# Shriram Properties Limited

February 11, 2022

**Ratings**

| Facilities/Instruments | Amount (Rs. crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Issuer rating | 0.00 | CARE BBB+ (Is); Positive [Triple B Plus (Issuer Rating); Outlook: Positive] | Reaffirmed; Outlook revised from Stable |

Details of instruments/facilities in Annexure-1
*The issuer rating is subject to overall debt (including subsidiaries and JVs) not exceeding Rs.1100 crore as on March 21,2022

**Detailed Rationale & Key Rating Drivers**
The revision in outlook assigned to the Issuer rating of Shriram Properties Limited (SPL) factors in sizeable launches planned and likelihood of improved sales velocity in favourable residential real estate market scenario. At the same time, debt reduction post Initial Public Offer (IPO) and efforts to reduce cost of borrowings would also aid in improvement of its operational cash flow.
The issuer rating continues to derive strength from SPL's established presence in the Bengaluru real estate market, improvement in sales and collections during 9MFY22 vis-à-vis FY21 which was impacted due to COVID-19 pandemic and increased contribution of fee-based development management (DM) model in the overall revenue. CARE Ratings Ltd. notes the successful IPO (Initial Public Offer) listing of the company in December 2021 and consequent debt prepayment of Rs. 200 crore (Rs. 140 crore already paid and another Rs. 60 crore is earmarked) from the IPO proceeds.
The rating is however constrained with moderate execution risk on account of increased launches in the past one year. Company's ability to timely deliver the project is also imperative to report profits as increased overheads has resulted in losses reported by the company during FY20, FY21 and H1FY22. It is also important to further improve collection efficiency considering thin profitability margin of the projects and high reliance on customer advances to fund the project. While the reliance of debt for project execution is low, the interest cost on the debt outstanding is relatively high. CARE Ratings Ltd notes the planned efforts of the company to reduce its interest cost, however, effective materialization of the same would be crucial from credit perspective. The rating is also tempered by significant share of real estate business concentrated in Bengaluru and cyclicality associated with real estate sector.

**Rating Sensitivities**
**Positive Factors - Factors that could lead to positive rating action/upgrade:**
- Significant improvement in sales velocity and collections from the projects along with delivery of projects thereby turning company's operations profitable on sustained basis.
- Improvement in unsold inventory level to below 21 months and reduction in average cost of borrowings by 200 bps

**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.

**Outlook: Positive**
The revision in outlook from 'Stable' to 'Positive' reflects the expected improvement in sales velocity aided by continuous launches and the likely improvement on cash flows on account of debt and interest rate reduction. The outlook may be revised to "Stable" in case of lower than envisaged improvement in sales velocity or reduction in interest cost.

**Detailed description of the key rating drivers**
**Key Rating Strengths**
**Improved sales velocity and collections during 9MFY22:** During FY21, despite subdued sales momentum during H1FY21 due to COVID-19 pandemic, the company was able to achieve sales of 3 msf (including DM sales of 1.05 msf) as against 3.25 msf (including DM sales of 0.83 msf) achieved during FY20. With normalization of COVID-19 situation, the sales momentum has shown improvement and reached pre-covid levels with sales of 2.59 msf during 9MFY22 vis-à-vis 1.65 msf during 9MFY21 and 2.48 msf during 9MFY20.
Further, the company has received collections of Rs.631 crore (including DM fees) during 9MFY22 as against Rs. 622 crore (including DM fees) during FY21 i.e. run rate of Rs. 70 crore per month as against Rs. 52 crore per month achieved in FY21.
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, further improvement in collections is critical for completing the projects within timelines.

**Satisfactory execution track record with strong pipeline of ongoing projects:** SPL has more than 2 decades of experience in the real estate sector and is one of the leading developers in South India particularly in Bangalore. As on September 30,2021, SPL has completed projects with saleable area of 16.76 msf mainly in residential segment. The projects

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

had been majorly concentrated in Bengaluru with 11.81 msf and 4.26 msf in Coimbatore and Chennai and remaining in Vizag. As on Sep'21, the group has strong pipeline of ongoing projects with SPL's saleable area of 19.49 msf (excluding DM projects: area released for sale) of which about 48% are in Bengaluru. Company has sold 75% of the area released for sale till Sep'21.

**Successful completion of IPO in December 2021:** During December 2021, the company completed its IPO aggregating Rs. 600 crore out of which Rs. 250 crore was through fresh issue and remaining through offer for sale. Out of the proceeds of fresh issue of Rs. 250 crore, Rs. 200 crores are planned to be utilized for pre-payment for group debt (Rs. 140 crore already paid and balance Rs. 60 crore is earmarked) and remaining for general corporate purpose. Share price of company is currently lower than listing price.

**Asset light policy adopted by the company and diversifying into fee based development management model:** Group had 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 5% to 15% on project to project basis and the same is expected to result in margin accretion. Currently 10 projects with saleable area of 4.76 msf is being executed under this model and sales contribution from DM projects have been on an increasing trend with 35% and 46% of total area sold came from DM projects during FY21 and 9MFY22 respectively (FY20: 25.5%).

