St. Xavier's College (Autonomous), Kolkata

XAVIER'S FINANCE COMMUNITY

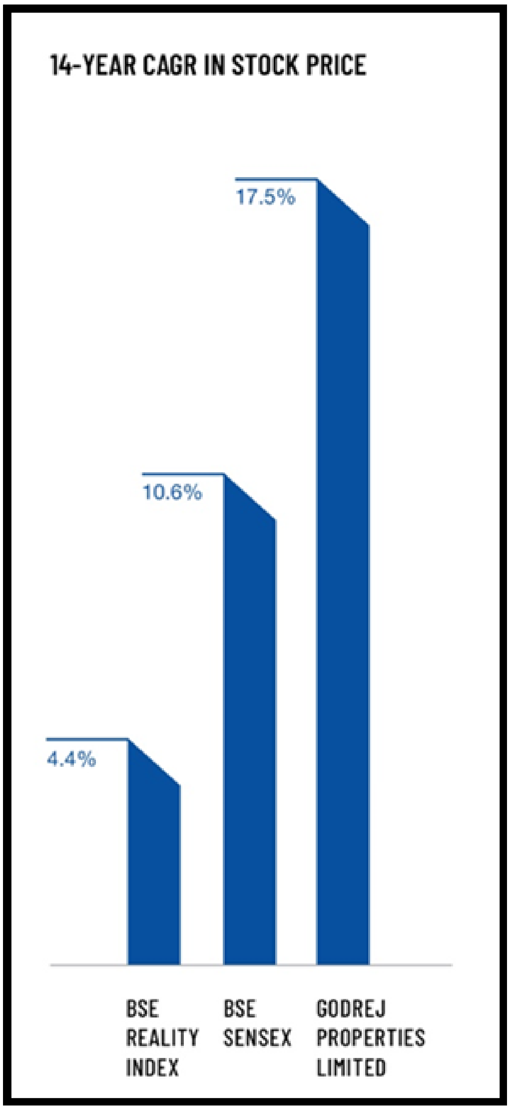
Godrej

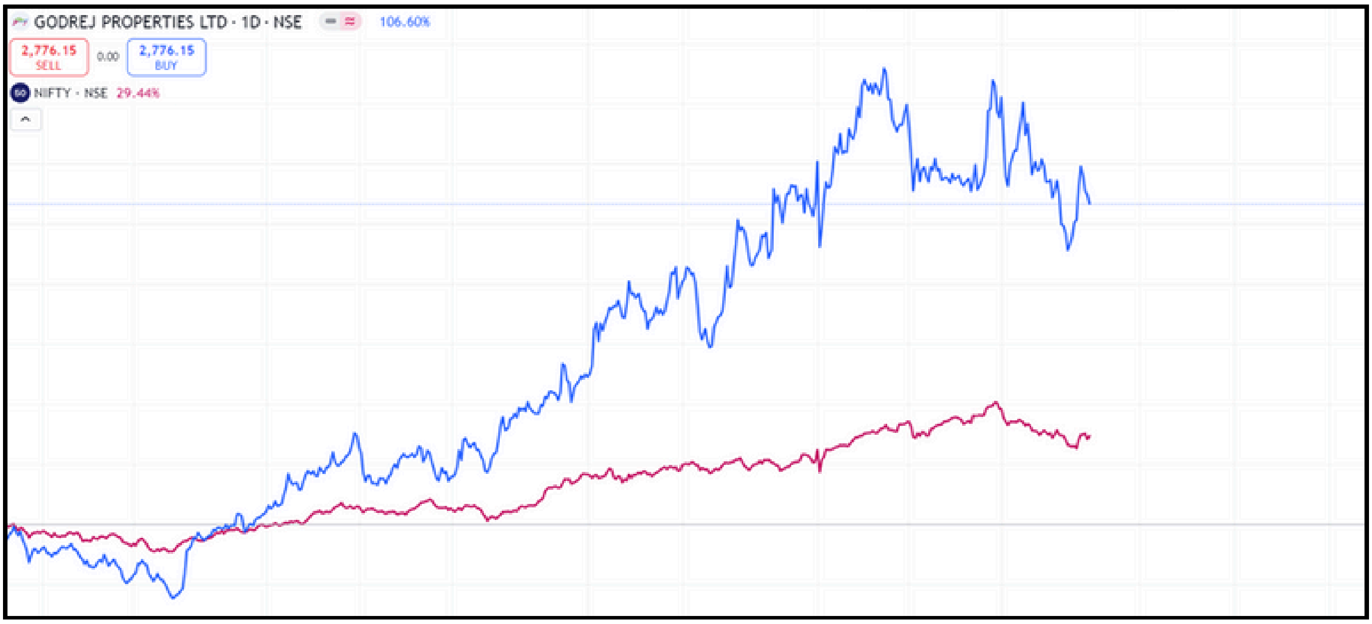
EQUITY REPORT

TABLE OF CONTENTS

OVERVIEW

Godrej Properties (GPL) is the real estate development arm of the Godrej Group which was started in 1897. It is headquartered in Mumbai and is present in 11 cities in the country with the greatest number of projects in Delhi NCR and Mumbai. The company has completed 102 projects and a combined developable area of 223 million square feet. In 2010 the company got listed and is present on both National Stock Exchange and the Bombay Stock Exchange. It works on an asset light business model which is combined with cutting edge design and technology and has received 400 accolades making it a leading workforce in the real estate industry. The company was declared India's largest developer by number of homes sold in FY 23. Profitable growth through asset management is one of the important strategies of the company to navigate towards a sustainable tomorrow as said by the Executive Chairman.





REASONS TO BUY THE COMPANY’S STOCK

Ratio Analysis

- Debt Equity Ratio has worsened since 23, but is still at 0.63 which is a good sign
- Return on Assets has decreased since 23
- EPS has increased since 23 which shows that they have been able to generate returns for their investors
- Net Profit Margin has decreased but it is believed to be due to expenditures incurred on new projects.
- Current Ratio has decreased but it is believed that it is due to the increasing presence of Advances from Customers under Current Liabilities.
- Overall the ratios of the company are showing worrying signs in short term but the company is poised to grow well in the long term as the real estate industry grows.

Balance Sheet

- Borrowings have increased but even though this increase in the borrowings the, Debt to Equity Ratio stays under 1 which shows that the market is bullish on them
- Godrej Properties ltd showed a robust growth in reserves which increased by almost 8% in March 2024. This rise reflects the company’s strong profitability and effective retention of earnings
- There was an increase in other liabilities by almost 51%, most of which was due to the increase in advances from customers, indicating future growth in revenue from upcoming projects.
- There has been a strong increase in assets mainly comprising of investments in land for future projects
- Other Assets of the company has increased by 60% mainly comprising of inventory which is a sign that the company is rapidly investing in new projects.
- Cash Equivalents has increased a lot which shows that the new projects are getting sold out at a quick rate and also there is plenty of Advances from Customers, this also shows a good amount of free funds even though they have been heavily investing their money.

Income Statement

- Total expenses surged by 52.61%, resulting in a negative operating profit of ₹130 crore, most of these is manufacturing and material costs which is a good sign which shows that the company is heavily investing.
- Godrej Properties delivered an impressive sales growth of 34.8%, with total sales reaching ₹3,036 crore in FY 2023-24
- Interestingly, despite operating losses, the company achieved a PAT (Profit After Tax) growth of 20.38%(but this is mainly due to increase in other incomes)
- Revenue growth: 6.15% annually (compared to the industry average of 3.63%).
- Net income growth: 23.43% annually (compared to the industry average of 14.25%).
- All these show that the company has STRONG FINANCIALS
- Out of this, ₹497 crore came from acquisitions, including Godrej Vestamark LLP, Dreamworld Landmarks LLP, Maan Hinje Township Developers LLP, and Godrej Home Constructions Private Limited.(these are the earnings from the acquired companies)

CASH FLOW STATEMENT

Operating -

- The company reported a profit before tax of 714.25Crores in the current period compared to 830.54Crores in the previous period, indicating a decline in profitability. This can be due to high amounts of investments and increasing interest payments due to borrowings.
- Increased from 18.96Crores to 24.34Crores, reflecting higher asset depreciation, which could also be attributed to the acquisition of Assets worth 108.99Crores this fiscal year.
- Significant increase from 233.12Crores to 380.02Crores, indicating rising interest expenses-most likely due to increased borrowings. This can be a red flag showing that the company has started to heavily rely on borrowings.
- A reduction in profit share from 94.01Crores to 66.10Crores, which could affect cash inflows also shows that LLPs under Godrej are not doing as well as previous years. This shows that the acquisitions done by the company might not be fruitful enough.
- The net cash generated from operating activities was positive at 179.51Crores, a significant improvement from a negative cash flow of (1,894.46Crores) in the previous period. This is a very good sign for the company.

