Cost of Capital and Capital Structure of Oberoi Realty Ltd.: A Five-Year Analysis

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Abstract
In this research paper, the cost of capital of Oberoi Realty Limited, an Indian real estate developer, has been evaluated through quantitative descriptive case study. This study analyzes the company financial data collected in the provided research materials for financial years 2021-22 to 2025-26 and estimates weighted average cost of capital (WACC) for FY2025-26. In this paper, analysis includes revenue, finance cost, profit after tax, borrowings and equity, cost of debt from borrowings interest and average borrowings, cost of equity from Capital Asset Pricing Model (CAPM), and finally, combining both using capital weights. Considering a risk-free rate of 6.96%, beta of 0.66 and equity risk premium of 7.00%, cost of equity has been estimated at 11.58%. Estimated pre-tax cost of debt is 7.62% while after-tax is 5.83%. Using market value equity and book borrowings as debt, estimated indicative WACC is approximately 11.28%. Sensitivity analysis suggests that WACC lies approximately between 10.97% and 11.60% with variation in equity risk premium between 6.50% and 7.50%. From the results, it can be said that estimate is largely influenced by equity as it constitutes about 94.82% of capital base used. The results provided are not company-reported but rather calculated based on assumptions made on market data and taxes.

Keywords: Cost of Capital, WACC, Cost of Equity, Cost of Debt, CAPM, Oberoi Realty Limited, Real Estate

1. Introduction

Cost of capital refers to the return that the capital provider expects from a company's investment. This notion is especially crucial for the field of corporate finance since it allows the managers to make decisions regarding investments, analyze financing alternatives, as well as evaluate the present value of future cash flows. Typically, a project creates financial value only if its risk-adjusted expected return is higher than the required return. Weighted average cost of capital (WACC) represents a combination of the required return on equity and the after-tax cost of debt in proportion to the corresponding weights within the capital structure of a company (Brealey et al., 2023; Ross et al., 2022).

Cost of capital is especially applicable to companies working in real estate. Real estate projects are characterized by high initial costs, long construction periods, as well as reliance on the speed of bookings, collections, occupancy, and leasing. Although the same WACC for an entire organization could be helpful as a basis, the varying risk level projects might need the application of various discount rates or scenarios to assess them.

This paper considers Oberoi Realty Limited and Cost of Capital. This paper will take into account the financial trends and data available as input for the computation in the available data, but based on the existing finance literature and references from reliable sources.

2. Company Overview

Oberoi Realty Limited is an Indian firm engaged in the business of property development and real estate assets. Financial information about such a firm is driven by its level and timing of developments, sales of its properties, commercial and hospitality services provided, its funding situation, and accounting treatment of revenue and expenses. Revenue and profits of a real estate developer may vary greatly from year to year according to project

completion stages. Hence, financial ratios must be considered in the context of operational performance, debt position, cash position, and commitment to new developments.

Accounting information is reported mainly in the annual report. The provided research data set shows consolidated information on FY2021–22 to FY2025–26 and capital structure at specific year ends.

3. Research Objectives and Questions

Objectives of this study are to:

(a) analyze the revenues, finance costs, and profits for the five-year period;

(b) calculate the cost of debt before tax and after tax for FY2025–26;

(c) calculate cost of equity through CAPM;

(d) compute indicative WACC using the market value of equity and book borrowings as the proxy for debt;

(e) check the sensitivity of WACC to the change in the equity risk premium; and

(f) formulate recommendations for capital budgeting and financing. Research questions are:

- How have revenue, PAT and finance cost varied over five years?
- To what extent is WACC sensitive to the equity risk premium?
- What precautions are required while comparing the financing data of real estate firms?

4. Literature Review and Theoretical Framework

4.1 Cost of capital and WACC

WACC stands for the weighted required return on the company's significant funding sources. In the usual formulation, it is comprised of the cost of equity and the after-tax cost of debt. The debt tax adjustment accounts for the possibility of deducting the interest payments on the tax payment,yet whether the company can actually do so depends on the tax laws and the company itself. WACC is often used as the discount rate for cash flows with a level of risk consistent with the company's current operations (Brealey et al., 2023; Ross et al., 2022).

