet during Q1FY2022. The unsold inventory translates to 8x its FY2021 revenues providing the company a strong growth opportunity to cash in the rising demand in the residential segment in MMR.

Inventory value in ongoing projects

Project	Area (sq ft)	Value (Rs cr)	Completion
Exquisite	30809	69	100%
Esquire	197919	452	100%
Elysian	638161	1151	#
Prisma	6371	14	100%
Maxima	300657	493	53%
Eternia	1382850	2232	67%
Enigma	1319492	2113	64%
Sky city	1280054	2220	@
Three Sixty West	1621812	8204	
Total	6778125	16949	

Source: Company, Sharekhan Research, # -yet to reach threshold yet to reach threshold @ Project completion for Sky City Tower A-D -81%, Tower E 56%, and for Tower F -yet to reach threshold yet

Rental income to rise more than three fold over FY2021-FY2024

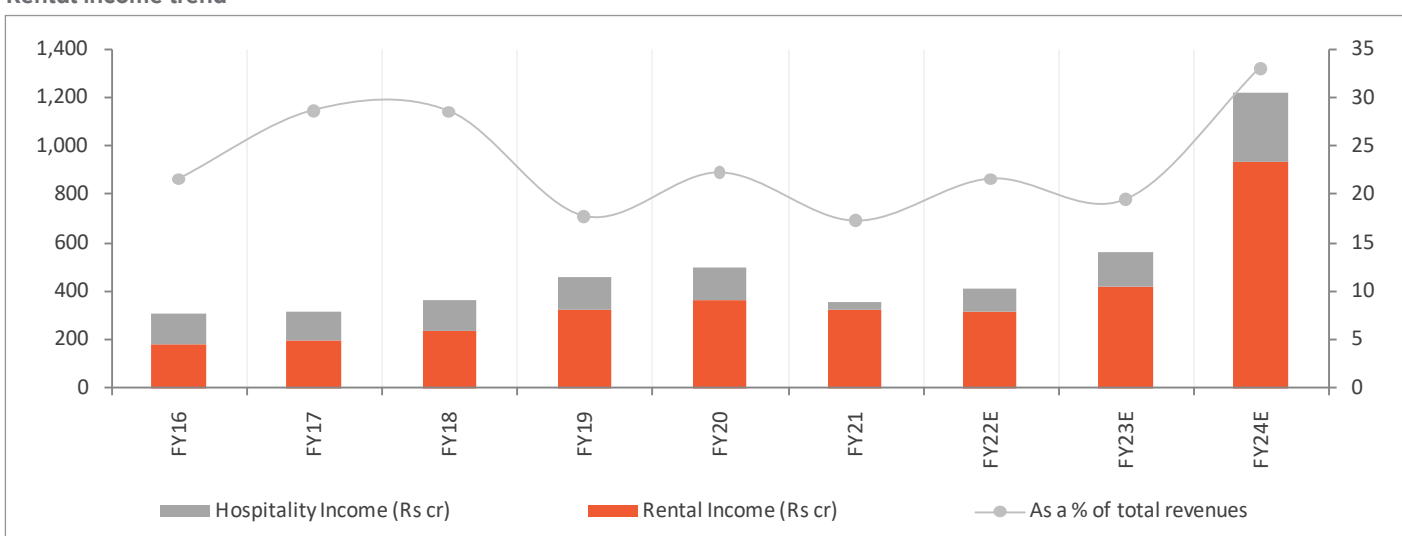
Oberoi Realty has four operational assets - retail (Oberoi Mall), Office (Commerz I & II) and Hotel (Westin Mumbai Garden city) which are housed at Oberoi Garden City, Goregaon. Rental assets including hospitality generated Rs. 355 crore revenue during FY2021 comprising 17% of total revenues. The company's Westin Mumbai Garden city hotel is bearing the brunt of the pandemic which has led to 32% and 39% occupancy levels which is likely to gradually pick up as COVID-led restrictions on travel become normal. Oberoi is constructing retail (Borivali Mall), office (Commerz-III, Borivali Commercial) and hotels (Ritz Carlton, Borivali hotel) which is expected to be operational by FY2023 and start contributing to revenues. The increase in occupancy rates at existing office assets along with new projects getting operational would increase its rental income by 3.4x to Rs. 1221 crore in FY2024.