Cash flow from Investing activities decreased mainly due to the following reasons :

- Increased Investment in Property, plant and equipment by the company.
- Investment in debentures of joint ventures 736.66 crores.
- Investment in acquisition of companies 109 crores
- Company subsequently sold Investments in Mutual Funds (₹(586.41Crores) vs. ₹2,551.30Crores)
- Sold Property and Equipment (₹1.80Crores vs. ₹5.97Crores), Interest and Dividend Income (₹227.57Crores and ₹0.00), this amount of interest income is a good sign but still isn't good enough to offset the heavy outflows from investment activities.

Financing -

- Long-Term borrowings (₹2,660.00Crores), Short-Term borrowings (net: ₹2,109.65Crores) : This shows that they have become considerably debt reliant, this reliance on debt to sustain operations and investments suggests potential over-leverage. However it is also required to finance projects.
- Proceeds from short-term borrowings (net) 2,109.65Crores : Short-term debt typically carries higher refinancing risks due to shorter repayment cycles.
- Interest and Borrowing Costs 938.38 Crores : Interest payments more than doubled, reflecting the higher debt burden.
- Payment of minimum lease liabilities and unclaimed dividends 6.13 Crores and 0.03 Crores,
- All these signify that the company has become considerably debt reliant, which is not a big issue now due to steady investor and promoter confidence in the management but could become an issue in the long term if overlooked.

QUALITATIVE ANALYSIS

SWOT ANALYSIS

Strengths :

- **Strong Presence in Metros -** As Visible in their IR they have a very strong base in metro cities like Mumbai and Pune in the west, NCR in the East, Bengaluru in the South-West, they have projects in cities like Kolkata too but need to establish a broader base here.

- **Growth in Sales -** Godrej Properties announced highest sales booking of ₹22,527crores(booking value); a first-time record in annual sales booking. They also marked a Ground Breaking YoY growth of 84.16% the preceding year.

- **Diverse Projects -** They have a very diverse portfolio of projects they are responsible for building Godrej Properties has made a significant mark in the real estate sector with its landmark constructions. The Mumbai Head Office, constructed by Godrej Proies, stands as a testament to their architectural excellence. Alongside this, the company has developed several important residential properties under the Mumbai Zonal Office Sites. In Pune, the West-East Pune Zonal Office Sites include prominent projects like Park Greens, reflecting their dedication to creating premium living spaces. The Nagpur Regional Office and Ahmedabad Regional Office, also constructed by Godrej Properties, further exemplify the company's expertise in delivering high-quality developments across India.

- 102 projects and total saleable area of 223 Million sq. ft.

- **Customer Satisfaction-** The company achieved a Net Promoter Score (NPS) of 68% in FY24, up from 65% in FY23, showcasing high levels of customer satisfaction. Customer satisfaction remains paramount to our success. In FY 24, we achieved an encouraging Net Promoter Score (NPS) of 68%-pg28 annual report.

Weaknesses:

- **Loan Based Growth -** The average borrowing cost rose to 7.82% in FY24, a 17.59% increase from the previous year, adding pressure on operational costs which in turns lowers their borrowing capacity for future projects.

- **Less projects in affordable segment -** Despite high demand for affordable housing in India, GPL’s portfolio is skewed toward premium and mid-segment housing, limiting its ability to tap into one of the fastest-growing segments of the market.

- **Limited Market Penetration in Key Indian Cities -** Godrej has failed to reach the markets in several of India's largest cities, such as Chennai and Bhuvaneshwar, and it has little effect in Kolkata either.

Opportunities:

- **Increase in positivity towards loans -** Increasing inclination of people towards taking loans has significantly increased the market for Godrej, as people who couldn't afford high costing properties are now able to buy it through loans and the ease EMIs offer.

- **Can undertake redevelopment projects -** Godrej has a very unique opportunity wherein they can undertake land redevelopment projects and convert them into high yielding projects, this way they reduce the land acquisition cost as well and also make use of existing land.

- **Increasing trend of integrated housing projects -** With urbanization, there is growing demand for integrated township developments that combine residential, commercial, retail, and recreational spaces. Godrej Properties, with its diverse real estate experience, can capture this trend.

- **Affordable projects in Tier II cities -** Godrej has yet not been able to tap a very big market which is the market of affordable housing in Tier II cities

- **Government Support for Green and Smart Cities -** The Indian government's push for infrastructure development and smart city initiatives offers substantial opportunities for developers. As one of the more prominent players with a reputation for sustainable and innovative developments, Godrej Properties is well-suited to undertake projects in designated smart city areas, benefiting from supportive policies, incentives, and funding

Threats:

- **Intense Competition -** India's major metros, where GPL is most active, are highly competitive markets. Established players like DLF, Tata Housing, and Oberoi Realty, as well as emerging regional developers, are competing aggressively for market share.

- **Regulatory Risks -** India has a highly regulated real estate sector. Changes in land acquisition and tax policies and environment compliance can, at times, disrupt the timelines and project costs. Compliance with RERA, which checks the environmental impact assessment as well as urban planning, could increase costs due to delay or fine on site, thus reducing profitability. Above all, adverse policy changes might also entitle increased compliance and operating cost.

- **Increasing costs of land and construction materials -** The rising cost of land in prime urban areas, along with increases in the prices of construction materials such as steel and cement, poses a significant threat to project profitability.

- **Over dependence on huge cities -** Godrej's concentration in key metro markets such as Mumbai, NCR, and Bengaluru means it is highly reliant on the economic health and real estate demand within these cities.
  (NCR alone contributed over ₹10,000 crore in bookings in FY24)

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PESTEL ANALYSIS

Economic Factors:

India's real estate sector saw investments close to 4 lakh crore rupees backed by strong housing demand backed by stable interest rates. In FY24 the residential segment excelled whereas the commercial segment recovered from a slowdown and the retail real estate saw a robust revival. Real estate has also appeared as an attractive investment avenue like direct purchases and REITs. Additionally, the real estate sector has found relief in RBI's decision to maintain the key interest rates. However, due to global economic slowdown, soaring raw material costs, consumer inflation and increased borrowing expenses also emerged. Godrej Properties has an opportunity to make significant investments in housing projects in Tier 2 and Tier 3 cities where affordability levels have significantly improved. However, it has to also ensure that the transaction volumes are at a sustainable level because of rising inventory levels due to rapid developments by other players.

Technological Factors:

In recent years the real estate sector has witnessed rapid technological advancements in a bid to ensure safety and foster healthier living environments. Tech driven green solutions are being adopted by entities to revolutionize properties.
Godrej has embraced advanced wastewater treatment technology which has helped reduce energy consumption by 20% and operational costs by 35%. Solar Power Systems have been deployed to reduce reliance on conventional sources of energy. These systems have helped in saving 3.45 crore rupees over 18 months.

Legal Factors:

The real estate industry is governed by various laws relating to development of projects and the regulatory compliances adjoining it. Procedural delays of getting approvals and initiating projects are common.
Godrej with its long history in the market is able to enter into agreements and get approvals with more ease compared to its peers. It also places importance on sustainability and complies with the environmental regulations which include pollution control and coastal zone mechanisms.

Ecological Factors:

Real estate industry is exposed to various risks which include the impact of climate change. Extreme weather events pose a danger to properties hence which can be long term. Policy changes are required to shift towards a low carbon economy.
Godrej has made significant investments aimed at diminishing energy consumption of buildings. Having adopted eco friendly building practices it also gets its properties certified by green building certifications.

Political Factors:

The political landscape of the nation has been supportive to the real estate industry from the past decade. The highlight of it has been the introduction of the Real Estate (Regulation and Development) Act, 2016 (RERA). With the recent conclusion of the general elections the NDA alliance has secured a third consecutive term at the union level which will help the industry build on the stability.
Godrej's management has been wise enough to reap the benefits of such a positive environment. This has resulted in transparency and fast completion of projects.

Social Factors:

Godrej runs various skill development campaigns for its workforce to upskill them. As part of its Health Surveillance Programs it conducts medical examinations of its employees. It conducts a safety audit which is a regular evaluation of the entire occupational health and safety management system. Its policy of people philosophy includes building talent from within, diversity, women empowerment, mental health support. The most famous policy is of unlimited sick leave to all employees. The company has also introduced the policy of harmony hours (8pm to 8am) where employees must avoid any kind of official communication in order to focus time on themselves and their families. The ThisAbleMe campaign seeks to enhance awareness, accessibility and representation for persons with disabilities.

