

Shriram Properties Limited

January 08, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Issuer Rating	-	CARE BBB+(Is); Stable (Triple B Plus (Issuer Rating); Outlook: Stable)	Reaffirmed

Details of instruments/facilities in Annexure-1

*The issuer rating is subject to the overall debt (including subsidiaries/JVs) not exceeding Rs.1350 crore as on March 31, 2021.

Detailed Rationale & Key Rating Drivers

The issuer rating assigned to Shriram Properties Limited (SPL) continues to derive strength from its established presence in the Bengaluru real estate market. While the company's sales and collections remained satisfactory in FY20 but was impacted considerably during Q1FY21. However, with easing of lockdown restrictions, there has been gradual improvement on month-on-month basis and the sales velocity has already reached to pre-Covid levels by November month. The rating continues to positively factor in asset light policy adopted by the group as well as diversifying into fee based development management model and the group's demonstrated ability to raise the funds through Private Equity channel and satisfactory liquidity profile of the group.

The ratings are however constrained with moderate execution risk with inordinate delays witnessed in certain projects especially located outside Bengaluru, thin profitability of the projects and high reliance on customer advances to fund the project. With large pipeline of upcoming projects to be launched, it is necessary for the company to maintain healthy sales momentum which otherwise would lead to increase in unsold inventory levels. The rating is also tempered by losses reported by the company during FY20 leading to decline in networth levels, significant share of real estate business concentrated in Bengaluru and cyclicity associated with real estate sector. The rating takes note of postponement of IPO listing of the company which has further delayed in providing exit to investors. The rating also takes note of restructuring plans of the group given the high debt repayments due in FY22.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Significant improvement in sales velocity and collections from the projects while maintaining satisfactory construction progress and overall gearing <1.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Increase in debt due to decline in sales velocity or collection efficiency.
- Delay in project execution or sales momentum in turn leading to liquidity stress.

Detailed description of the key rating drivers

Key Rating Strengths

Stable sales velocity and collections during FY20 albeit moderation during H1FY21: Company's sales in FY20 continued to remain healthy at 3.25 msf and has managed to collect Rs.1017.3 crore as against sales of 3.58 msf and collections of Rs. Rs.877.8 crore in FY19 backed by healthy pre-sales in new project launches and improvement in performance in development management (DM) segment. Improvement in sales translated into improvement in collections which further led to lower reliance on debt. However, group's sales momentum has witnessed decline during H1FY21 on account of muted demand scenario due to COVID-19 and postponement of new launches during the period. Company achieved sales of 0.65 msf and collected Rs.263.1 crore during H1FY21. However, with the launch two new projects during Q3FY21, company has achieved sales of 1.6 msf as of December 2020 and company has achieved collections in line with pre-covid collection run rate during October 2020 and November 2020.

Going forward, improvement in sales momentum and collections is expected primarily backed by revival in demand and strong pipeline of projects under launch. However given the large projects in pipeline, stable collections are critical for completing the projects within timelines.

Satisfactory execution track record with strong pipeline of ongoing projects: SPPL, since inception in the year 2000, has completed projects with saleable area of 15.83 msf mainly in residential segment. The projects had been moderately concentrated in Bengaluru with 9.66 msf and 4.73 msf in Coimbatore and Chennai and remaining in Vizag. As on Sep'20, the group has strong pipeline of ongoing projects with SPL's saleable area of 14.06 msf (excluding DM projects: area released for sale) of which about 48% is in Bengaluru. Company has sold 81% of the area released for sale till Sep'20.

Demonstrated capability to mobilize funds through PE channel: Owing to renowned 'Shriram' brand and past track record of satisfactory construction of the project, group has been able to attract investments by PE funds. Since inception, the group has attracted FDI of USD 640 mn, the highest in any real estate company at group and SPV levels. This has also supported

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

company's lesser reliance on debt funding the project. Company had earlier filed draft prospectus for IPO however has postponed plans on account of unfavourable market scenario and is currently planning to re-file for the same. Timely raising of funds and providing exit to investors as per shareholder agreement would be a key rating monitorable.

Asset light policy adopted by the company and diversifying into fee based development management model: The group has started increasing its focus on JDA/JV projects. At present, 8 projects (out of 14) are being done on JDA basis. The arrangement not only helps in limiting upfront capital commitment but also in lowering the project costs. Group has also started executing projects under development management (DM) model, wherein the group would develop the projects of other builders/land owners on commission basis of sales ranging from 8% to 16% on project to project basis and the same is expected to result in margin accretion. Currently 5 projects with saleable area of 4.46 msf is being executed under this model and sales contribution from DM projects have been on an increasing trend with 25.5% of total area sold came from DM projects during FY20 (FY19: 19.3%).