Rental income key projects portfolio

Particulars	Gross leasable area (msf)	Area leased (msf)	Occupancy (%)	FY21 Revenue (Rs cr)	Revenue as a % of sales	FY21 EBITDA (Rs cr)	EBITDA margin (%)
Retail							
Oberoi Mall	0.55	0.52	93.88%	117	5.7	107	92.0
Office							
Commerz	0.32	0.12	38.58%	23	1.1	19	84.7
Commerz II	0.78	0.77	98.04%	129	6.3	121	94.0
Hotel							
The Westin Mumbai Garden city	0.38		32.21%	33	1.6	-5.2	-15.8
Total	2.03			300	14.6	242	80.6

Source: Company, Sharekhan Research

Rental income trend

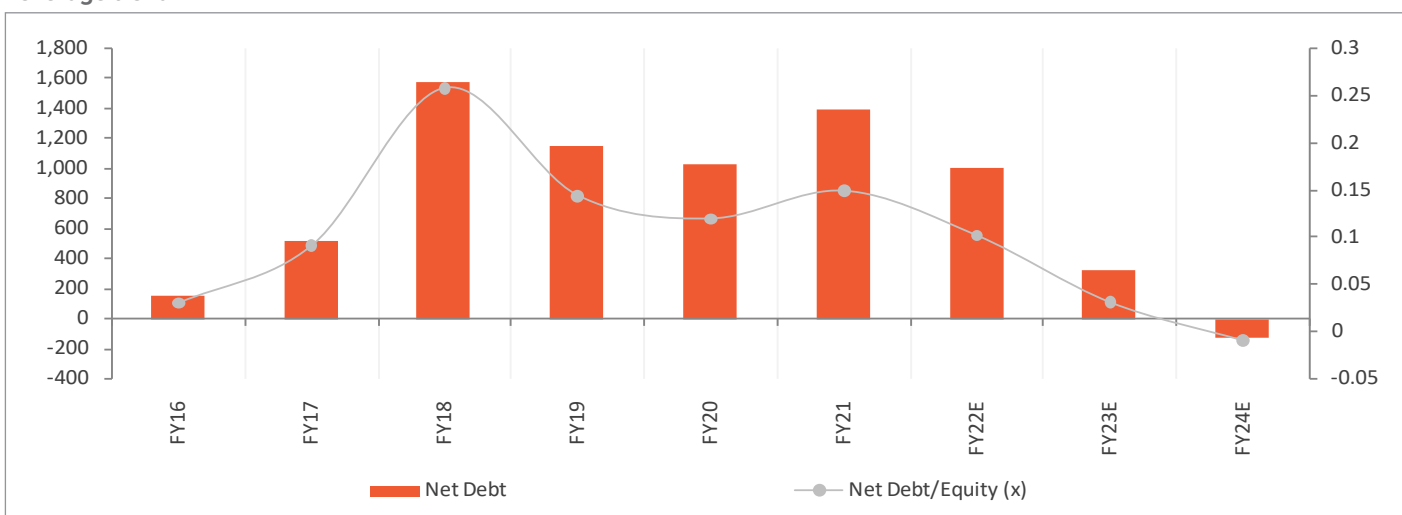


Source: Company, Sharekhan Research

Unlevered balance sheet – one of the best in the industry

Oberoi Realty has flexibly acquired land over the years maintaining an optimal capital structure with prudent use of leverage. The company's peak net debt stood at almost Rs. 1,600 crore during FY2018 translating to 0.26x net debt/equity. Its net debt/equity stood at just 0.15x in FY2021, which is one of the best in the industry. We expect net debt/equity to decline further as it generates strong operating cash flows from sale of residential properties.

Leverage trend



Source: Company, Sharekhan Research

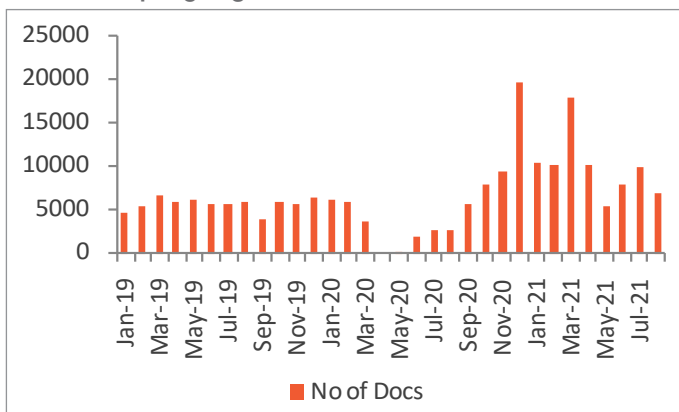
Redevelopment business to provide another leg of growth

Oberoi is aggressively pursuing the redevelopment business, which could be through joint developments and redevelopment of large societies. The company has formed a separate team which would be chasing redevelopment project opportunities. It will be having a project director for the redevelopment portfolio which would comprise anywhere between 10-15 such projects. The company is looking at redevelopment projects of a potential revenue size of Rs. 500-700 crore.