PORTER'S FIVE FORCE ANALYSIS

Competitive Rivalry :

- **Competitive Landscape** : As of March 2024, the real estate market in India was led by Macrotech Developers with a market share of 29-30%, followed by DLF at 18-19% , followed by Oberoi Realty at 12-13%, and Godrej Properties at 8-9%. These companies have shown rapid growth in the sector, which is expected to expand at a 18-20% CAGR.
- **Market Growth**: Godrej Properties exhibited a 34.81% growth in revenue, reaching Rs. 3036 crores in FY2024, despite the competitive nature of the market. Alongside increased demand, it also indicates company’s expansion into new geographic as well as customer sections, giving the company a competitive advantage over its peers
- **Promotional Strategies** : Companies used targeted digital marketing to reach potential buyers, Godrej Properties experienced a fall in operating profit margin (OPM) from 9% to a negative 4%, which reflected its failure to maintain its sustainability amidst the competition.

Threat of Substitutes:

- **Availability of more Affordable project**s : Housing options at lower costs by rival firms, could impose threat of substitutes on Godrej Properties. Online property platforms like MagicBricks, 99acres, and Housing.com, are rapidly substituting traditional developers, they offer more and better options, including resale homes, and new properties at comparatively lower prices.
- **Emerging local developers** : In tier 2 and tier 3 Emerging local developers offer more attractive prices alongside tailored solutions. These may impose threat on Godrej’s higher cost offering in these areas.
- **Targeted Marketing by Competitors** : Godrej Properties experienced a fall in operating profit margin (OPM) from 9% to a negative 4%, which reflected its failure to maintain its sustainability amidst the competition. Competitor's practice of targeted digital marketing affected the company significantly.

Threat of New Entrants :

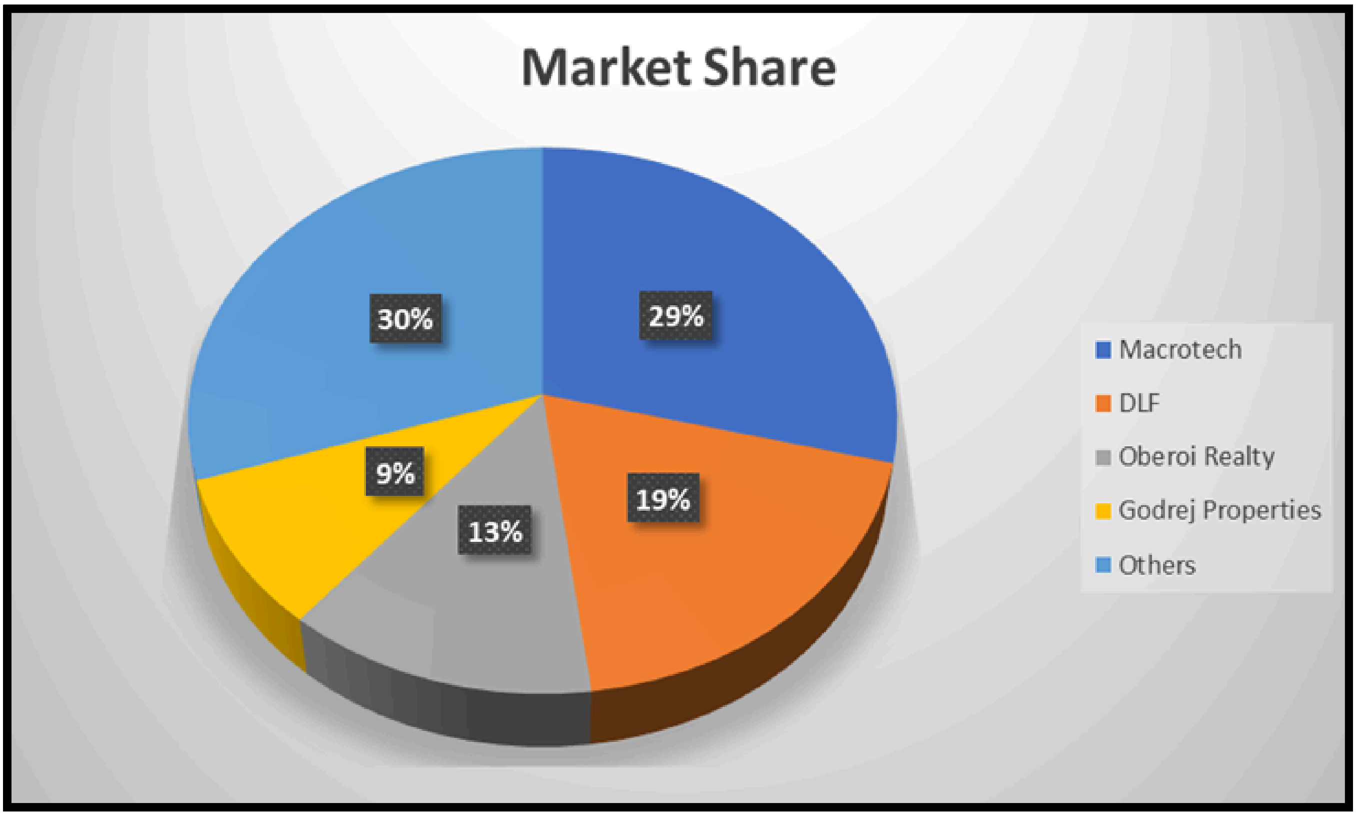
- **Barriers to Entry** : Godrej Properties benefits from its well-known and established brand name which acts as a significant barrier. Its established financial resources and extensive industry experience make it challenging for new entrants to penetrate the market.
- **Capital Requirement** : Real estate has a high capital requirement for acquiring and developing property. Several other hurdles like licensing and already established competition make it difficult for new entrants. Godrej’s already established brand name and loyalty make it difficult.
- **Established networks** : Godrej’s already established public relations, strategic partnership and relationship with government agencies give them a competitive advantage.

Buyer Power:

- **Brand Loyalty** : Godrej Properties enjoys strong brand recognition and trust owing to its larger Godrej group known for quality and reliability. Customers tend to buy from reputed developers hence reducing buyer power on Godrej.
- **Price Sensitivity**: Real estate buyers in India are often price sensitive. During downturns buyers will have more bargaining power which can effect Godrej's profit margin.
- **Consumer choices:** The availability of substitutes, gives buyer significant power over the company's price. If Godrej Properties does not maintain unique offerings at justified price buyers can easily switch to other options.

Supplier Power:

- **Input Prices** : Godrej Properties relies on consistent supply of good quality raw materials at reasonable prices. Suppliers of these materials can exert power by influencing prices or delaying time of delivery.
- **Project timelines:** Suppliers who provide essential elements of construction to Godrej, exercise significant power over them since delays in these materials affect Godrej's ability to it's meet demand, hence affecting brand reputation which might lead to losing important projects.
- **Land and Property availability**: The availability and cost of land are controlled by external parties. This gives the suppliers power specially in areas with limited land giving them power to raise prices or make deals benefiting them.



PLC ANALYSIS

Godrej Properties appears to be in a *growth phase* within the real estate lifecycle, supported by its active expansion and strong financial performance.

Rapid Expansion:

Godrej Properties has aggressively expanded across major cities in India, launching projects in new markets and segments. In the last fiscal year, the company added multiple high-value projects across regions such as Mumbai, NCR, Pune, and Bengaluru. This expansion aligns with their strategy to capture demand in fast-growing urban centers, tapping into rising housing demand and commercial space needs. The company also launched 7.6 million square feet across various projects, demonstrating a clear focus on scaling operations and increasing market share.

Strong Financial Performance:

Under the leadership of the Godrej Group, Godrej Properties has reported robust financial growth. For FY23, the company’s sales volume increased significantly, with revenue and collections seeing double-digit growth rates. This rise in revenue, combined with a strong increase in net profit, shows that Godrej Properties is successfully capitalizing on economies of scale, operational efficiencies, and a favorable market environment. The company's cost of debt has also remained low, supporting its growth phase with attractive financing options and a stable balance sheet.

Focus on Sustainable and Premium Offerings:

Godrej Properties emphasizes sustainable and eco-friendly building practices, which have become a key differentiator in India's competitive real estate market. This focus helps the company attract environmentally conscious buyers and investors, especially in premium residential segments. By integrating sustainability and modern amenities, the company can maintain a premium market positioning, which aligns with the high-end, differentiated offerings typical in the growth phase of a product life cycle.

