



Powered by the Sharekhan 3R Research Philosophy

3R MATRIX

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

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS	■	↔	■
RQ	■	↔	■
RV	■	↔	■

ESG Disclosure Score **NEW**

ESG RISK RATING **17.59**
Updated July 08, 2022

Low Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

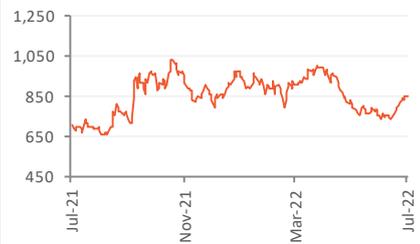
Company details

Market cap:	Rs. 31,126 cr
52-week high/low:	Rs. 1,052/644
NSE volume: (No of shares)	8.7 lakh
BSE code:	533273
NSE code:	OBEROIRLTY
Free float: (No of shares)	35.3 cr

Shareholding (%)

Promoters	68
FII	19
Institutions	10
Public & others	3

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	15.5	-10.9	-9.9	20.1
Relative to Sensex	9.8	-7.5	-0.6	16.4

Sharekhan Research, Bloomberg

Real Estate

Sharekhan code: **OBEROIRLTY**

Reco/View: **Positive**



Upgrade



Maintain



Downgrade

CMP: **Rs. 856**

Upside potential: **21-23%**

Summary

- Oberoi Realty reported strong sales bookings led by its Elysian and Sky City projects. Consolidated sales, OPM, and net profit were above estimates aided by strong residential segment performance supported by turnaround in hospitality.
- It received OC for the Three Sixty West project, which is expected to drive sales booking. Projects in Thane, Goregaon and Borivali lined up for launch this fiscal.
- The company is still contemplating on type of development for Glaxo land parcel in Worli, Mumbai, while on the business development side, it is still awaiting the right project and has not given any guidance on the timeline.
- We stay positive on Oberoi Realty and expect a 21-23% upside in the stock, given near-term and long-term growth levers for its residential and rental project portfolio.

Oberoi Realty reported residential sales bookings of Rs. 761 crore (up 4.5x y-o-y on low base, down 18% q-o-q) led by strong sales booking in Elysian project (40% share) and continued momentum in the Sky City project (34% share). Consolidated revenue/operating margin/net profit increased by 11%/1100bps+/74% q-o-q to Rs. 913 crore/53.9%/403 crore, respectively. Strong performance was led by residential segment along with turnaround in its hospitality business. The company has received occupation certificate for its key project Three Sixty West (Worli) which is expected to drive strong sales booking going ahead. The Thane Pokhran road project is expected to be launched in upcoming festive season. Additionally, the company would be launching a tower each in Goregaon and Borivali in FY23. Its Peddar Road project (0.125 msf) is still on drawing board while it is still contemplating on type of development for Glaxo land parcel in Worli, Mumbai. On the business development side, it is still awaiting the right project and has not given any guidance on the timeline. On the rental front, Borivali Mall is expected to be operational by next year festive season while Commerz III to start getting rented out from March 2024.

Key positives

- Residential revenues were up 3.7x y-o-y (up 18% q-o-q) at Rs. 778 crore. Residential OPM stood at 50.9% as compared to ~34% during Q1FY2022 & Q4FY2022.
- Westin Mumbai Garden city saw 91.34% occupancy (Vs 74.74% in Q4FY2022) with average room rate rising by 27% q-o-q to Rs. 9116.

Key negatives

- Commerz I and II saw stagnant occupancy levels q-o-q at 53.54% and 80.87% in Q1FY2023.
- It is yet to find the right projects for business development. Glaxo worli land development plan still not finalized.

Management Commentary

- It is not seeing any slowdown in demand due to demand shift towards better developers. The overall market might have shrunk but its share is increasing.
- The company has received the OC for its Three Sixty West project. It is looking forward to strong sales from the project.
- The Borivali mall & Commerz III would be ready for fit-outs in March 2023. The mall is likely to be operational by festive season next year. Commerz III is likely to be rented out from March 2024.
- It is trying to bring the Sky City project with bigger size which would yield much higher realizations. It is planning to launch the project this fiscal.

Revision in estimates – We have retained our estimates.

Our Call

Valuation – Retain Positive view; Expect upside of 21-23%: Oberoi Realty is slated to benefit from strong traction in the residential realty segment especially in lucrative MMR region, which is expected to sustain going ahead. A strong franchise, high residential inventory, increasing rental portfolio, unleveraged balance sheet, and strong housing market tailwinds provide high growth opportunity. The stock is currently trading at a P/BV of 2.3x on FY2024 earnings and premium to the NAV. However, we see significant value unlocking emerging from planned projects and its rental portfolio over the next two years. Hence, we retain our Positive view on the stock and expect an upside of 21-23%.