Sales momentum healthy with declining inventory in MMR

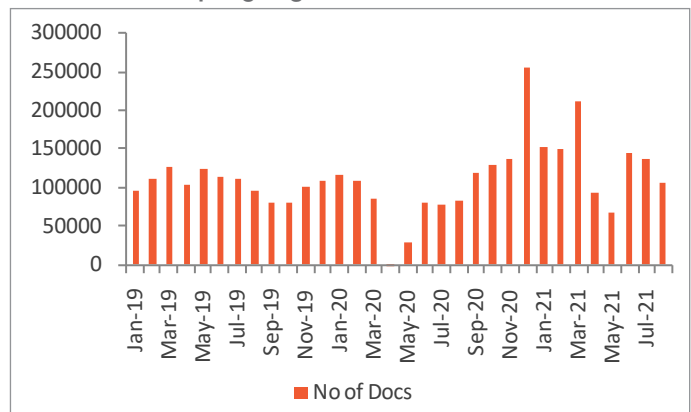
Property registrations in Mumbai and Maharashtra post Q1FY2022 shows encouraging trends, especially seen in the wake of the period after the state government's approval of registering property purchased till March 2021 till July 2021. The number of sales documents registered in Mumbai in August stood at 6,784, up 2.6x y-o-y and up 15.5% compared to August 2019 and down 30.9% m-o-m. The m-o-m decline can be attributed to the high base of July 2021, which had a major sales push, led by stamp duty reduction till March 2021. The number of documents registered in Maharashtra in August were up 28.5% y-o-y, up 9.3% as compared to August 2019 and lower by 22.6% m-o-m. The available inventory in MMR region marginally decreased by nearly 500 units during Q2 2021 compared to Q1 2021 and stood at 196,510 units. The decline was steep compared to a year ago, at 6%. The city has an inventory overhang of 43 months as of Q2 2021; 4 months lower compared to Q1 2021 and Q2 2020.

Mumbai Property Registration Trend



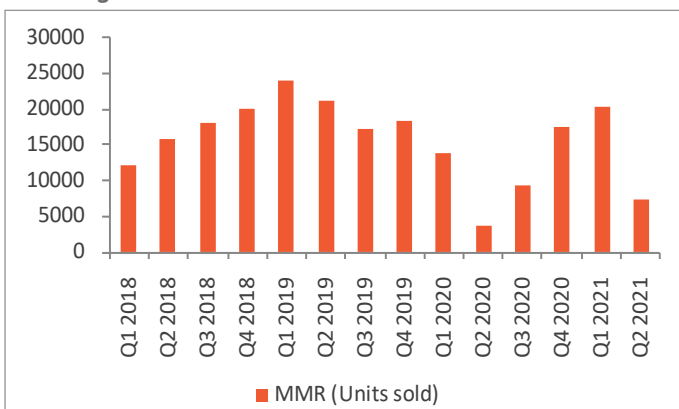
Source: Industry, Sharekhan Research

Maharashtra Property Registration Trend



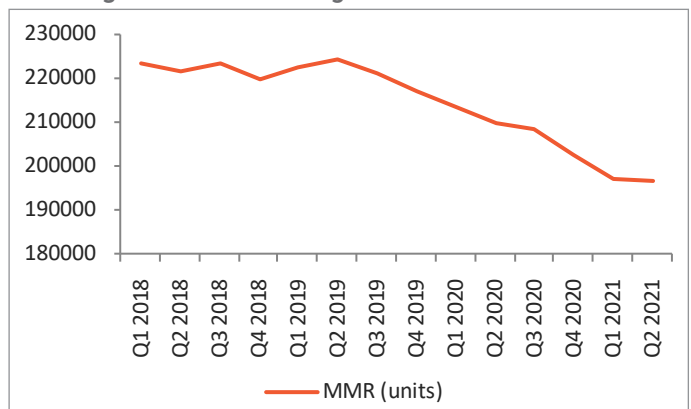
Source: Industry, Sharekhan Research

MMR Region Sales Trend



Source: Anarock, Sharekhan Research

MMR Region Unsold Inventory Trend



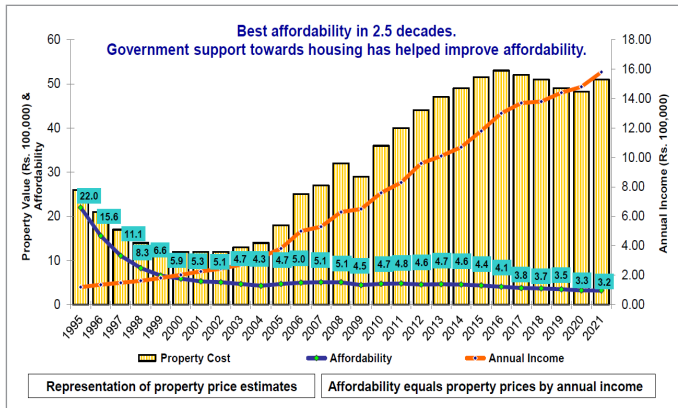
Source: Anarock, Sharekhan Research

Structural industry tailwinds for sustainable growth

As per HDFC, India's affordability is at its best over the last 25 years aided by government's support. The improvement in income levels, lower interest rates, fiscal incentives, etc. has improved affordability of residential housing to an all-time high. India is among the lowest penetrated mortgage markets with a rate of 11% of normal GDP versus other major countries globally. Indian home loan rates are near decadal lows, driven by ample liquidity and fall in yields. The spread between EMIs and rentals have reduced on account