Future Growth Potential:

Although Godrej Properties is firmly in the growth phase, the potential for saturation in metro areas is a consideration. The company’s strategic moves to diversify geographically and venture into emerging urban areas can mitigate this risk. Additionally, ongoing efforts to expand their portfolio with more affordable and mid-income housing options aim to capture a broader customer base, ensuring sustained growth in the medium to long term.
By capitalizing on India’s growing real estate demand, leveraging a trusted brand, and adopting sustainable practices, Godrej Properties positions itself for sustained expansion, with potential to eventually transition to the maturity phase in established markets.

QUALITY OF TOP MANAGEMENT

Non-Executive Director: Mr. Nadir B. Godrej

Mr. Nadir B. Godrej holds the position of managing director of Godrej Industries Ltd and chairperson of Godrej Agrovet Ltd. He has been the director of several Godrej companies since 1977 and has developed the animal feed, agricultural inputs and chemical businesses of Godrej Industries and other associated companies. He has served as the President of Oil Technologist's Association of India and Indo-French Technical Association. He is deeply committed to the green strategies and achievement of the targets set by the Godrej group. Mr. Godrej is chemical engineering graduate from Stanford University and completed his MBA from Harvard Business School with active interest in research.

Chief Executive Officer: Gaurav Pandey

Mr. Gaurav Pandey is the managing director and chief executive officer of Godrej Properties. He is an economics graduate from University of Delhi and completed a postgraduate course from the Indian Institute of Management (IIM) Kozhikode. Mr. Pandey has over 18 years of experience in the real estate sector. He has previously served as the CEO of the North Zone, Burman GSC and Senior VP at PropEquity. He transformed the business of his previous company and helped it grow by 6x booking value, 4x in collections and increased ROCE to 27%.

Executive Chairperson: Pirojsha Godrej

Mr. Pirojsha Godrej is the Executive Chairperson of Godrej Properties, Godrej Housing Finance and non-executive director at Godrej Consumers Products and Godrej Agrovet. He has led the company through a phase of rapid growth. Under his leadership Godrej Properties for the first time became India's publicly listed real estate developer by residential sales. He has been at the forefront of the sustainable development movement. Mr. Pirojsha was awarded the IGBC Green Champion Award 2016 for his contribution to the sustainability of India's built environment.

Lead Independent Director: Sutapa Banerjee

Ms. Sutapa Banerjee has 25 years of experience in the financial services sector, Ms. Banerjee was honored as one of the "Top 20 Global Rising Stars of Wealth Management" by the Institutional Investor Group in 2007, and was one of only two winners from Asia, she was also recognized as one of the "50 Most Powerful Women" by Fortune India in 2012. She co-developed and co-taught a pioneering course on elective and cognitive biases in decision-making with a gender focus at IIM Ahmedabad, the first of its kind across the world.

Independent Directors:

Dr. Indu Bhushan

Dr. Indu Bhushan, a former IAS officer of the Rajasthan cadre (1983 batch), holds a Master of Health Sciences and a Ph.D. in Health Economics from Johns Hopkins University, a B.Tech from IIT BHU, and a Post Graduate Diploma from IIT Delhi. He is also a Chartered Financial Analyst, with nearly 40 years of experience. In 2018, Dr. Bhushan became CEO of the National Health Authority and Ayushman Bharat - Pradhan Mantri Jan Arogya Yojana, where he led the implementation of the scheme nationwide and initiated the ambitious National Digital Health Mission, which evolved into the Ayushman Bharat Digital Mission.

Non-Executive Director: Mr. Nadir B. Godrej

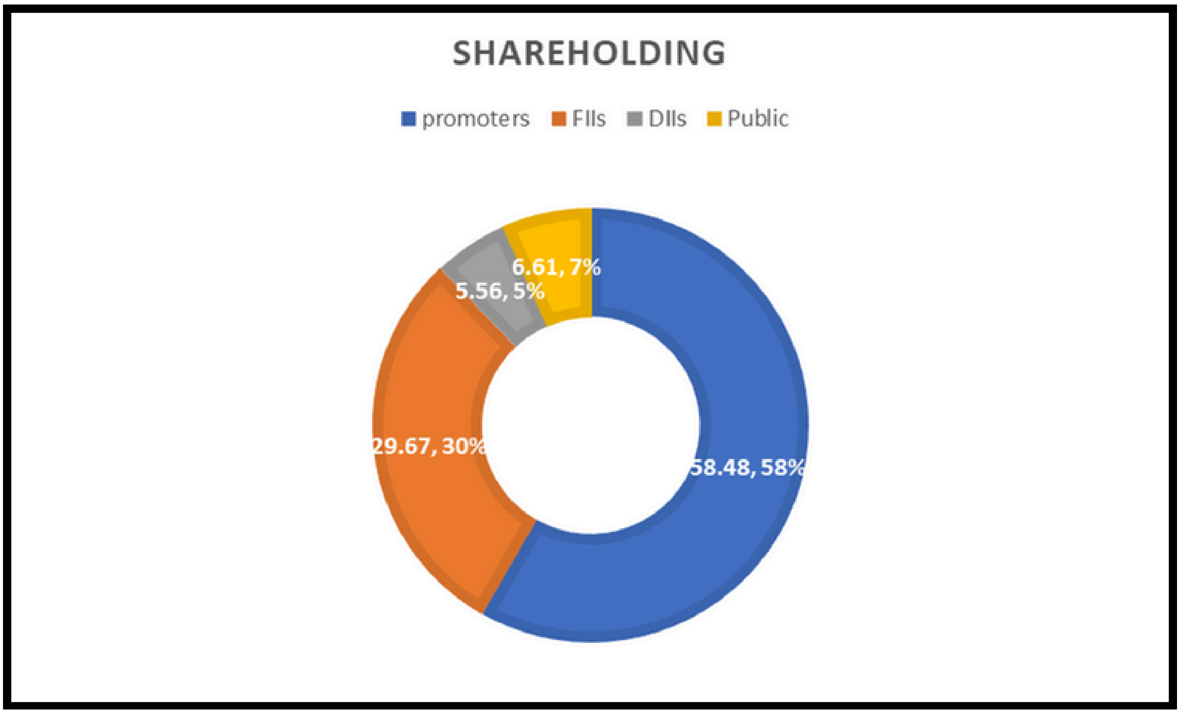
Executive Chairperson: Pirojsha Godrej

Chief Executive Officer: Gaurav Pandey

Lead Independent Director: Sutapa Banerjee

SHAREHOLDING PATTERN

Holders	March 2022	March 2023	March 2024	September 2024
Promoters	58.43	58.48	58.48	58.48
FIIs	28.43	27.09	29.67	28.33
DIIs	4.56	4.69	5.56	7.12
Public	8.63	9.74	6.31	6.08



RISKS AND CHALLENGES

- **Increase in Interest rates:** The company's debt equity ratio increased from 0.39 times to 0.62 times showing its sudden increase in borrowings. The Central Banks have globally raised interest rates in an attempt to combat inflation. Real estate stocks, particularly those of developers, homebuilders, and REITs, face pressure from higher borrowing costs, leading to reduced profitability and lower stock prices.

- **Inflationary Pressure:** High operational costs (labor, material, utilities etc) may decrease profit margins for construction companies and property developers. Failure to manage this inflationary pressure leads to squeezed profit margins and hence reduce stock price performance. The Statement of profit and loss of the company also showed increase in expenses of the company by more than 40%, which was more than its growth in revenue.

- **Government Policies:** Real estate companies are subject to set of complex regulations, including land acquisition laws, building codes, and approval processes. Any unfavorable regulatory changes can delay projects or increase costs Here are some important points :

  1. In 2024 Union Budget, continuation of the PMAY scheme was emphasized on, with increased. funding and incentives for affordable housing. Developers in the premium and luxury segments may face increased competition as the government focuses on affordable housing, which could reduce demand for higher-end properties.
  2. The GST Council has been pondering on whether to bring down tax rate for residential section or simplify Input Tax Credit for developers. Any change in either of the two will affect the developing cost and pricing strategy.
  3. India continued to introduce environment and sustainability regulations, for developers like Godrej who are known for their commitment to sustainability, may be profitable in the long run.

- **Foreign Exchange:** Changes in Foreign Exchange impacts cost of materials and construction, potential foreign investments, cost of borrowings, etc. Its overall impact depends on movement and direction of the foreign exchange and how the company handles it.
  1. **Rupee Depreciation:** Benefits foreign revenue but increases cost for imports and interest on foreign debt.
  2. **Rupee Appreciation:** Reduces foreign revenue when converted, but lowers import costs and decreases interests on foreign borrowings.
  3. **Foreign Investment Flows:** Foreign investors intending to buy real estate may find it more attractive when INR is weaker. Conversely, it may discourage foreign investors when INR is stronger.