Key Risks

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

Valuation (Consolidated)

Particulars	FY21	FY22	FY23E	FY24E
Revenue	2,053	2,694	3,491	4,858
OPM (%)	48.7	43.9	49.9	53.9
Adjusted PAT	739	1047	1223	1877
% YoY growth	7.2	41.6	16.8	53.5
Adjusted EPS (Rs.)	20.3	28.8	33.6	51.6
P/E (x)	42.1	29.7	25.4	16.6
P/B (x)	3.2	2.9	2.6	2.3
EV/EBITDA (x)	32.3	27.3	18.5	12.3
RoNW (%)	8.2	10.6	11.1	15.1
RoCE (%)	7.7	9.2	9.5	12.9

Source: Company; Sharekhan estimates

Strong beat on earnings: The company reported consolidated net revenues of Rs. 913 crore, up 3.2x y-o-y (up 10.9% q-o-q) for Q1FY2023, which was 22% higher than our estimate. Revenues from the residential segment were up 3.7x y-o-y (up 18% q-o-q) at Rs. 778 crore while revenues from the rental segment stood at Rs. 88 crore (up 52.4% y-o-y, down 32.3% q-o-q), Hospitality at Rs. 35 crore (up 4.5x y-o-y, up 52.5% q-o-q) and Property Management Services at Rs. 12 crore (up 2x y-o-y, up 7.8% q-o-q). The company's sales booking for Q1FY2023 stood at Rs. 761 crore, which was up 4.5x y-o-y (down 17.7% q-o-q). The company surprised positively on operational front, with OPM at 53.9% (up 10 pps y-o-y) led by higher operating margins in both residential (50.9%, higher by 16 pps y-o-y and 17 pps q-o-q) and Hospitality (39% versus operating loss in Q1FY2023 & 24.4% in Q4FY2022). Hence, operating profit rose by 3.9x y-o-y (up 39.9% q-o-q) at Rs. 492 crore. Strong operational performance led to 5x y-o-y (up 73.5% q-o-q) rise in consolidated net profit at Rs. 403 crore, which was much higher than our estimates.

Key Conference call takeaways

- ◆ **Q1FY23 key highlights:** The company received OC for 360 West project. It is looking forward to strong sales from the project. It crossed Rs. 5000 crore sales mark for Sky City project. The hospitality segment turnaround, while it maintained residential margins.
- ◆ **Outlook:** It is not seeing any slowdown in demand due to demand shift towards better developers. The overall market might have shrunk but its share is increasing. Most of the buyers' of its projects take 10 year loan and pay in 3 years. It does not expect few 100bps increase in interest rate to impact the buyer's decision.
- ◆ **Business Development:** It is awaiting the right project and has not specified any date.
- ◆ **360 West:** It has done sales booking of Rs. 2684 crore (70 apartments) till date and collected Rs. 2419 crore. The company would receive 80% of the money from the project while 20% would be for the partner. Once the company recovers its portion than partner will catch up. It expects to get Rs. 100,000-120,000/sft on carpet area from the project.
- ◆ **Borivali mall & Commerz III:** Both projects would be ready for fit-outs in March 2023. The mall is likely to be operational by festive season next year. Commerz III is likely to be rented out from March 2024. With Commerz III, it will have over 5msf leasable area.
- ◆ **Commerz I & II:** It plans to reach 100% occupancy in both the projects this fiscal year itself.
- ◆ **Sky City project:** It is trying to bring the project with bigger size which would yield much higher realisations. It is planning to launch the project this fiscal year.
- ◆ **Thane Project:** It is planning to launch the project in festive season.
- ◆ **Peddar Road:** The project is still in work in progress. It is still on the drawing board. The management will come back on it over 1-2 quarters. It has paid entire amount for the project.
- ◆ **Glaxo-Worli land:** It is still contemplating on residential or commercial development. Once decided, it will be 3-4 years in making.
- ◆ **Goregaon launch:** It expects to launch the project this fiscal year.
- ◆ **Pricing:** Growth in realisations is expected to continue due to lower ready to move in inventory, higher commodity prices and issues related to under-construction projects from smaller developers. It has received 5-10% price increase in Mulund and Borivali projects through removal of subvention schemes.
- ◆ **Maharashtra government impact:** The company expects better Centre-State alignment to help the realty market in the state.
- ◆ **Investing cashflow:** Investing cash flows include MF investments and construction of Commerz III and Sky City mall.

