

Ind AS transition puts focus on cash flows

Godrej Properties, Oberoi Realty and others could see lumpy revenues starting Q1FY19

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With the transition from Ind AS11 reporting for revenue recognition based on percentage completion method to Ind AS 115 of project completion (100 per cent) from April 1, 2018, real estate developers will witness a fluctuating trend of revenues. So far, developers could start recognising revenues if at least 25 per cent of the project was completed.

Among the listed developers, Godrej Properties, Sobha and Oberoi Realty will be among the major players impacted. Analysts say three of Oberoi Realty projects in Borivali, Mulund and Worli were supposed to hit revenue recognition in FY19. Given project timelines, revenues can be accounted for only after FY20. For Godrej Properties and Sobha revenue recognition and margins could become lumpy due to pan-India projects at various phases.

According to ICICI Securities' state-level definitions of contracts with customers could lead to companies following the state Real Estate Regulation Act's stipulation of project completion or percentage completion methods.

For DLF, a significant chunk of con-

solidated revenues comes from its rental arm which is not impacted by the change in provision and most projects are in the completed or completion phase. Thus, the impact on it is expected to be limited. Moreover it took a strategic decision to sell only completed projects just a couple of quarters ago. While there is no impact on annu-

ity and hospitality income of Prestige Estates Projects, recognition of the rest of its projects will take two to three years.

For investors, the revenue statement, both for the quarter and annually, will not give an accurate picture. So, investors will have to look at cash flows. Binaifer Jehani, Director, CRISIL, says,

“During the execution, in absence of interim recognition, advance from customers and work in progress will continue to be on the balance sheet. With this, cash flow statement will remain core.” From a ratings perspective, Shubham Jain, sector head, corporate ratings at ICRA believes that while the financial health based on the cash flows of companies may not be impacted much, ICRA will assess the impact of the same as things become clearer post Q1FY19.