EXPANSION PLAN

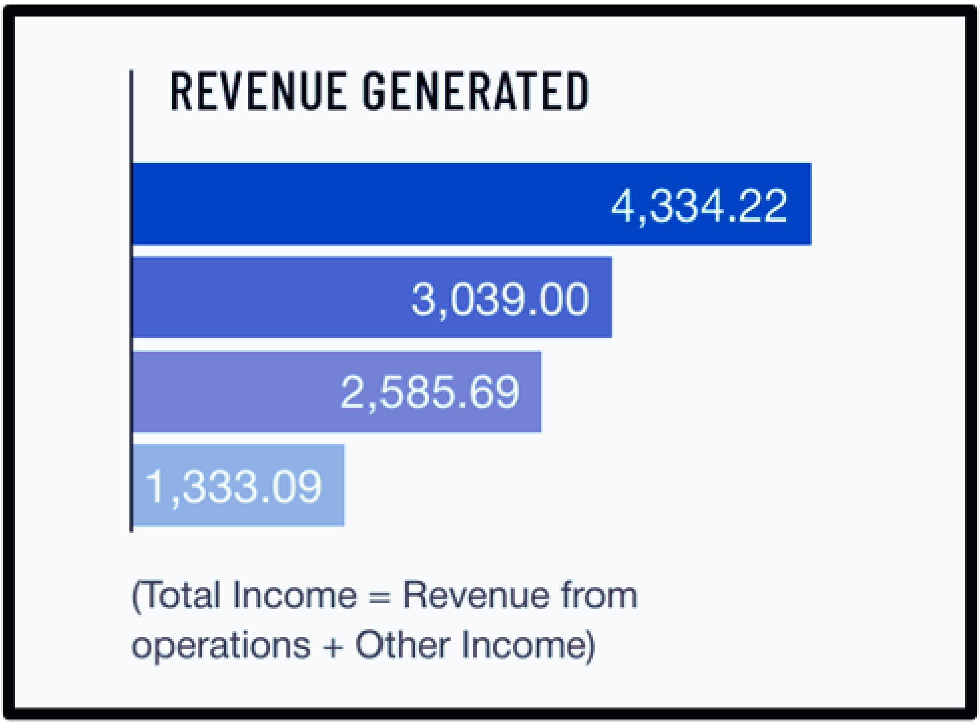
Expansion Plans: Godrej Properties has aggressively expanded its portfolio through substantial land acquisitions and project launches. In FY24, the company acquired 10 land parcels across major cities like Delhi-NCR, Bangalore, Hyderabad, and Nagpur, collectively adding about 18.9 million square feet of saleable area. These acquisitions are part of an ambitious expansion strategy that includes plans to launch residential projects valued at ₹30,000 crore in FY25. This represents a significant increase over previous years, with an aim to achieve 20% growth in sales bookings for the year.

Benefits for Investors: Godrej Properties' expansion strategy is promising for investors due to several reasons:

- **Revenue Growth**: The company's robust project pipeline and land acquisitions are likely to drive revenue growth and profitability, as evidenced by its record sales bookings of ₹22,527 crore in FY24.

- **Market Positioning**: By targeting high-demand regions, the company is well-positioned to capture market share, which supports long-term value creation.

- **Risk Diversification**: Expanding across multiple cities mitigates market-specific risks and enhances revenue stability, making it a sound investment choice.



Revenue Growth last 4 FY's

INCOME STATEMENT ANALYSIS

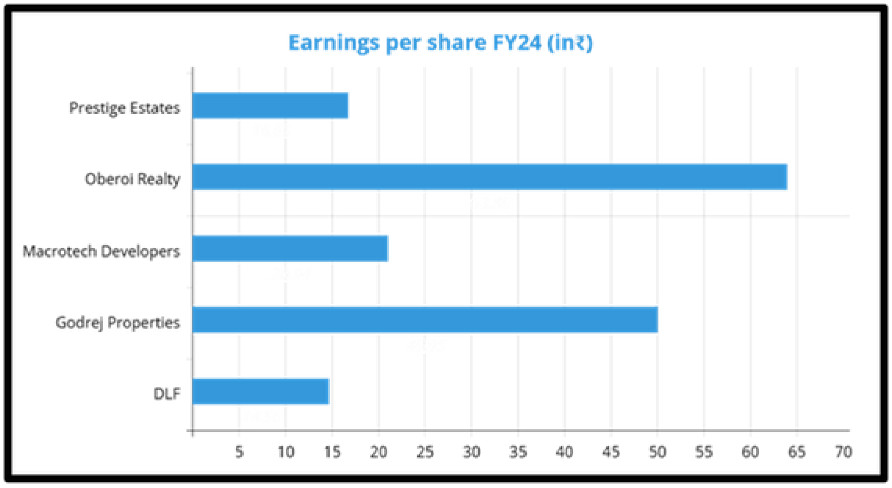
Godrej Properties delivered an impressive **sales growth of 34.8%**, with total sales reaching **₹3,036 crore** in FY 2023-24. However, despite this strong performance, total expenses surged by **52.61%**, resulting in a **negative operating profit of ₹130 crore**.

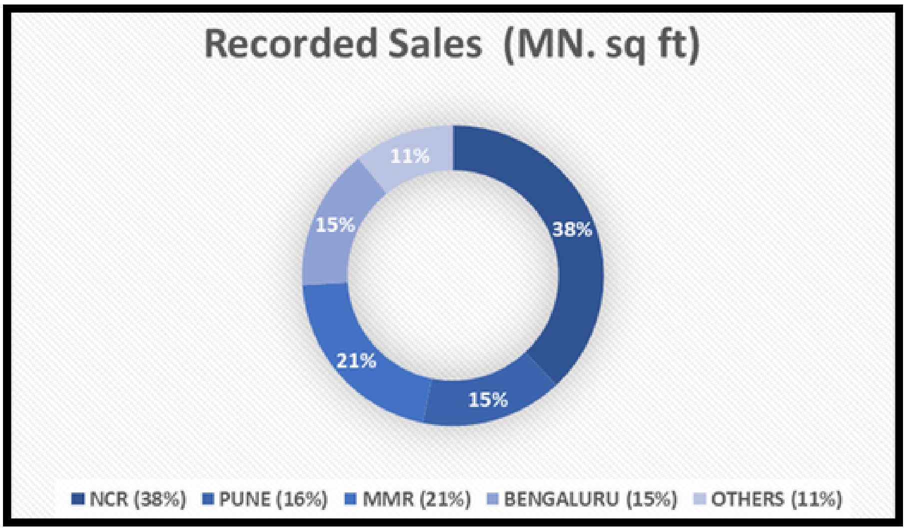
The company's **interest costs increased by 90% year-on-year**, primarily due to borrowing for expansion activities, including the acquisition of several companies.

Interestingly, despite operating losses, the company achieved a **PAT (Profit After Tax) growth of 20.38%**, thanks to a significant boost in **other income**, which stood at **₹1,298.60 crore**, reflecting a year-on-year growth of **65.06%**. Out of this, **₹497 crore** came from acquisitions, including Godrej Vestamark LLP, Dreamworld Landmarks LLP, Maan Hinje Township Developers LLP, and Godrej Home Constructions Private Limited.

Key financial highlights:

- **Earnings Per Share (EPS):** Grew from ₹20.55 to ₹26.08, marking an annual growth of **26.94%**. Over the past five years, EPS has grown at an average rate of **20.3% per year**.
- Over the last five years:
    - **Revenue growth:** 6.15% annually (compared to the industry average of 3.63%).
    - **Net income growth:** 23.43% annually (compared to the industry average of 14.25%).