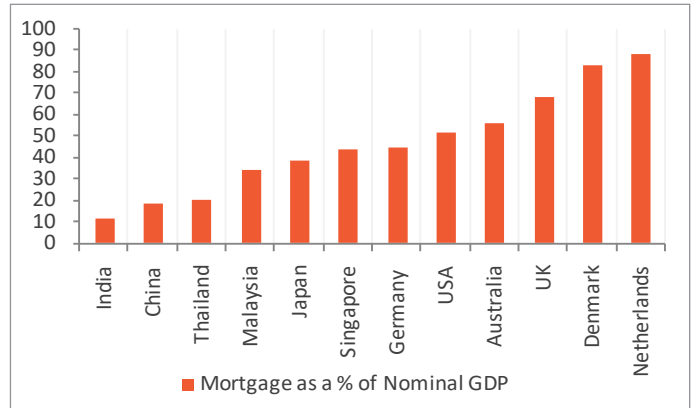
of falling interest rates and stable rentals, which is likely to incentivise people staying on rent to own house. Negative real rates as compared to CPI inflation as seen in India provide borrowers an ideal environment to invest in realty. The outstanding home loan for top four lenders saw a sharp rebound in Q2FY2021 q-o-q coming out of the first wave of COVID which had an adverse impact in Q1FY2021. The second COVID-19 wave impacted Q1FY2022 but is likely to be temporary as the domestic economy eases restrictions with outstanding home loans likely to see q-o-q rise from Q2FY2022 onwards.