4.2 Capital Asset Pricing Model

CAPM (Capital Asset Pricing Model) determines the required return on equity as the sum of the risk-free rate and the product of beta and equity risk premium: $Ke = Rf + \beta(ERP)$. The risk-free rate is a yield on a government bond as an example of the benchmark asset, beta is a measure of how much a stock is affected by systematic movements in the market, and the equity risk premium is a premium that investors expect for assuming the risks of investing in the equity market (Sharpe, 1964; Lintner, 1965)

4.3 Capital structure theories

Modigliani and Miller (1958, 1963) laid the groundwork for theories about capital structures, such as the role played by taxation in more realistic financing situations. The trade-off theory is based on how firms strike a balance between the advantages offered by debt through taxes and the costs associated with financial distress. The pecking order theory shows how companies choose to use their internal resources before external funding, due to information asymmetry making external financing expensive (Myers, 1984; Myers & Majluf, 1984). Agency theory also explains how financing decisions and free cash flow can influence managers' behavior (Jensen, 1986).

5. Research Methodology

The research utilizes quantitative descriptive case study methodology based on secondary data. The main unit of analysis is the financial statement. Financial trends are considered for FY2021-22 to FY2025-26. The WACC calculation relies on the financial data of FY2025-26 and market data found in the provided dataset. Numbers mentioned in lakhs have been converted to crores by dividing by 100. Calculations of ratios and weights of factors have been repeated whenever possible.

The cost of debt has been calculated by dividing borrowing related interest by average interest-bearing debt at opening and closing of the year. The formula of division of total finance cost by interest bearing debt at closing of the year is not applicable since finance cost may contain additional finance expenses and interest bearing debt at closing does not necessarily reflect the debt level throughout the whole year. The cost of equity has been calculated using CAPM. The market value of equity equals share price multiplied by number of outstanding shares. The book value of borrowings is used as a measure of debt market value since its reliable estimation could not be made based on the reviewed dataset.

This analysis is descriptive in nature and no causal inferences have been made nor do any statistical significances arise in the data. This is because the beta value input is not verified to be the exact value at one point in time as that of 31 March 2026 and effective tax rate is used in place of tax rate.

6. Five-Year Financial Performance

Table 1 shows the financial trend given in the research data. Values have been presented in ₹ crore.

Financial Year	Revenue from Operations	Finance Costs	Profit after Tax
FY 202-22	2,693.97	86.03	1,047.10
FY 2022-23	4,192.58	169.05	1,904.55
FY 2023-24	4,495.79	218.44	1,926.60
FY 2024-25	5,286.27	265.23	2,225.51
FY 2025-26	6,009.06	240.63	2,507.43

Source: Provided research data set based on Oberoi Realty Limited financial statements and results of the company from FY2021-22 to FY2025-26.

The revenue from operations grew every year, from ₹2,693.97 crore in FY2021-22 to ₹6,009.06 crore in FY2025-26, which marks a growth of around 123%. The profit after tax also showed an upward trend, growing from ₹1,047.10 crore to ₹2,507.43 crore during the period. The growth trends show a large amount of growth in reported operating scale and profit. However, real estate revenue is affected by project completion, possession and recognition, as well as the nature of business. Profit is affected by taxes, other income, joint ventures, and exceptional items.

Financing costs have gone up from ₹86.03 crore in the fiscal year 2021-22 to ₹265.23 crore in 2024-25 and then gone down to ₹240.63 crore in the fiscal year 2025-26. Financing costs and the cost of debt are different. The amount is affected by factors such as average borrowings, interest rate, capitalized borrowing costs, etc. As such, the drop in the most recent year cannot be taken to mean that there has been a drop in borrowing rates.