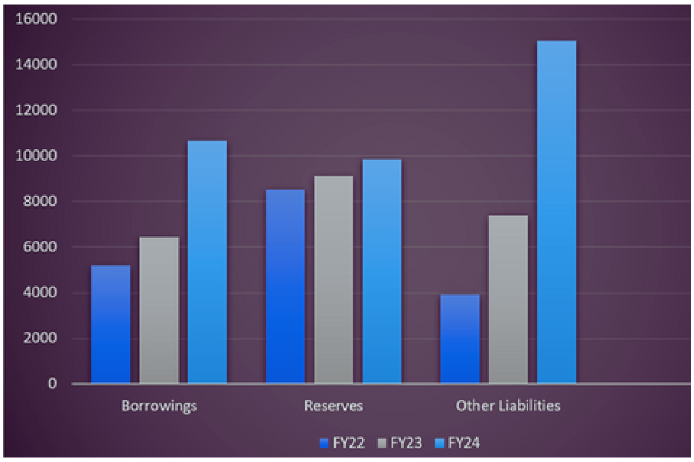




BALANCE SHEET ANALYSIS

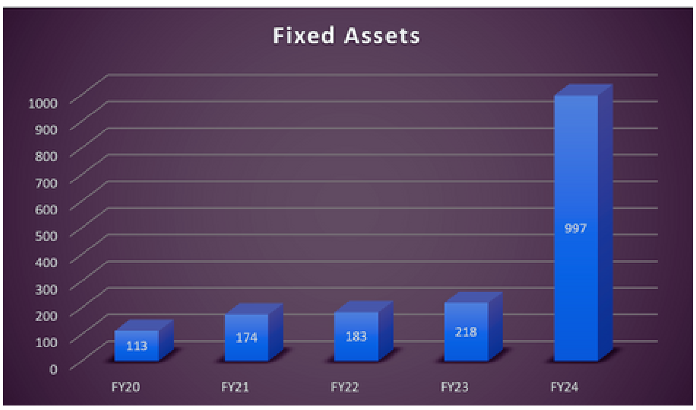
Liability Side:

- **Growth in Reserves:** Godrej Properties ltd showed a robust growth in reserves which increased by almost 8% in March 2024. This rise reflects the company's strong profitability and effective retention of earnings, indicating the company's financial stability and ability to sustain operations without solely relying on external financing.
- **Increase in Borrowing:** The balance showed a sudden increase in borrowing of the company in FY2024. The long-term borrowings increased by Rs. 2660 crores which was due to the issue of unsecured debentures by the company, for the purpose of land acquisition for future growth. The short-term borrowings rose by 25%, which might not be a good sign, since it shows the company's inability to meet working capital needs from the revenue generated by it.
- **Other Liabilities:** There was an increase in other liabilities by almost 51%, most of which was due to the increase in advances from customers, indicating future growth in revenue from upcoming projects.



Assets :

- **Increase in Fixed Assets:** Fixed Assets increased from Rs. 218 crore to Rs. 997 crore in FY2024. Investment properties comprising land and building comprises most of the increase in these fixed assets, showing rapid growth and expansion.
- **Other Assets:** Other assets of Godrej Properties increased by almost 60%, mainly due to the rise in inventories. This indicates the company's upcoming projects under construction which in turn shows its effort to meet consumer demands.
- **Cash Equivalents:** The cash equivalents increased by 45% from the previous year during the FY2024. This rise was due to the increase in current account balance of the bank, likely due to availability of free reserves or fundraising from recent issue of securities. This gives the company financial strength and boosts liquidity.



RATIO ANALYSIS

- **Profitability Ratios**
  - **Net Profit Margin:** For FY2024 the company's net profit margin was 16.6% down from 19.1% in FY2023. This was majorly because of increase in finance cost due to increase in gross debt and on account of advertisement and marketing cost incurred for new projects launched during the year.
  - Return on Capital Employed: For FY2024 the company reported ROCE of 6.27% down from 7.32% in FY2023. This can be attributed to the drop in net profit margin and operating profit margin of the company. Increase in operating costs of ongoing projects have also played a major role.
  - **Return on Equity:** For FY2024 the company reported 7.5% ROE a remarkable increase from 6.4% in FY2023. This highlights that the company is able to generate wealth for its shareholders in the form of new investments and their returns. A rising ROE also suggests that in the long-term investors are to benefit from the stock.
- **Leverage Ratios**
  - **Debt Service Ratio:** For FY2024 the company reported a debt service ratio of 1.53 a significant drop from 2.15 in FY2023. An ideal ratio is 1.5 which indicates that the company is facing problems while incurring finance costs. The gross debt of the company has also increased compared to previous year which has led to higher portion of inflows being used to incur finance costs.
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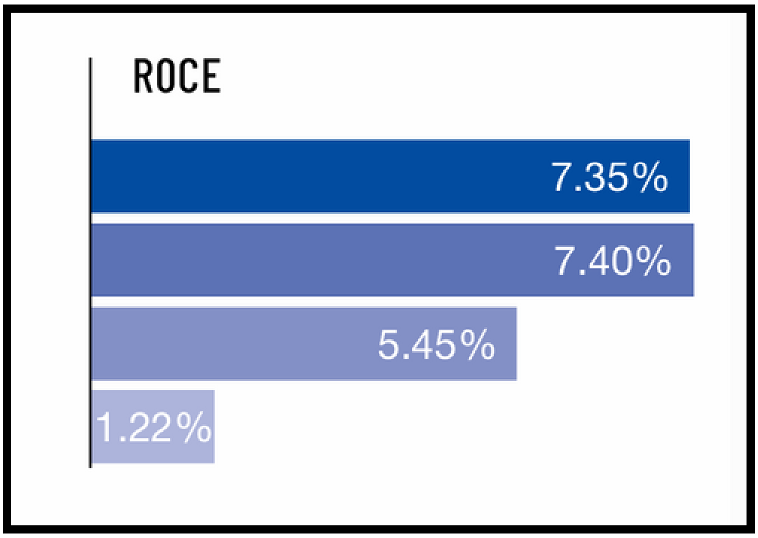
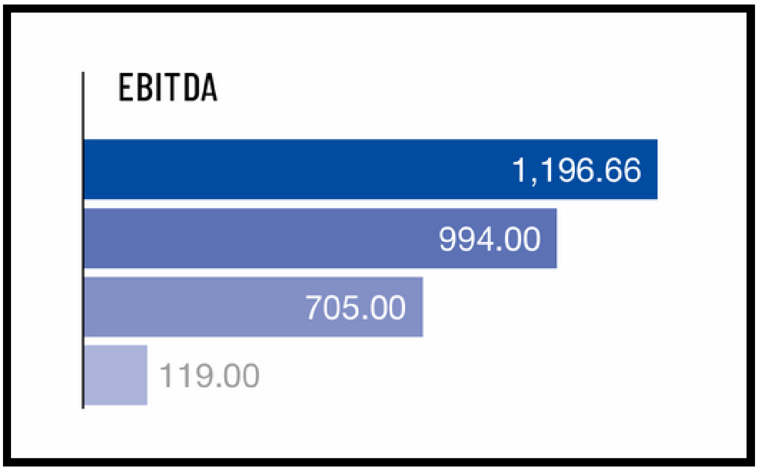
  - **Debt Equity Ratio:** The debt equity ratio in FY2024 stood at 0.62, up from 0.39 in FY2023. This is mainly on account of increase in debt due to issue of additional non-convertible debentures. Another major reason is the utilization of surplus funds for new developmental projects in the year.
- **Efficiency Ratios**
  - **Inventory Turnover Ratio:** Godrej Properties reported ITR of 0.10 in FY2024 down from 0.14 in FY2023. The company added new projects during the year which has led to a rise in inventory. This justifies the decrease in the inventory turnover ratio.
  - **Trade Receivables Turnover Ratio:** In FY2024 the company reported trade receivables turnover ratio of 6.79 which is a stunning increase from 5.13 in FY2023. This improvement is mainly on account of improvement in the collection cycle during the current year compared to previous year. It puts the company in a better position compared to its peers.
  - **Return on Assets:** The company reported a return on assets of 2.02 in FY2024, down from 2.47 in FY2023. This metric is measured by dividing net income by total assets. The fall has been due to a deterioration in the net income of Godrej Properties. It has also made significant investments in land, plant machinery, buildings and other fixed assets. Hence the company is looking on a long-term horizon to generate returns from its assets.

- **Valuation Ratios**
  - **Earnings per Share:** For FY2024 EPS stood at ₹26.09 up from ₹20.55 for the previous year. This reflects the growth of the company's core business despite taking a hit in margins. It also highlights the effective strategies of management which can create immense value for investors in the long run.
  - Price to Earnings Ratio (P/E) Ratio: As of November 2024, P/E ratio stood at 52.6 which indicates the stock is valued fairly relative to its current earnings. It also shows that the investors have high expectations due to the growth opportunities.
- **Liquidity Ratios**
  - **Current Ratio:** The current ratio for FY2024 stood at 1.43 marginally down from 1.46 in FY2023. Despite the decline the company has enough short-term assets including cash and cash equivalents to meet its current liabilities and obligations. Therefore, the company has a stable liquidity position.
  - **Quick Ratio:** The ratio for the current reporting period was 0.46 compared to 0.59 in previous year. A marginal decrease has been noticed but the company is able to meet its short-term obligations with ease.