Part of Shriram group: SPL is part of renowned Chennai-based Shriram group, which came into existence in 1974. The group has presence across various segments of financial services industry, engineering and real estate development. Some of the group companies include Shriram Transport Finance Company Limited (rated CARE AA+/Negative/A1+), Shriram City Union Finance Limited (rated CARE AA; Stable/A1+) and Shriram EPC Limited (rated CARE D).

Key Rating Weaknesses

Moderate execution risk with high dependence on customer advances: Overall construction cost progress on the ongoing projects is at 56.78% as on Sep'20 (Dec'19: 50.82%) indicating moderate execution risk. Though the overall project progress appears to be satisfactory, certain projects (especially outside Bengaluru projects) have seen inordinate delays leading to increase in construction cost and impacting overall profitability. Of the total project cost (excluding DM projects) Rs. 4267 crore pertaining to ongoing projects and Rs.2756 crore has been incurred as on September 30, 2020 and company has a healthy receivable cover ratio of 73.23% on remaining construction cost to be incurred and debt outstanding. However company has huge projects in pipeline to be launched and hence the stable collections are critical for the group in timely completion of the projects.

Thin profitability of projects: Gross margins are relatively lower due to group's strategy to sell major part of project at launch stage itself at relatively lower prices. Though the same results in lower margins but it also ensures visibility on cashflows and lower reliance on debt.

Liquidity: Adequate

Group's liquidity position remains adequate with unencumbered cash and bank balance of Rs. 113.3 crore as on November 28, 2020. Company continues to have a comfortable receivable cover ratio of 73.23% (Dec'19:71.41%) against balance construction cost and debt outstanding as on December 31, 2019. Further, group had undrawn bank lines of Rs. 143.3 crore. Group had availed moratorium for the period of April 2020 to August 2020. Company has also applied for restructuring of for allowing 2 year moratorium period and the proposal is under consideration and if granted would aid in medium term cash flow and lower reliance in additional debt for project.

Analytical approach: Consolidated view of SPL along with its SPVs are taken for analysis given the strong operational, management and financial linkages among the entities. List of subsidiaries and joint ventures consolidated are mentioned in Annexure 4.

Applicable Criteria

[CARE's Issuer Rating](#)

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's policy on Default Recognition](#)

[Financial Ratios-Non Financial Sector](#)

[Rating Methodology: Consolidation](#)

[Rating Methodology- Real Estate Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

About the Company

Shriram Properties Limited (SPL), real estate arm of Shriram group, largely operates in residential real estate segment. The company since inception, on consolidated basis, has completed projects with saleable area of 15.35 msf. As on September 30, 2020, company is undertaking 14 residential projects (excluding DM projects) with total saleable area of 14.06 msf (SPL's share).

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	702.41	587.36
PBILDT	59.55	48.09
PAT	48.94	-86.44
Overall gearing (times)	0.88	0.84
Interest coverage (times)	0.53	0.38

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 5

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN No.	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Issuer Rating-Issuer Ratings	-	-	-	-	0.00	CARE BBB+ (Is); Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Issuer Rating-Issuer Ratings	Issuer rat	0.00	CARE BBB+ (Is); Stable	1)CARE BBB+ (Is); Stable (03-Apr-20)	1)CARE BBB+ (Is); Stable (09-Apr-19)	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

Annexure 4: (List of Subsidiaries and joint ventures consolidated as on March 31, 2020)

Name of the entity	% of shareholding
Subsidiary Companies	
Bengal Shriram Hitech City Private Limited	100.00%
Shriprop Developers Private Limited	100.00%
Global Entropolis (Vizag) Private Limited	100.00%
Shriprop Structures Private Limited	100.00%
SPL Housing Projects Private Limited	100.00%
SPL Constructors Private Limited	100.00%
Shriprop Constructors Private Limited	100.00%
Shriprop Homes Private Limited	100.00%
Shriprop Projects Private Limited	100.00%
Shriprop Properties Private Limited	100.00%
SPL Shelters Private Limited	100.00%
Shriprop Builders Private Limited	100.00%
Shrivision Homes Private Limited	100.00%
SPL Realtors Private Limited	51.00%
Joint Venture	
Shrivision Towers Private Limited	50.00%
SPL Towers Private Limited	51.00%
SPL Estates Private Limited	50.00%
Shriprop Hitech City Private Limited	50.00%
Shriprop Living Space Private Limited	51.00%

Annexure 5: Complexity level of various instruments rated for this company: Not Applicable

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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