7. Capital Structure and Borrowings

Metric	March 31, 2025	March 31, 2026
Borrowings in Total including Current Liabilities (₹ crore)	3,300.40	2,816.23
Cash and Cash Equivalents (₹ crore)	267.67	175.68
Total Equity (₹ crore)	15,704.87	17,921.62

Debt/Equity Ratio as Reported	0.21	0.16

Source: Research Dataset supplied, derived from the consolidated accounts of Oberoi Realty Limited, together with ratio analysis information.

The borrowings dropped by about 14.7% during the period between March 2025 and March 2026, while equity grew by 14.1%. The ratio of debt to equity fell from 0.21 to 0.16. This suggests an improvement in gross leverage at the year end in the current period. The cash and cash equivalents have dropped, and therefore it is important to look at gross debt and net debt separately.

8. Estimation of Cost of Debt

The pre-tax cost of debt is calculated by taking borrowing interest divided by average interest-bearing debt. According to the provided data, the borrowings interest on amortized cost is ₹23,309.65 lakh or ₹233.0965 crore. The opening value of borrowings on 31 March 2025 is ₹3,300.3979 crore and the closing value of borrowings on 31 March 2026 is ₹2,816.2250 crore.

Step 1: Average debt = (Opening debt + Closing debt) / 2 = (₹3,300.3979 crore + ₹2,816.2250 crore) / 2 = ₹3,058.3115 crore.

Step 2: Pre-tax cost of debt (Kd) = Interest on borrowings / Average debt × 100 = ₹233.0965 crore / ₹3,058.3115 crore × 100 = 7.62% approximately.

Step 3: Effective tax rate proxy = Tax expense / Profit before tax = ₹768.1809 crore / ₹3,275.6082 crore × 100 = 23.45% approximately.

Step 4: After-tax cost of debt = Kd × (1 − T) = 7.6217% × (1 − 0.234516) = 5.83% approximately.

Note: 7.62% is analytical estimate and not contractually disclosed interest rate. Interest in the numerator is borrowings interest whereas total finance cost can have unwinding of financial liability and other borrowings cost net of capitalization to projects. Effective tax rate is taken as proxy and may be different from marginal tax rate applicable for interest deduction.

9. Cost of Equity through CAPM

CAPM is employed to calculate the required return on equity. The chosen inputs for the provided data set are as follows.

Inputs	**Values**	**Source of Input Data**
Risk Free Rate (Rf)	6.96%	Yield on 10-year Government Bond of India as of 31 March 2026
Beta (β)	0.66	Public data market; period of observation may vary from end of year
Equity Risk Premium (ERP)	7.00%	Incwert India Equity Risk Premium Study 2025

CAPM equation: Ke = Rf + β × ERP.

Ke = 6.96% + (0.66 × 7.00%) = 6.96% + 4.62% = 11.58%.

The cost of equity is thus calculated to be 11.58%. The required return calculation above is based on the chosen CAPM assumptions and is neither dividend yield nor accounting return on equity. According to Incwert (2025), the Indian equity risk premium suggested by Incwert for 2025 is 7.00%, with a range of 6.50% to 7.50% (Incwert, 2025). Beta has a timing restriction since it is not proven to be a point-in-time observation at the end of the financial year.

10. Market Value of Equity and Capital Weighting

The provided data indicate that there were 36.3602237 crore equity shares outstanding as at 31 March 2026 and that the share price is ₹1,419, which was taken from the most recent trade before year-end (30 March 2026).

Market Value of Equity = Share Price × Outstanding Shares = ₹1,419 × 36.3602237 crore = ₹51,595.16 crore approximately.

Capitalization for WACC calculation = Market Value of Equity + Book Value of Borrowings = ₹51,595.16 crore + ₹2,816.23 crore = ₹54,411.38 crore.

Capital Component	Value (₹ crore)	Weight
Market Value of Equity	51,595.16	94.82%
Book Borrowings to Serve as a Debt Proximate	2,816.23	5.18%
Total	54,411.38	100.00%

Equity Weight = 51,595.16/ 54,411.38 = 94.82%. Debt Weight = 2,816.23 / 54,411.38 = 5.18%
Value of Equity is taken in the numerator since WACC takes into account current required returns of the investors. The use of book borrowings in place of the debt market value is one drawback. Cash is not subtracted from the debt.