Housing Affordability Trend



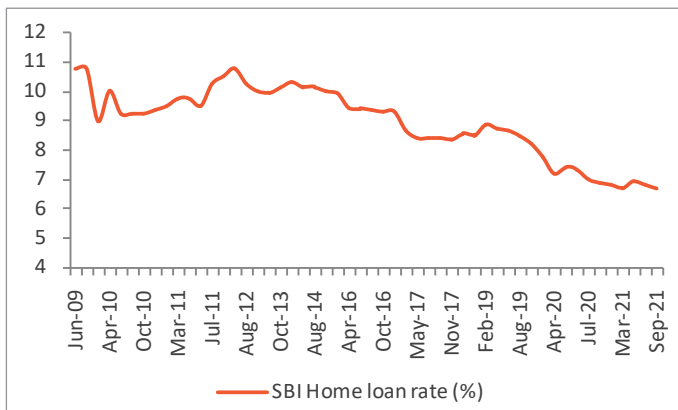
Source: HDFC, Sharekhan Research

Mortgage market comparison



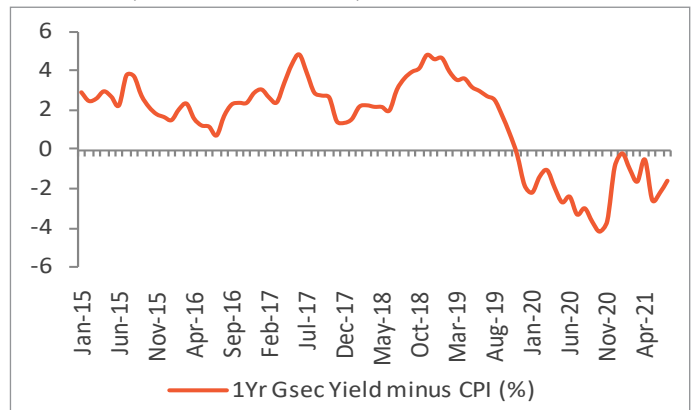
Source: HDFC, Sharekhan Research

SBI Home loan rate Trend



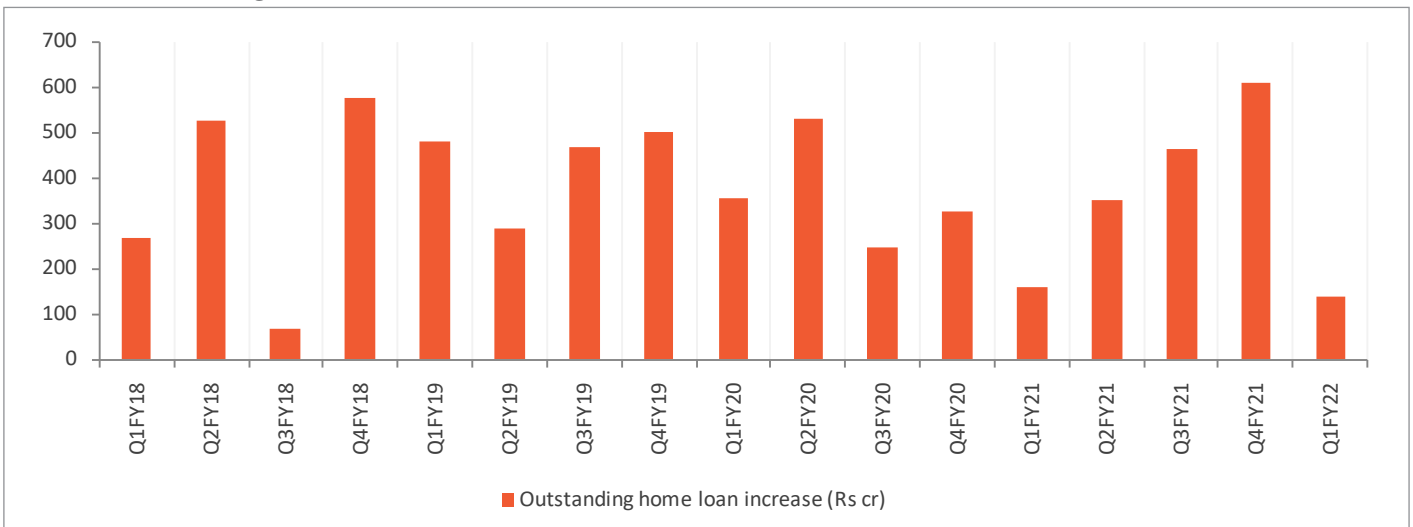
Source: SBI, Sharekhan Research

Real rates (1 Yr-GSec minus CPI)