Results (Consolidated)

Particulars	Rs cr				
	Q1FY23	Q1FY22	y-o-y%	Q4FY22	q-o-q%
Net sales	913.1	284.3	221.2%	823.5	10.9%
other income	21.7	10.5	106.3%	19.5	11.4%
Total income	934.8	294.8	217.1%	842.9	10.9%
Total expenses	420.9	159.4	164.1%	471.7	-10.8%
Operating profit	492.2	124.9	294.1%	351.8	39.9%
Depreciation	9.8	10.1	-3.1%	9.7	1.1%
Interest	32.6	17.3	88.0%	31.6	3.2%
Profit Before Tax	471.5	108.0	336.7%	330.0	42.9%
Taxes	113.7	29.0	292.1%	98.4	15.5%
PAT before JV	357.8	79.0	353.1%	231.6	54.5%
Exceptional items	0.0	0.0		0.0	
Inc from JV	45.3	1.7		0.8	
Adj. PAT	403.1	80.6	399.9%	232.4	73.5%
EPS (Rs.)	11.1	2.2	399.9%	6.4	73.5%
OPM(%)	53.9%	43.9%	997 bps	42.7%	1118 bps
NPM(%)	39.2%	27.8%	1141 bps	28.1%	1106 bps
Tax rate (%)	24.1%	26.9%	-275 bps	29.8%	-571 bps

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – Residential market on a growth trajectory

The real estate sector, especially residential realty, is expected to be in the 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 the sector’s consolidation. 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 aforementioned reasons.

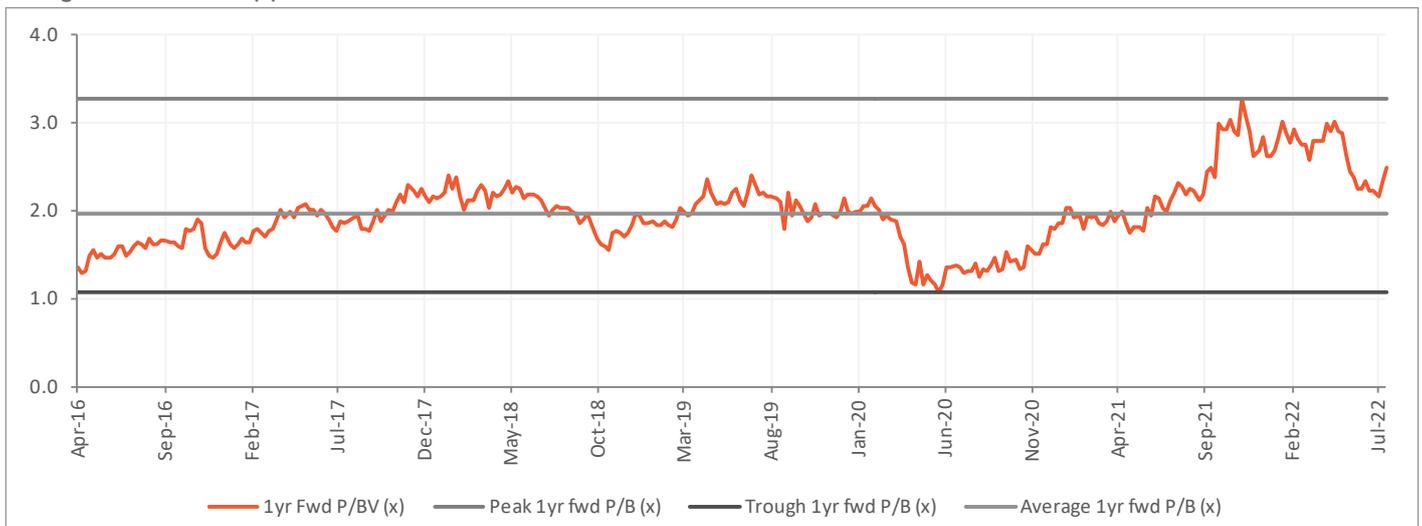
■ Company Outlook – Strong growth tailwinds for near and long term

Oberoi Realty has unsold inventory in completed and ongoing residential projects worth ~Rs. 17,000 crore, providing the company a strong growth opportunity to cash in the rising demand in the residential segment in the MMR. Oberoi Realty 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. Increased 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 – Retain positive view; expect upside of 21-23%

Oberoi Realty is slated to benefit from strong traction in the residential realty segment especially in lucrative MMR region, which is expected to sustain going ahead. A strong franchise, high residential inventory, increasing rental portfolio, unleveraged balance sheet, and strong housing market tailwinds provide high growth opportunity. The stock is currently trading at a P/BV of 2.3x on FY2024 earnings and premium to the NAV. However, we see significant value unlocking emerging from planned projects and its rental portfolio over the next two years. Hence, we retain our Positive view on the stock and expect an upside of 21-23%.

One-year forward P/E (x) band



Source: 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 provides the company a strong growth opportunity to cash in rising demand in the residential segment in MMR. Oberoi Realty is constructing retail (Borivali Mall), office (Commerz III, Borivali Commercial) and hotel (Ritz Carlton, Borivali Hotel) which are expected to be operational by FY2023 and start contributing to the company's revenue. Increased occupancy rates at existing office assets along with new projects getting operational would increase the company's rental income by more than three-fold in FY2024. An unleveraged balance sheet, redevelopment project venture, and monetisable annuity portfolio provide value creation avenues for the future.

Key Risks

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

Additional Data

Key management personnel

Vikas Oberoi	Chairman and Managing Director
Saamil Daru	Executive Director - CEO
Bhaskar Kshirsagar	Company Secretary and Compliance Officer

Source: Company Website

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

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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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