

Shriram Properties Limited

September 23,2022

Rating

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

Details of instruments/facilities in Annexure-1

*The issuer rating is subject to overall debt (including subsidiaries and JVs) not exceeding Rs.1000 crore as on March 21,2023

Detailed Rationale & Key Rating Drivers

The issuer rating continues to derive strength from Shriram Properties Limited's (SPL) established presence in the Bengaluru real estate market, improvement in sales and collections during FY22 and Q1FY23 aided by continuous launches and continuing positive residential real estate scenario. On the back of its large upcoming project pipeline, CARE expects SPL to sustain sales momentum. SPL's fee-based development management (DM) model income has increased notably which along with revenue recognition in couple of projects helped SPL report profits at net level during FY22. As was noted earlier, SPL's consolidated debt had reduced following IPO which stands at Rs. 876 crore (including JV debt) as on June 30, 2022. Company's effort in reduction in cost of borrowings yielded results with average cost of borrowing at 12.5% as on June 30,2022 vis-à-vis 13.9% as on December 31,2022 though still remains high.

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 Q1FY23 to increase the pace of execution; sustained improvement of the same would be a credit positive. CARE Ratings Ltd. notes advanced stages of resolution of the impending issues in Vishakhapatnam. Nevertheless, resolution of non-compete fee payable by 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 cyclical nature associated with real estate sector.

Rating Sensitivities

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

- Sustained higher sales velocity and collections from the projects along with further improvement in construction progress thereby receivable cover improving to more than 70%.

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

Positive outlook reflects 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. The outlook may be revised to "Stable" in case of lower than envisaged improvement in sales velocity or lower construction spending.

Detailed description of the key rating drivers

Key Rating Strengths

Improved sales velocity and collections during FY22 and Q1FY23:

With normalization of COVID-19 situation, the sales momentum has shown improvement and reached pre-covid levels with sales of 3.76 msf during FY22 vis-à-vis 3.00 msf during FY21 and 3.25 msf during FY20. The sales momentum continues to show improved trend with sales of 0.66 msf achieved during Q1FY23 as against 0.55 msf achieved during Q1FY22.

Further, the company has received collections of Rs.874 crore (excluding DM fees) during FY22 as against Rs. 616 crore (excluding DM fees) during FY21 i.e. run rate of Rs. 73 crore per month as against Rs. 51 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.

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

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 March 31, 2022, SPL has completed projects with saleable area of 17.49 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 March'22, the group has strong pipeline of ongoing projects with SPL's saleable area of 17.73 msf (excluding DM projects: area released for sale) of which about 35% are in Bengaluru. Company has sold 57% of the area released for sale till March'22.

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 were planned to be utilized for pre-payment for group debt (Rs. 180 crore already paid and balance Rs. 20 crore is earmarked) and remaining for general corporate purpose. This has resulted in improvement in overall gearing of the company to around 0.49x as on March 31, 2022 as against 0.90x as on March 31, 2021. 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 11 projects with saleable area of 5.51 msf is being executed under this model and sales contribution from DM projects have been on an increasing trend with 28% and 35% of total area sold came from DM projects during FY22 and FY21 respectively. 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 reason from improved profitability during FY22.

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, there is a revival seen in residential real estate with Q1FY23 witnessing highest launches of 95,550 units in Tier 1 cities including Bangalore, Chennai, Kolkata etc where the group has ongoing projects. Further, y-o-y sales grew by 15% in Q1FY23 with 77,015 units sold as against 57,093 units sold in Q1FY22. Due to the strong residential demand in the last two years, the volume of stock or inventory has significantly declined with monthly inventory reduced from 48 months in Q1FY22 to 36 months in Q1FY23.

In Bangalore and Chennai registered growth in sales by 15% and 13% respectively given the strong economic outlook, rising income and pandemic induced home ownership desire. While cost inflation led price hike by developers and interest rate hike impacted the customers decision to some extent; the same is expected to be short term in nature.

Key Rating Weaknesses

Moderate execution risk with high dependence on customer advances: Overall construction cost progress on the ongoing projects is at 40.09% as on Mar'22 (Sep'21: 51.04%) indicating moderate execution risk. The overall project progress appears to be satisfactory in light of increased launches in the past one year of approximately 4.04 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. 5498 crore pertaining to ongoing projects and Rs.2744 crore has been incurred as on March 31, 2022 and company has a moderate receivable cover ratio of 62% (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 though improved in FY22: 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. During FY20 and FY21, the company has been 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. However, during FY22, the SPL reported profits of Rs. 17.69 crore at net level primarily

on account of increased contribution from DM Project income of Rs. 91.98 crore. Going forward, with higher number of projects expected to be delivered and growing DM income, the profitability margins are expected to improve.

The company is also working upon reduction in interest and have reduced its average cost of borrowing to 12.5% as on June 30,2022 vis-à-vis 13.9% as on December 31,2022, however, it is still is relatively higher than its peers. Effective reduction in interest cost in line with its peer group would be crucial from credit perspective.

Liquidity: Adequate

Group's liquidity position remains adequate with unencumbered cash and bank balance of Rs. 120.93 crore as on June 30, 2022 (Rs. 43.57 crore as on September 30,2021). Further, it is to be noted while there is liquidity is consolidated level, majority of the same (Rs. 120.28 cr) is in subsidiaries wherein the cash flow fungibility is limited. SPL has a satisfactory receivable cover ratio of 62% (Sep'21:52%) against balance construction cost and debt outstanding as on March 31, 2022. Further, group had undrawn bank lines of Rs. 206 crore as on March 31,2022.

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

[Consolidation](#)

[Policy on default recognition](#)

[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)	31-03-2021 (A)	31-03-2022(A)	Q1FY23 (UA)
Total operating income	468.17	517.80	145.11
PBILD	110.59	196.51	35.50
PAT	-68.22	17.69	10.47
Overall gearing (times)	0.90	0.49	NA
Interest coverage (times)	0.86	1.64	1.37

A: Audited; UA: Un-Audited; 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 (₹ 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 (₹ crore)	Rating	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	Date(s) and Rating(s) assigned in 2019-2020
1	Issuer Rating-Issuer Ratings	Issuer rat	0.00	CARE BBB+ (Is); Positive	-	1)CARE BBB+ (Is); Positive (11-Feb-22)	1)CARE BBB+ (Is); Stable (08-Jan-21) 2)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: 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](#)

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.

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%
SPL Estates Private Limited (w.e.f 08 February 2022)	100.00%
Joint Venture	
Shrivision Towers Private Limited	50.00%
SPL Towers Private Limited	51.00%
Shriprop Hitech City Private Limited	50.00%
Shriprop Living Space Private Limited	51.00%

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About CARE Ratings Limited:

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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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