Source: Govt Data, Sharekhan Research

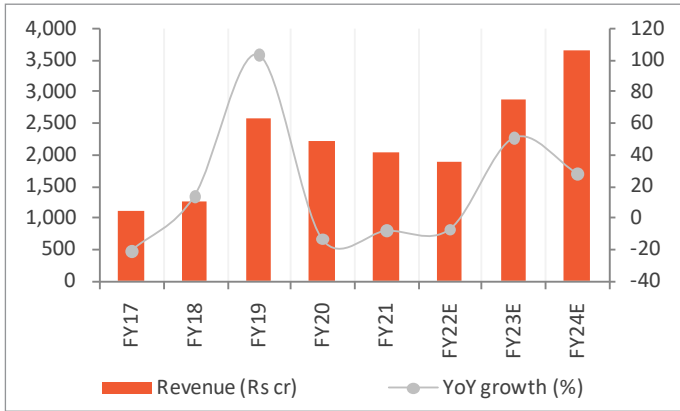
Increase in Outstanding Home loans QoQ



Source: HDFC, SBI, ICICI Bank, Axis Bank, Sharekhan Research

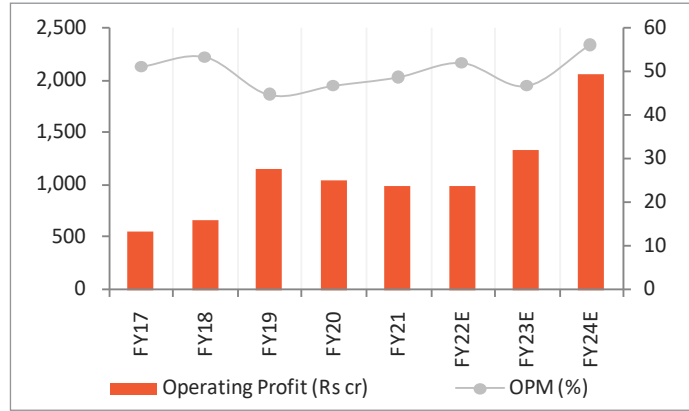
Financials in charts

Revenue Trend



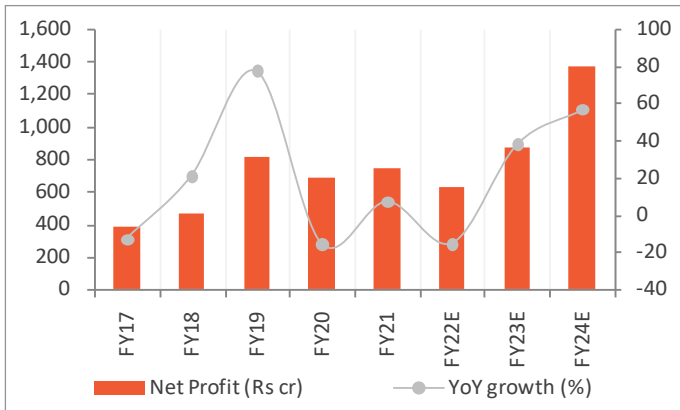
Source: Company, Sharekhan Research

Operating Profit/OPM Trend



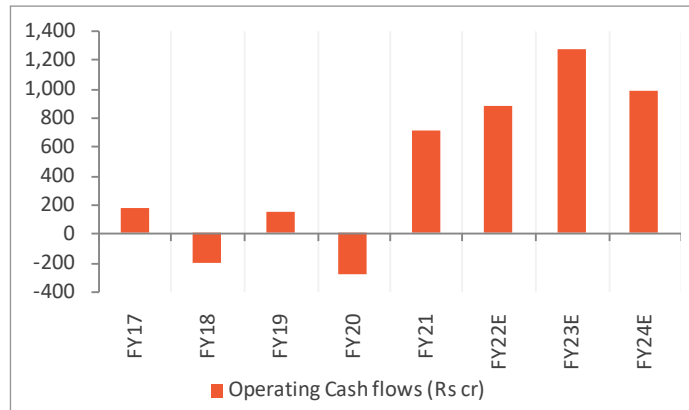
Source: Company, Sharekhan Research

Net Profit Trend



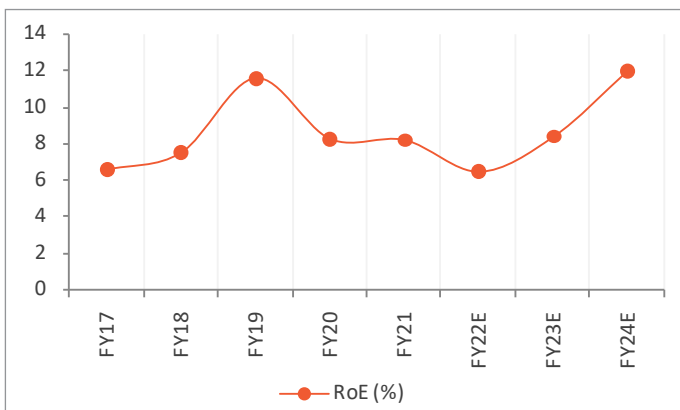
Source: Company, Sharekhan Research

Operating Cash Flows Trend



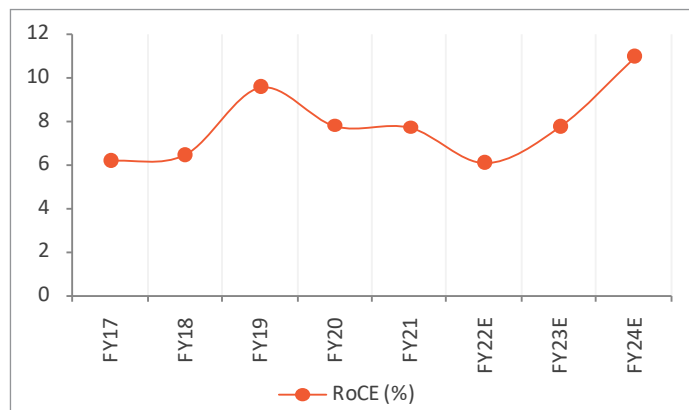
Source: Company, Sharekhan Research

RoE Trend



Source: Company, Sharekhan Research

RoCE Trend



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Residential market on a growth trajectory

The real estate sector, especially the residential realty segment, is expected to be in limelight going ahead, as it benefits from the central and state government's favourable policies pertaining to the affordable housing segment. Rising income levels and affordability levels are expected to drive sales for quality organised developers. Further, organised players are expected to benefit from ample inorganic opportunities in the sector, which is leading to consolidation in the sector. The sector is also expected to benefit from low interest rates, which provide twin benefits in driving demand and reduced funding cost. Overall, we are positive on the residential segment of the real estate market for the reasons mentioned above..

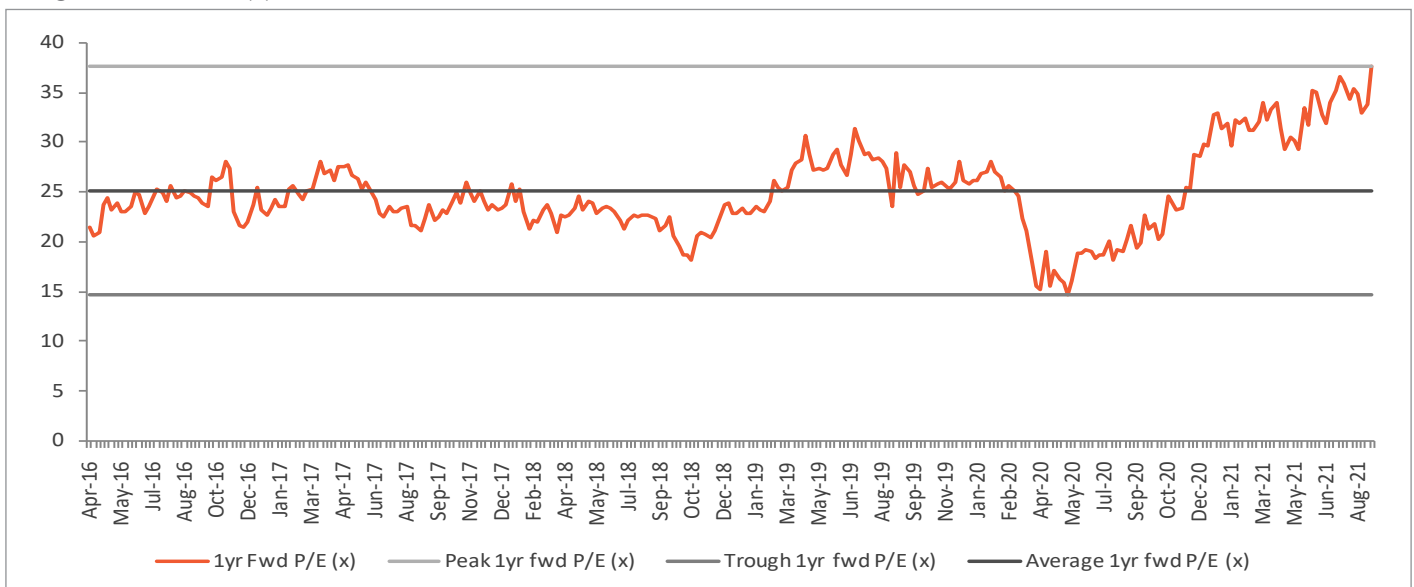
■ Company outlook - Strong growth tailwinds for near and long term