11. Weighted Average Cost of Capital (WACC)

WACC comprises the cost of equity and the after-tax cost of debt on a weighted basis as follows: WACC = (E/V × Ke) + (D/V × Kd × (1 − T)).
Based on our estimates: WACC = (0.948242 × 11.58%) + (0.051758 × 5.8343%) = 10.978% + 0.302% = 11.28% approx.

Component	Cost	Weight	Weighted Contribution
Cost of Equity	11.58%	94.82%	10.98%
After-Tax Cost of Debt	5.83%	5.18%	0.30%
Indicative WACC	—	100.00%	11.28%

Our estimate indicates that the cost of equity dominates the calculation of WACC since equity accounts for close to 95% of the capital structure employed to calculate WACC. Despite the fact that the estimated after-tax cost of debt is lower compared to cost of equity, the weight of debt is low and contributes 0.30 percentage points to WACC.

12. Sensitivity Analysis

Since equity risk premium (ERP) is a subjective measure and not an accounting measure, sensitivity analysis will look at how the WACC varies with variation in ERP while the rest of the inputs remain the same.

ERP Assumption	Cost of Equity Using CAPM	Indicative WACC
6.50%	11.25%	10.97%
7.00%	11.58%	11.28%
7.50%	11.91%	11.60%

Source: Author calculation based on the inputs given in the provided research data set; ERP range is in line with Incwert (2025).

As per the scenario range, it is apparent that the WACC varies from 10.97% to 11.60% as the ERP changes from 6.50% to 7.50%. It is a scenario analysis and not a confidence interval in statistics. The risk-free interest rate, beta, share price and capital structure can vary in reality. Thus, capital budgeting must consider both discount rate and cash flow assumptions.

13. Peer and Industry Context

The provided data includes some selected FY2025-26 figures for Oberoi Realty, DLF Limited and Prestige Estates Projects Limited. The provided figures are valuable for context but not an exact one as the three firms can have a different reporting for revenue figures, portfolio, joint venture, debts and capital structure.

Metric (₹ crore)	Oberoi Realty	DLF Limited	Prestige Estates Projects
Revenue / Total Income	6,009.06	9,816.04	13,195.50
Finance Costs	240.63	199.07	158.24
Profit After Tax / Net Profit	2,507.43	4,415.00	1,305.40

Source: Provided research data set, extracted from the companies' annual financial reports for FY2025–26. Labels for revenue metric may differ across companies, need to be standardised to draw accurate conclusions.

The figures above indicate that a bigger total of finance costs does not automatically imply a larger cost of debt. Finance costs are based on average level of debt, interest rates, percentage of borrowing costs capitalised into project, and other factors. In order to conduct a proper peer WACC analysis, consistent same-day stock prices, number of outstanding shares, betas, risk free rate, equity risk premium, and other inputs must be verified. The provided data do not allow to verify all of these parameters. Therefore, this paper will not make up peer WACC estimates.

14. Discussion

Trends for the last five years reflect growth in income and profits after tax. Meanwhile, finance charges rose during the period until FY2024-25 before falling in FY2025-26. Moreover, the most recent year-end exhibits lower borrowings and debt-to-equity ratio. In general, these trends may be considered a sign of lower gross leverage at year-end, although they do not prove on their own the causes behind the changes in borrowings by management or the optimality of the capital structure used.

According to the trade-off theory, debt can have a tax shield effect but is associated with fixed obligations and potential distress costs. For a real estate developer, debt may be suitable when financial resources match the flow of the funds and progress in construction work. Nevertheless, postponed approvals, slower sales and cost overrun or

lower collections make borrowing riskier. Another possible perspective of analysis is the pecking order theory, which might be applicable when cash flows can cover a portion of capital expenditures.

