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Mumbai

CRISIL Research assigns IPO grade 4/5 to Oberoi Realty

CRISIL Research has assigned a CRISIL IPO grade of "4/5" (pronounced "four on five") to the proposed initial public offer (IPO) of Oberoi Realty Ltd (ORL). This grade indicates that the fundamentals of the IPO are 'above average' relative to other listed equity securities in India. However, this grade is not an opinion on whether the issue price is appropriate in relation to the issue fundamentals. The grade is not a recommendation to buy/sell or hold the graded instrument or a comment on the graded instrument's future market price or its suitability for a particular investor.

The IPO grade for ORL reflects the company's strong position in the real estate business in Mumbai. ORL is highly experienced in mixed-use real estate development in relatively resilient Mumbai with primary focus on the residential segment. The company has been able to establish a strong brand due to its quality of construction and execution track record. The promoter and the promoter group have developed 3.9 mn sq ft of real estate in 30 projects till now. Due to its strong branding, ORL has been able to command pricing premium over its competitors. The company has a strong project pipeline for the next four to five years in Mumbai and Pune. ORL has also been very prudent in its land acquisition strategy till date and the company currently has limited but high quality land bank, located mostly in Mumbai. The company has very strong financial position with healthy margins and minimal debt. The company also enjoys flexibility to sell its commercial and retail properties in the future, adding strength to its cash flows.

The grading also reflects the capability of ORL's promoter, Mr Vikas Oberoi, and a strong second line of management. ORL's independent directors are also highly experienced in general/risk management, audit, legal and taxation fields. Promoter has signed a non-compete agreement with the Company to not to carry out any construction under the brand name "Oberoi" except certain identified projects to avoid any conflict of interest. ORL has formed various committees like Compensation, IPO, Business Development, Finance and Investment committees comprising of board members, other than stipulated by the SEBI listing agreement, for better governance.

The grading is constrained by the cyclicity inherent in the real estate business and risks pertaining to ORL's geographic concentration. Further, due to its limited land bank, the company may have to acquire land at high prices in highly competitive Mumbai's real estate market, which could pressurize its margins. In spite of robust operating margins, the company's RoE (return on equity) is suppressed due to non-deployment of cash and minimal debt. Also, ORL needs to strengthen its board practices especially pertaining to reporting standards, which includes defining limits on the size of transactions that require board approval.

About the company and the issue

Oberoi Realty Ltd (ORL) is a Mumbai-based real estate development company. It was incorporated in May 1998 originally as Kingston Properties Private Limited. The name of the company changed in October 2009 to Oberoi Realty Private Limited and was subsequently converted into a public limited company in December 2009. ORL's primary focus is to develop residential properties. ORL has also diversified into retail, commercial, hospitality and social infrastructure projects. The company has completed projects entailing 1.8 million sq ft under the brand name "Oberoi", all located in Mumbai.

ORL intends to use IPO proceeds to fund construction of its ongoing and planned residential and commercial projects. The company also intends to utilize some portion of its IPO towards acquisition of land or land development rights.

For the year ended March 2009, ORL reported a net profit of Rs 2,523.5 million on operating income of Rs 4,255.33 million, as compared to PAT of Rs 2,951.6 million and operating income of Rs 5,111.9 million in FY 2007-08. For the half year ending September 2009, Company reported PAT of Rs 2,216.3 on operating income of Rs 4,099.1 million. The company's return on capital employed (ROCE) and return on equity (ROE) in the FY 2008-09 were 19.1 per cent and 20.0 percent respectively.

About CRISIL IPO Grading

CRISIL IPO (Initial Public Offering) grading is an opinion on the fundamentals of the graded issue that reflects CRISIL's independence and expertise. This opinion is expressed as a relative assessment in relation to other listed equity securities in India. The assessment is based on a grading exercise carried out by industry specialists from CRISIL Research. A CRISIL IPO grade of 5/5 indicates strong fundamentals and a CRISIL IPO grade of 1/5 indicates poor fundamentals. CRISIL IPO grading reflects its assessment of the graded company's equity fundamentals as distinct from an assessment of debt fundamentals. A CRISIL IPO grade should not be construed to mean a comment on the price of the graded security, nor is it a recommendation to invest or not to invest in the graded security.

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