**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.

**Industry Prospects:** The residential real estate segment was witnessing a slowdown from 2016 due to a pile-up of unsold inventory, stalled projects, demonetization and weak demand following rising property rates. The COVID-19 outbreak has halted construction in short term and impacted material supply.
However, it witnessed an upward trajectory in Q3 2021 with 65% increase in quantum of sales vis-à-vis Q2 2021. Boost in sales was on the back of lower Covid-19 cases in the third quarter backed by a fast-paced vaccination drive which led to cautious unlocking of the economy in various states. Further, there was a 21% increase new residential launches in Q3 2021 Q2 2021.
Bangalore and Chennai registered growth in sales by 46% and 150% respectively on the back of reduced Covid-19 cases in Q3 backed by robust vaccination drive and robust hiring by IT companies as well as renewed vigour to take advantage of the lower mortgage rates and stagnant prices by the buyers.
Reduction in home loan rates coupled with improved buyer confidence augur well for the residential sector. With the residential prices holding steady along with various incentives offered by developers, the residential market is likely to build on these gains.

**Key Rating Weaknesses**

**Moderate execution risk with high dependence on customer advances:** Overall construction cost progress on the ongoing projects is at 58.7% as on Sep'21 (Sep'20: 56.8%) indicating moderate execution risk. The overall project progress appears to be satisfactory in light of increased launches in the past one year of approximately 2.81 msf (excluding DM projects). Further, the company has taken measures to expedite the execution in certain projects (especially outside Bengaluru projects) which have seen inordinate delays in the past leading to increase in construction cost and impacting overall profitability.
Of the total project cost (excluding DM projects) Rs. 6884 crore pertaining to ongoing projects and Rs.4041 crore has been incurred as on September 30, 2021 and company has a moderate receivable cover ratio of 51.82% (including projects under JDA/JV) 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. At the same time, despite of satisfactory sales velocity and collection efficiency, the entity is still reporting losses at net level primarily on account of non -recognition of revenue from under construction projects as per Ind AS-115 while overhead cost incurred has been expensed out. Going forward, with higher number of projects expected to be delivered, the profitability margins are expected to improve.
The company is also working upon reduction in interest, which otherwise is relatively higher than its peers. However, effective materialization of the same would be crucial from credit perspective.

**Liquidity: Adequate**
Group's liquidity position remains adequate with unencumbered cash and bank balance of Rs. 43.58 crore as on September 30, 2021. Company have a satisfactory receivable cover ratio of 51.82% (Dec'19:73.23%) against balance construction cost and debt outstanding as on September 30, 2021. Further, group had undrawn bank lines of Rs. 224.90 crore as on September 30,2021. Post the IPO in December 2021, the company has prepaid debt of Rs. 200 crore from its proceeds which is expected to reduce its debt servicing obligations in the near future.

**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 6.

**Applicable Criteria**
Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Issuer Rating
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Rating methodology for Real estate sector

**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 16.76 msf. As on September 30, 2021, company is undertaking residential projects with total saleable area of 19.49 msf (SPL's share excluding DM projects). The company successfully got listed on BSE and NSE during December 2021.

| Brief Financials (Rs. crore) | 31-03-2020 (A) | 31-03-2021 (A) | H1FY22 (A) |
|---|---|---|---|
| Total operating income | 590.90 | 468.11 | 136.70 |
| PBILDT | 49.46 | 87.86 | 18.63 |
| PAT | -86.44 | -68.22 | -60.02 |
| Overall gearing (times) | 0.84 | 0.90 | NA |
| Interest coverage (times) | NM | NM | NM |

A: Audited; NM: Not Meaningful; NA: Not Available
**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 4

**Annexure-1: Details of Instruments / Facilities**

| Name of the Instrument | ISIN | 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); Positive |

**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 2021-2022 | Date(s) & Rating(s) assigned in 2020-2021 | Date(s) & Rating(s) assigned in 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 |
| 1 | Issuer Rating-Issuer Ratings | Issuer rating | 0.00 | CARE BBB+ (Is); Positive | - | 1)CARE BBB+ (Is); Stable (08-Jan-21)<br>2)CARE BBB+ (Is); Stable (03-Apr-20) | 1)CARE BBB+ (Is); Stable (09-Apr-19) | - |

* Long Term / Short Term

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

**Annexure 4: Complexity level of various instruments rated for this company**

| Sr. No | Name of instrument | Complexity level |
|---|---|---|
| 1 | Issuer Rating-Issuer Ratings | Simple |

**Annexure 5: Bank Lender Details for this Company**
To view the lender wise details of bank facilities please **click here**

**Annexure 6: List of entities consolidated**

| 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 (w.e.f. June 30, 2019) | 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 (w.e.f. January 29, 2020) | 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 (w.e.f April 01, 2019) | 50.00% |
| Shriprop Hitech City Private Limited | 50.00% |
| Shriprop Living Space Private Limited | 51.00% |
| Shriprop Properties Private Limited | 27.71% |

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

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**About CARE Ratings Limited:**

Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.

With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.



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