The indicative WACC of 11.28% could be used as a first benchmark hurdle rate for projects with risks that are equivalent to the firm's current business environment. The rate should not automatically be used for all projects. The introduction of a new geographic region, longer time before revenue generation or highly uncertain sales would call for a special risk evaluation of each project. On the other hand, a stable rental property with fixed cash flows might differ from a residential project with expected future sales.

15. Recommendations

First, managers and analysts should use WACC as one of the factors in their capital budgeting process. Each individual project needs to be evaluated based on its expected cash flows, net present value, risk scenarios etc.

Secondly, the company should make a distinction between interest costs and the overall cost of finance in its computation of the cost of debt. Each calculation of the WACC needs to clarify whether interest cost capitalized in the project is included or not. Also, the calculation of average debt needs to be made clear.

Thirdly, the input data for the CAPM must always be recorded when the WACC is being revised. The dates for risk-free rate, maturity, beta benchmark and observation window, the source of ERP and date of share price should all be documented. If it is possible, it would be best to estimate the beta using a series of periodic returns relative to the index of broad Indian stock market.

Fourthly, it will be necessary to monitor liquidity and net debt together with gross borrowing and debt-to-equity ratio. Cash balance, maturity structure, committed construction expenditure and expected receipts from customers are essential factors in assessing the financial resilience of a property developer.

Fifthly, sensitivity analysis must be used by the firm in its investment appraisals. Different discount rates and operating assumptions like sales rate, realized prices, construction costs, timing of completion and lease occupancy must be considered under various scenarios. A corporate WACC would be best applied where the project risk is similar to the current operations of the business.

Finally, peer benchmarking must use consistent line items in the audited accounts with equivalent definitions.

16. Limitations of the Study

There are many constraints to this study. First of all, WACC is an academic estimate made using publicly available information and assumptions, but it is not officially disclosed by the company itself. The beta may not be validated as being equal to the point-in-time estimate on 31 March 2026. The equity risk premium may vary from that which is needed by a certain investor and it is derived from an external study. Effective tax rate is considered instead of the marginal tax rate associated with the debt tax shield.

The book borrowings are taken as a proxy for the market value of debt. The share price at the latest available observation in the year is used to represent the market value of equity. There are other elements included into finance costs, apart from interest on borrowings, as well as capitalized borrowing costs may influence finance costs. There is a selection bias in the peer comparison since it is based on a number of reports, and not a fully normalized dataset.

17. Conclusion

This report analyzed the cost of capital of Oberoi Realty Limited based on its financial trend over five years and FY2025-26 projection. The revenue from operations has risen from ₹2,693.97 crore in FY2021-22 to ₹6,009.06 crore in FY2025-26, whereas the profit after tax has grown from
₹1,047.10 crore to ₹2,507.43 crore. Finance cost went on increasing until FY2024-25 but fell to
₹240.63 crore in FY2025-26. Borrowings have come down from ₹3,300.40 crore in March 2025 to ₹2,816.23 crore in March 2026, whereas the debt-equity ratio has been reduced from 0.21 to 0.16.

With the risk-free rate of 6.96%, beta of 0.66, and ERP of 7.00%, the estimated cost of equity would be 11.58%. The estimated pre-tax cost of debt will be 7.62% using interest of ₹233.10 crore and average debt of ₹3,058.31 crore,

whereas after considering the 23.45% effective tax rate, the estimated after-tax cost of debt would be 5.83%. Using estimated market value of equity of
₹51,595.16 crore and borrowings of ₹2,816.23 crore, the WACC estimated by us would be around 11.28%. The sensitivity analysis shows the range of 10.97% – 11.60% based on ERP assumptions of 6.50% – 7.50%.

In conclusion, the key takeaway from the estimation is that the WACC calculation is heavily biased towards equity since equity forms about 94.82% of the capital base considered. This WACC can be used in initial project evaluation of projects with similar risks, but it should be frequently revised and complemented with project-specific scenarios.

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