Oberoi Realty has unsold inventory in completed and ongoing residential projects of ~Rs. 17,000 crore which translates to 8x its FY2021 revenues providing the company a strong growth opportunity to cash in the rising demand in the residential segment in MMR. Oberoi is constructing retail (Borivali Mall), office (Commerz III, Borivali commercial) and hotels (Ritz Carlton, Borivali Hotel), which is expected to be operational by FY2023 and start contributing to revenues. The increase in occupancy rates at existing office assets along with new projects getting operational would increase its rental income by more than three times in FY2024. Unleveraged balance sheet, redevelopment project venture and monetisable annuity portfolio provide value creation avenues for future.

■ Valuation - Initiate with a Positive view and upside potential of 23-25%

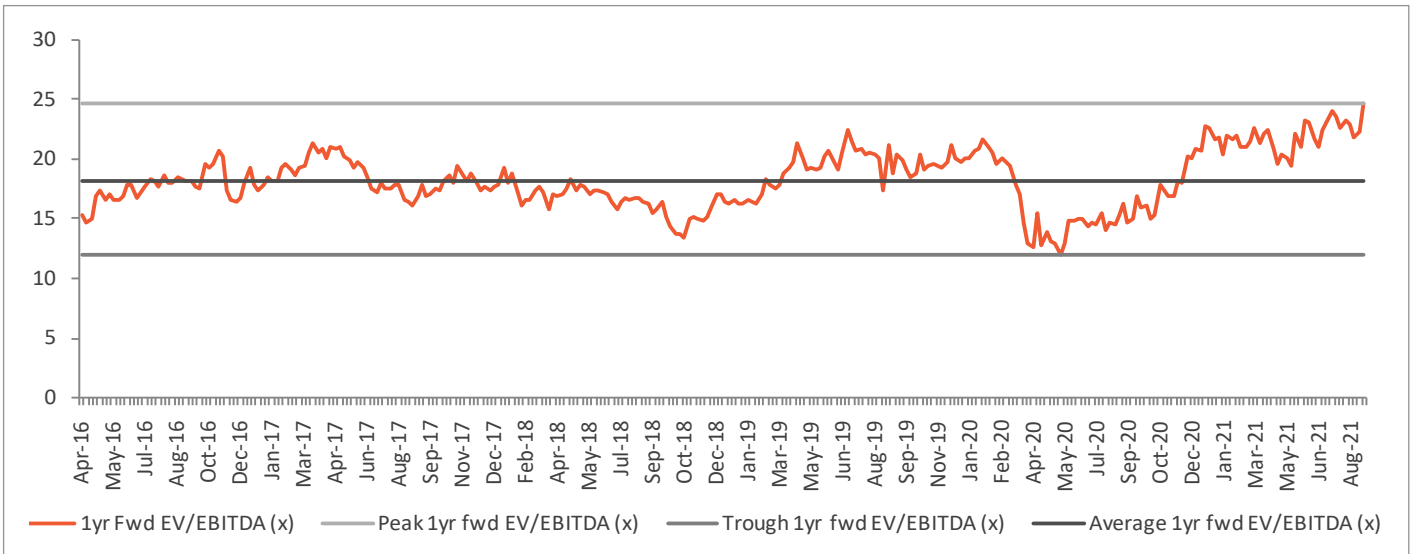
A strong franchise, high residential inventory, increasing rental portfolio, unleveraged balance sheet and strong housing market tailwinds provide high growth opportunity. It is currently trading at a P/B of 2.5x/2.2x on FY2023/FY2024 earnings and premium to NAV valuation. However, we see significant value unlocking emerging from planned projects and its rental portfolio over the next two years. Hence, we initiate viewpoint coverage on the stock with a potential upside of 23-25%.