ROCE of last four FY's



EBITA Growth of last four FY's

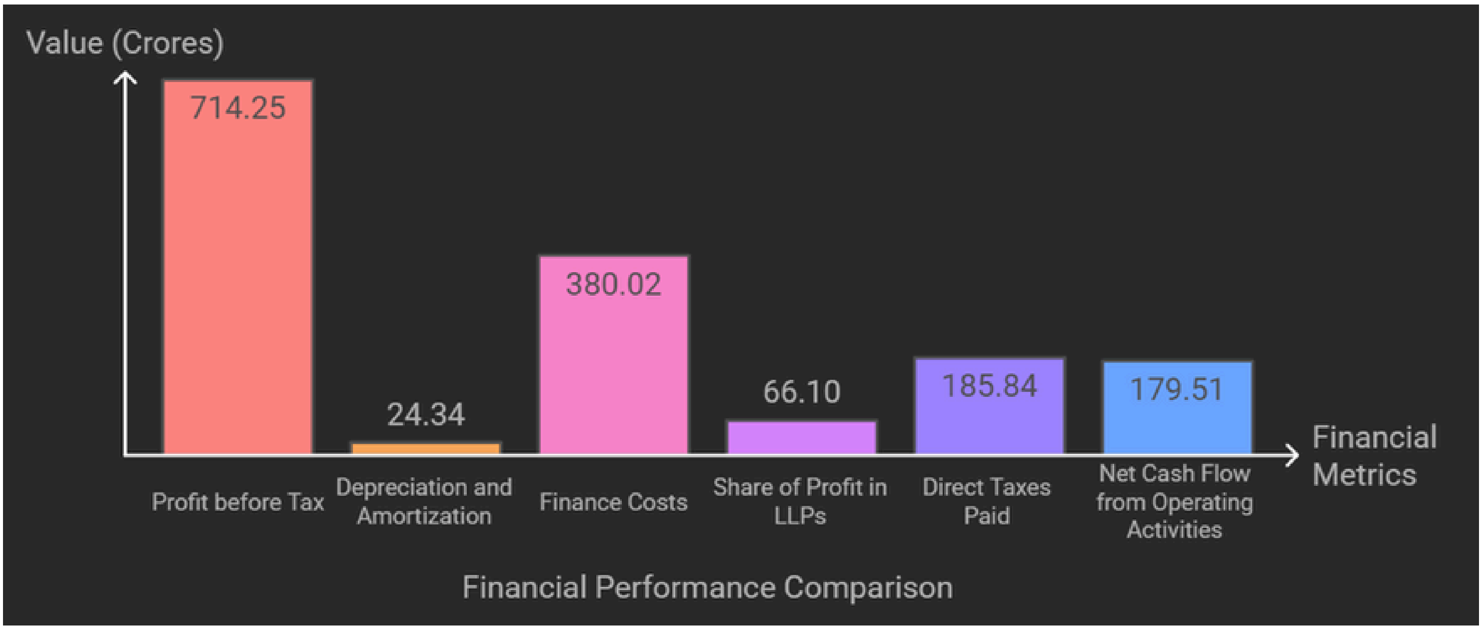
CASH FLOW STATEMENT ANALYSIS

Cash Flow from Operating Activities

Profit before Tax: The company reported a profit before tax of 714.25Crores in the current period compared to 830.54Crores in the previous period, indicating a decline in profitability.
Adjustments:

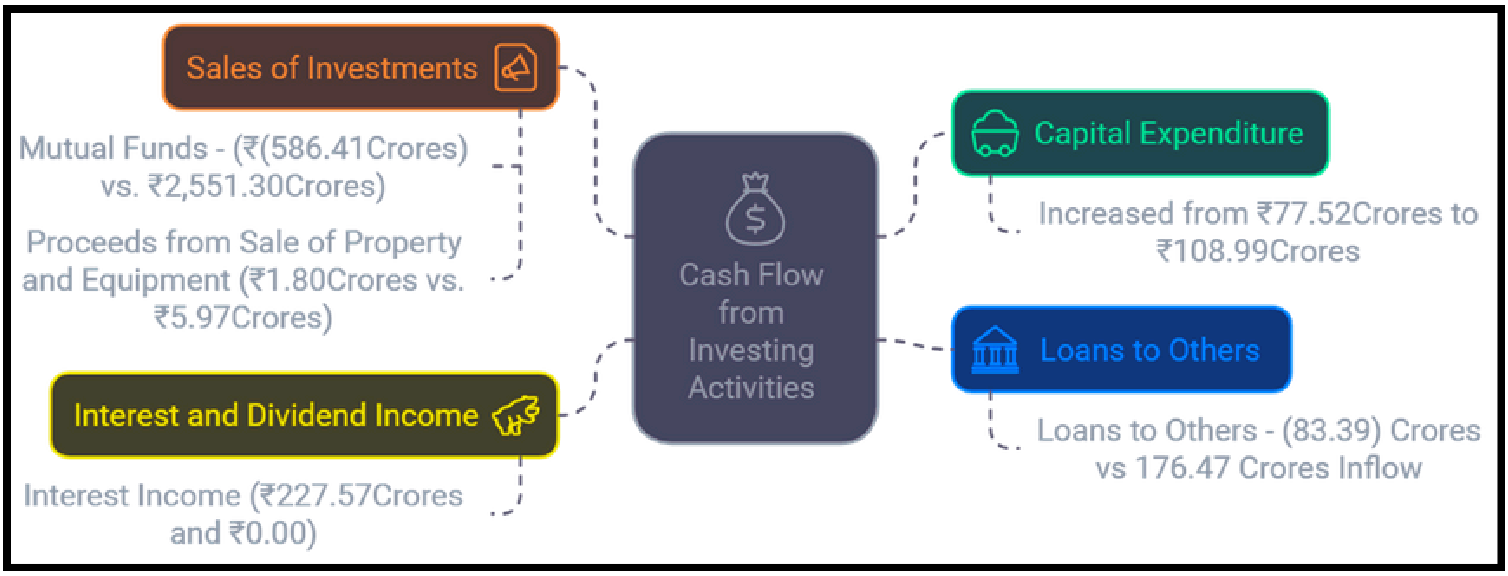
- **Depreciation and Amortization:** Increased from 18.96Crores to 24.34Crores, reflecting higher asset depreciation, which could also be attributed to the acquisition of Assets worth 108.99Crores this fiscal year.
- **Finance Costs:** Significant increase from 233.12Crores to 380.02Crores, indicating rising interest expenses-most likely due to increased borrowings
- **Loss on Sale of Assets:** A small loss recorded, suggesting minimal impact on cash flows.
- **Share of Profit in LLPs:** A reduction in profit share from 94.01Crores to 66.10Crores, which could affect cash inflows also shows that LLPs under Godrej are not doing as well as previous years.
- **Direct Taxes Paid:** Amount of Direct Taxes paid has increased from 150.67 Crores in the previous year to 185.84 Crores in the current year.

Net Cash Flow from Operating Activities: The net cash generated from operating activities was positive at 179.51Crores, a significant improvement from a negative cash flow of (1,894.46Crores) in the previous period.



