

Shriram Properties Limited

September 28, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Issuer rating Issuer rating	-	-	Reaffirmed at CARE BBB+; Positive and Withdrawn

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has withdrawn the outstanding Issuer ratings of 'CARE BBB+; Positive' (Triple B; Outlook: Positive) assigned to Shriram Properties Limited (SPL) with immediate effect. The above action has been taken at the request of SPL.

The issuer rating continues to derive strength from Shriram Properties Limited's (SPL) established presence in the Bengaluru real estate market, healthy sales and collections during FY23 and Q1FY24 aided by continuous launches and continuing positive residential real estate scenario. On the back of its large upcoming project pipeline, CARE Ratings Limited (CARE Ratings) expects SPL to sustain sales momentum. SPL's fee-based development management (DM) model income has contributed consistently to the profits along with revenue recognition in couple of projects helped SPL report profits at the net level during FY23.

While the sales momentum and collection efficiency has improved, the ratings are constrained on account of moderate execution pace of the projects. While there has been higher construction spend by the company during FY22 and FY23 to increase the pace of execution; sustained improvement of the same would be a credit positive. Nevertheless, resolution of non-compete fee payable by the company with regards to its Kolkata project is also important. The rating is also tempered by significant share of real estate business concentrated in Bengaluru and cyclicity associated with the real estate sector.

Analytical approach: Consolidated view of SPL along with its special purpose vehicles (SPVs) are taken for analysis given the strong operational, management and financial linkages among the entities.

Outlook: Positive

Positive outlook reflects expectation of CARE Ratings on the likelihood of continuing improvement in sales with several launches in pipeline. Better collections along with reduction in interest rates would help SPL in improving construction progress for its projects while maintaining debt and comfortable levels.

Detailed description of the key rating drivers:

Key strengths

Consistent improvement in the sales velocity and collections: During FY23, SPL has sold around 4.0 msf of area against 3.76 msf in FY22 with a total sales value of ₹1,846 cr which improved by 25% when compared to ₹1,482.4 cr in FY22. The company was able to collect around ₹1,093 cr in FY23 against ₹1,183 cr in FY22. As on June 30, 2023, the company was able to sell around 55% of the total area launched for sales and due to high launches in the last quarter FY23 the company's unsold inventory level stood at around 35 months against 26 months as on March 31, 2022.

Satisfactory execution track record with strong pipeline of ongoing projects: SPL has more than two decades of experience in the real estate sector and is one of the leading developers in South India particularly in Bangalore. As on June 30, 2023, SPL has completed projects with saleable area of 22.65 msf mainly in residential segment. The projects had been majorly concentrated in Bengaluru (60%) and Chennai (23) and remaining in Coimbatore and Vizag. As on June 30, 2023, the group has strong pipeline of ongoing projects with SPL's saleable area of 16.12 msf (excluding DM projects: area released for sale) of which the company was able to sell around 55% of the area released for sale till June 30, 2023.

Part of Shriram group: SPL is part of the 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.

Asset light policy adopted by the company and diversifying into fee-based development management model: The group had started executing projects under 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 the company has around 10 ongoing projects under DM model with 5.3 msf of saleable area as on March 31, 2023. Except for some employee and administrative cost, no significant cost is incurred for execution of DM projects resulting in high profitability. Thus, increased income from DM projects contributes positively to the overall profitability of the company and is one of the major reasons from improved profitability during FY22 and FY23.

Key weaknesses

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

Moderate execution risk: The overall construction cost progress on the ongoing projects is at 39.54% as on June 30, 2023 (March 2022: 40.09%) indicating moderate execution risk. The overall project progress appears to be satisfactory in light of increased launches in the past two years. SPL has launched around seven projects with saleable area of 3.8 msf (excluding DM projects). During FY23, it was able to sell around 44% of area launched for sales during the initial stage of launch. Furthermore, 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 the overall profitability. The company has a moderate receivable cover ratio of 46% (including projects under JDA/JV) on remaining construction cost to be incurred and debt outstanding. However, the 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 though improved in FY22 and FY23: Gross margins are relatively lower due to the group's strategy to sell major part of the project at launch stage itself at relatively lower prices. Though the same results in lower margins, it also ensures visibility on cashflows and lower reliance on debt. During FY20 and FY21, the company has been reporting losses at the 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. Furthermore, the net profits have improved and stood at ₹68.25 cr during FY23 as compared to ₹18.03 cr during FY22 majorly on account of the company selling the completed inventory along with DM fees. The company is also working upon reduction in interest and have reduced its average cost of borrowing to 11.90% as on June 30, 2023 vis-à-vis 13.9% as on December 31, 2022, however, it is still relatively higher than its peers. Effective reduction in interest cost in line with its peer group would be crucial from credit perspective.

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](#)

[Policy on Withdrawal of Ratings](#)

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Realty	Realty	Residential, Commercial Projects

SPL, the real estate arm of the Shriram group, largely operates in residential real estate segment. The company since inception, on consolidated basis, has completed 31 projects with saleable area of 22.63 msf. As on June 30, 2023, the company is undertaking 18 residential projects with total saleable area of 16.12 msf and is also undertaking 11 projects under DM model. During December 2021, the company came out with its IPO and is listed on BSE and NSE.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24(UA)
Total operating income	433.98	678.04	157.17
PBILDT	98.14	47.01	53.33
PAT	18.03	68.25	16.63
Overall gearing (times)	0.49	0.54	NA
Interest coverage (times)	0.81	0.44	1.62

A: Audited UA: Unaudited; NA: Not available; Note: 'the above results are latest financial results 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: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Issuer rating-Issuer ratings	-	-	-	-	0.00	Withdrawn

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Issuer rating-Issuer ratings	Issuer rat	-	-	-	1)CARE BBB+; Positive (26-Dec-22) 2)CARE BBB+ (Is); Positive (23-Sep-22)	1)CARE BBB+ (Is); Positive (11-Feb-22)	1)CARE BBB+ (Is); Stable (08-Jan-21) 2)CARE BBB+ (Is); Stable (03-Apr-20)

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable**Annexure-4: Complexity level of the various instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Issuer Rating-Issuer Ratings	Simple

Annexure-5: Lender details

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	
Global Entropolis (Vizag) Private Limited	100.00%
Shriprop Builders Private Limited	100.00%
Shriprop Constructors Private Limited	100.00%
Shriprop Developers Private Limited	100.00%
Shriprop Homes Private Limited	100.00%
Shriprop Projects Private Limited	100.00%
Shriprop Structures Private Limited	100.00%
SPL Constructors Private Limited	100.00%
SPL Shelters Private Limited	100.00%
Shrivation Homes Private Limited	100.00%
Shriram Living Spaces Private Limited	100.00%
Shriram Upscale Spaces Private Limited	100.00%
Shrivation Elevation Private Limited	100.00%

SPL Palms Developers Private Limited	100.00%
Bengal Shriram Hitech City Private Limited	99.90%
SPL Estates Private Limited	99.90%
SPL Realtors Private Limited	51.00%
Joint Venture	
Shriprop Properties Private Limited	100.00%
SPL Housing Projects Private Limited	100.00%
Shriprop Living Spaces Private Limited	51.00%
SPL Towers Private Limited	51.00%
Shrivation Towers Private Limited	50.00%
Shriprop Hitech City Private Limited	50.00%

Note on the complexity levels of the rated instruments: CARE Ratings 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 us:

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