One-year forward P/E (x) band



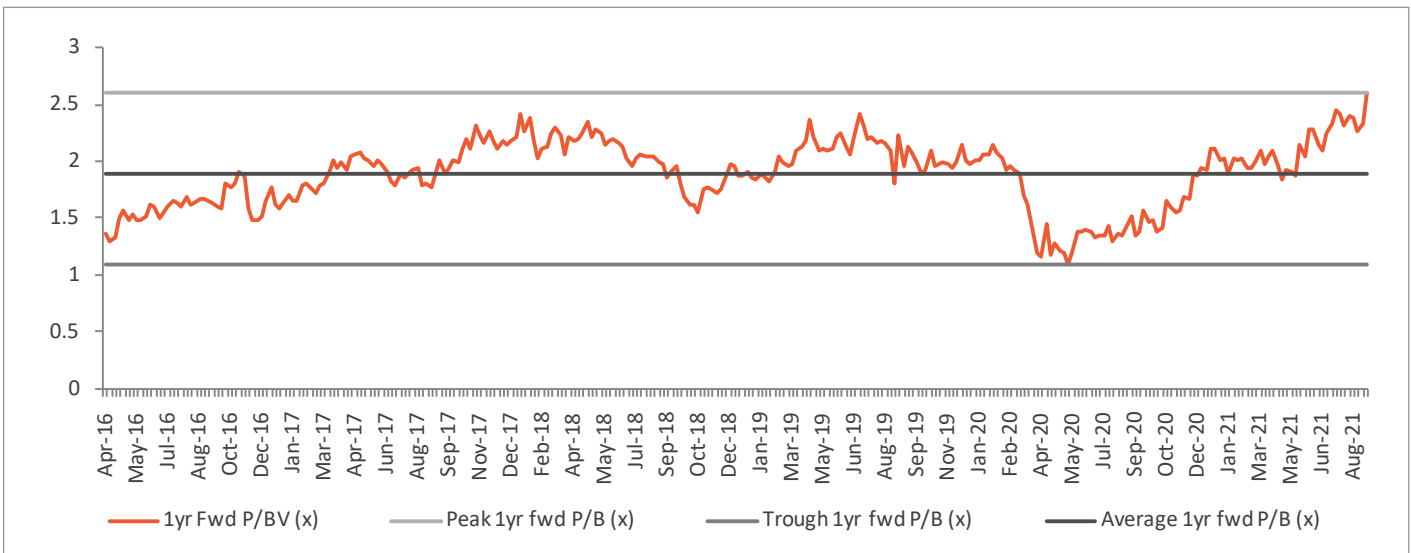
Source: Sharekhan Research

One-year forward EV/EBITDA (x) band



Source: Company Data; Sharekhan Research

One-year forward P/B (x) band



Source: Company Data; Sharekhan Research

Peer valuation

Particulars	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Oberoi Realty	44.2	31.9	29.1	21.4	2.7	2.5	6.5	8.4
Godrej Properties	104.4	55.4	378.6	133.7	5.0	4.6	5.0	8.7
DLF	43.0	38.0	42.4	43.3	2.3	2.2	5.4	6.4
Sobha	18.5	13.1	10.3	8.6	2.7	2.2	15.5	18.6
Prestige Estates	30.1	19.4	10.1	7.5	2.3	2.1	7.9	10.9

Source: Company, Sharekhan Research

About company

Mumbai-based Oberoi Realty focuses on premium developments in the residential, office space, retail, hospitality, and social infrastructure verticals. In the real estate space, Oberoi Realty is an established brand with an impeccable track record. The company has developed over 42 projects at strategic locations across the Mumbai skyline aggregating to ~11.89 million sq. ft of spaces (group entity including promoter group). With another 45.31 million sq. ft. in the making, it has aggressive plans for upcoming projects in various parts of Mumbai and other regions.

Investment theme

Oberoi Realty has unsold inventory in its completed and ongoing residential projects of ~Rs. 17,000 crore, which translates to 8x its FY2021 revenues providing the company a strong growth opportunity to cash in rising demand in the residential segment in MMR. Oberoi is constructing retail (Borivali Mall), office (Commerz III, Borivali Commercial) and hotel (Ritz Carlton, Borivali hotel) which is expected to be operational by FY2023 and start contributing to revenues. The increase in occupancy rates at existing office assets along with new projects getting operational would increase its rental income by more than three fold in FY2024. An unleveraged balance sheet, redevelopment project venture & monetisable annuity portfolio provide value creation avenues for future.

Key Risks

- ◆ Slowdown in macro-economic environment percolating to the real estate sector slowdown.
- ◆ Delay in execution, inability to maintain sales, rising interest rates, and rising commodity prices.

Additional Data

Key management personnel

Mr. Vikas Oberoi	Chairman & Managing Director
Mr. Saumil Daru	Executive Director - CEO
Bhaskar Kshirsagar	Company Secretary & Compliance Officer

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Oberoi Vikas	58.55
2	RS Estate Developers	9.16
3	Invesco	7.17
4	FMR LLC	2.32
5	Franklin Resources	1.79
6	Kotak Mahindra AMC	1.70
7	Vanguard Group	1.30
8	Fidelity Investment Trust	1.20
9	L&T Mutual Fund Trustee	0.82
10	Van Eck Associates Corp	0.58

Source: Bloomberg

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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