Cash Flow from Investing Activities

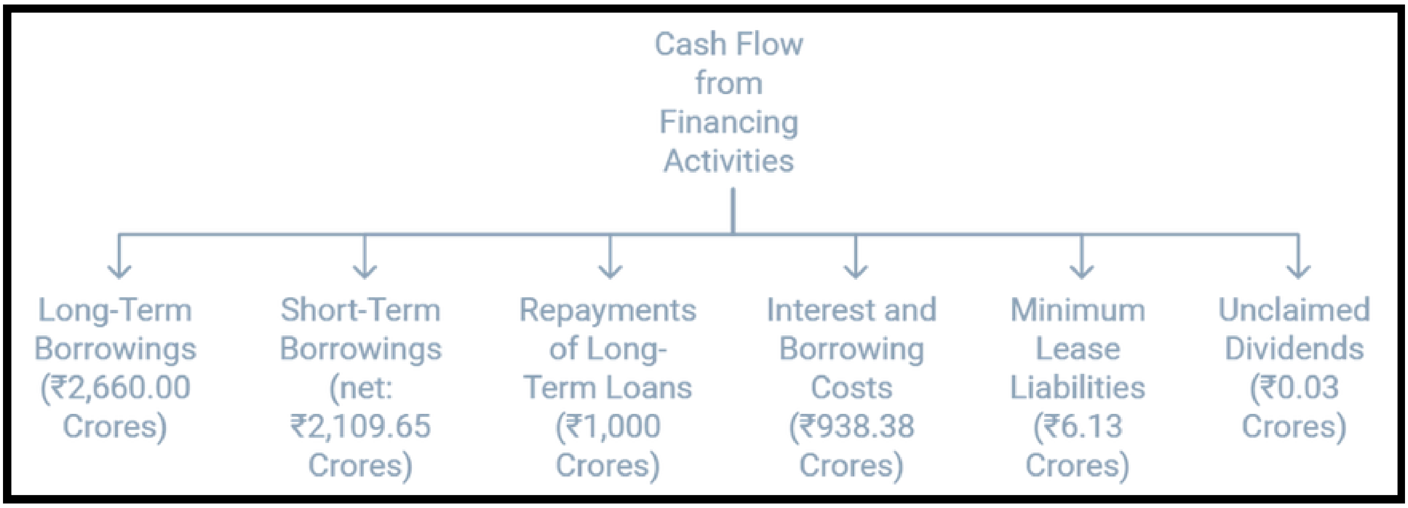
- **Capital Expenditure:** Increased slightly from ₹77.52Crores to ₹108.99Crores, showing higher investment in property and equipment.
- **Decrease in Purchase of FDs:** The investment of the company in FDs has decreased from (85.68) Crores in the Previous year to (35.86) Crores this year, signifying either increasing risk appetite of the company
- **Investment in debentures of joint ventures (Refer Note 44) 736.66 Crores**, this shows that the company is investing heavily in it's subsidiaries and joint ventures, this is also supported by further direct spending of, **Loan given to subsidiaries and joint ventures (net) 1,319.11.**
- **Positive Cash Flow of 187.96 Crores from Investments in Subsidiaries:** This shows that either the investments in the subsidiaries are doing good and reaping profits already or that the company is cutting losses and divesting it's money.
- **Loans to Others - (83.39) Crores vs 176.47 Crores Inflow,** The company shifted back to giving loans rather than recovering them, this can also be an alarm and also the question as to why a property company is needing to give out loans to other companies in this fiscal year even though they had collected a good amount of money from earlier loans the preceding year.
- **Sales of Investments in Mutual Funds (₹(586.41Crores) vs. ₹2,551.30Crores)**: This shows that the company had divested a good chunk of it's investments in mutual funds, the previous year. The decrease this year either signifies that there is a less chunk of sellable investments or that they are holding on to them for long term.
- **Proceeds from Sale of Property and Equipment (₹1.80Crores vs. ₹5.97Crores)**: This either shows that the company is not able to sell it's underperforming or obsolete assets at a worthy price of that there is a genuine decrease in such kind of assets.
- **Interest and Dividend Income (₹227.57Crores and ₹0.00)**, this amount of interest income is a good sign but still isn't good enough to offset the heavy outflows from investment activities.



Cash Flow from Financing Activities

- **Long-Term borrowings (₹2,660.00Crores), Short-Term borrowings (net: ₹2,109.65Crores) :** This shows that they have become heavily debt reliant, this reliance on debt to sustain operations and investments suggests potential over-leverage and raises questions about the company's ability to repay its obligations.
- **Repayments of 1000Cr :** They have also repaid a large chunk of Long-Term Loans.
- **Proceeds from short-term borrowings (net) 2,109.65Crores :** Short-term debt typically carries higher refinancing risks due to shorter repayment cycles.
- **Interest and Borrowing Costs 938.38 Crores :** Interest payments more than doubled, reflecting the higher debt burden.
- Payment of minimum lease liabilities and unclaimed dividends 6.13 Crores and 0.03 Crores,

It is clear from the financing activities from the company that they are aggressively moving towards debt funding, this has boosted cash flow but also increased risk.



VALUATION: DCF BASED ON TARGET PRICE

METHODOLOGY

The following steps were undertaken in conducting the DCF analysis:

Step 1- We took the historic cash flow from operating activities and net capex for the past three years to derive free cash flows. Then, we took the average of the resultant free cash flow figure for these three years.

Step 2 - We proceeded with the calculation of the Weighted Average Cost of Capital (WACC). For the calculation of the cost of equity, we have used the Capital Asset Pricing Model (CAPM). The cost of debt was obtained by dividing the interest expense by the total of long-term debt and short-term debt.

Step 3 - Further, we projected the future free cash flow for the next ten years taking the average free cash flow obtained in step 1 as the base. The WACC obtained in Step 2 was used as the discount rate for arriving at the PV of the projected cash flows.

Step 4 - We also took a terminal growth rate for discounting perpetual free cash flow after the tenth year.

Step 5- The summation of steps 3 and step 4 was taken to arrive at the total PV of future free cash flow which is also the Enterprise Value.

Step 6- The resultant value of step 5 was used to arrive at the intrinsic value of the share. We have subtracted the Net Debt from Enterprise Value (refer to step 5) to arrive at equity value. The equity value is divided by the number of shares outstanding to arrive at the intrinsic value per share.

Valuation: DCF Based Target Price Assumptions

The following assumptions were taken in preparing the DCF valuation model:

- **Growth Rate:** The projected Free Cash Flow (FCF) growth rate for the years 2024 to 2028 is set at 70%. This assumption is backed by the company's purchase of 500 aircrafts, which is also the highest single order by any airline company in the world. This order will give the company an instant boost in their operating cash flows.
  For the year 2028 to 2033, we have set the projected growth rate at 45% . This assumption reflects the idea, that the purchase order of 500 aircrafts will show enormous growth in the initial 5 years but will show a maturity phase in the last 5 years.

- **Cost of Debt:** Both long term and short term debt have been considered while computing the cost of debt. Godrej Properties Ltd has a mature debt profile and understanding the same can help us assess refinancing risks.

- **Risk-Free Rate:** The government 10-year treasury yield rate is utilized as the risk-free rate. This choice is based on the notion that it represents a risk-free and highly secure investment, making it a suitable benchmark for calculating the cost of equity.

Share Price (INR)	**1524.13**
Model Error Leeway	**10%**
Lower intrinsic Band	**1371.717**
Lower Intrinsic Value	**1676.543**

For detailed workings of the DCF valuation exercise, readers can be referred to the following link : Godrej Properties Ltd-Valuation model-XFC

COMPETITION'S VALUATION VERSUS GODREJ PROPERTIES LTD

Godrej Properties Ltd.

- **Market cap:** ₹77,202 crores.
- **Sales:** ₹3036 crores in FY 2023-24, with a 34.8% year on year growth.
- **Number Of Properties**: 102 completed projects and 10 active projects across India.
- **Profit Growth last 3 years:** Godrej Properties has delivered 70.45% of profit growth in the preceding three years.

DLF Ltd.

- **Market Cap**: ₹203,706 crores.
- **Sales:** ₹6993.46 crores in FY 2023-24, a 16% year on year growth.
- **Number of properties:** 178 completed projects and developed area of 349 million square feet.
- **Profit growth last 3 years:** DLF has shown 32.5% profit growth in the preceding three years.

Oberoi Realty

- **Market Cap:** ₹72.988 crores.
- **Sales:** ₹5093.46 crores in FY 2023-24.
- **Number of properties:** Oberoi Realty has a developed area of 95 lakh square feet with active projects in Mumbai and neighboring areas.
- **Profit growth of last 3 years:** Oberoi Realty has delivered 33.62% of profit growth for the preceding three years.

Prestige Estates

- **Market Cap:** ₹71,094 crores.
- **Sales:** ₹8126.30 crores, with 63% year on year growth.
- **Number of properties:** With 190 million square feet of area delivered Prestige has completed 300 projects and 53 are under construction.
- **Profit growth of last 3 years:** Prestige has delivered 43.67% of profit growth in the preceding three years.

EXECUTIVE SUMMARY

Summary :

Godrej Properties Ltd. is strategically positioned within the competitive landscape of the Indian real estate market. The company has demonstrated robust growth and a strong market presence through its diverse portfolio of residential, commercial, and mixed-use developments. While competitors like DLF Ltd. and Oberoi Realty have larger market capitalizations and broader project offerings, Godrej Properties' focused approach on quality, sustainability, and innovative designs allows it to maintain a competitive edge. Its strategic expansion plans, emphasis on customer satisfaction, and commitment to sustainable development further strengthen its position in the evolving real estate sector.

Disclosure :

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Researched by :

Bhoomi Bochiwal
Ashwin Singhania
Aryan Parasramka
Bhagya Surana

Visualised by :

Kritika Choudhary
Ayush Agarwal
Ashraj Kaur

Xavier's Finance Community Finance Lab, St. Xavier's College (Autonomous), Kolkata