Shriram Properties Limited

April 03, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long term Bank Facilities	-	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, 2020.

Detailed Rationale & Key Rating Drivers

The issuer rating assigned to Shriram Properties Limited (SPL) continues to derive strength from it being part of resourceful Shriram group and established presence in the Bengaluru real estate market, healthy booking status on ongoing projects of the company resulting in improvement in unsold inventory levels, however, with large pipeline of upcoming projects to be launched unless sales momentum picks up, the same is expected to moderate again, improvement in sales and collections during FY19 and the same remaining stable during 9MFY20, 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, high reliance on customer advances to fund the project, significant share of real estate business concentrated in Bengaluru and cyclicality associated with real estate sector. The rating also takes note of postponement of IPO listing of the company on account of current market scenario.

Rating Sensitivities

Positive Factors

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

Negative Factors

- Increase in debt due to decline in sales velocity or collection efficiency.

Detailed description of the key rating drivers

Key Rating Strengths

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+/Stable/A1+), Shriram City Union Finance Limited (rated CARE AA+; Stable/A1+) and Shriram EPC Limited (rated CARE D).

Improvement in sales and collections during FY19 and stable sales velocity and collections maintained in 9MFY20: Company's sales have witnessed improvement from 2.4 msf in FY18 to 3.6msf in FY19 and further it has remained stable at 2.48 msf during 9MFY20 backed by healthy pre-sales in new project launches and improvement in performance in DM segment. Consistent improvement in sales led to decline in unsold inventory levels from 23 months to 15 months. Improvement in sales translated into improvement in collections which further led to lower reliance on debt. However the group has large projects in pipeline hence the 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 Dec'19, the group has strong pipeline of ongoing projects with SPL's saleable area of 16.34 msf (area released for sale) of which about 48% is in Bengaluru. Company has sold 75.06% of the area released for sale till Dec'19.

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 company's lesser reliance on debt funding the project.

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 10 projects (out of 20) 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

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

expected to result in margin accretion. Currently 5 projects with saleable area of 3.9 msf is being executed under this model and sales contribution from DM projects have been on an increasing trend with 33.2% of total area sold came from DM projects during 9MFY20 (FY19: 19.3%).

Key Rating Weaknesses

Moderate execution risk with high dependence on customer advances: The construction progress on the ongoing project was at 44.78% till Dec'19 (Dec'18: 41.95%) implying 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 Rs. 4607 crore pertaining to ongoing projects and Rs.2457 crore has been incurred as on December 31, 2019 and company has a healthy receivable cover ratio of 73.68% on remaining project 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.

Liquidity: Adequate

Group's liquidity position remains comfortable with unencumbered cash and bank balance of Rs. 230 crore (including investments in mutual funds of Rs.105 crore) as on Dec'19. company continues to have a comfortable receivable cover ratio of 73.68% (Dec'18:75.17%) against balance construction cost and debt outstanding as on December 31, 2019. Further, group had undrawn bank lines of Rs. 315.8 crore.

Analytical approach: Consolidated view of SPL alongwith its SPVs are taken for analysis given the strong operational, management and financial linkages among the entities. List of subsidiaries consolidated are mentioned in Annexure 3.

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch'
CARE's policy on Default Recognition
Financial Ratios-Non Financial Sector
Rating Methodology: Consolidation and Factoring Linkages in Ratings
Rating Methodology- 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 15.35 msf. As on December 31, 2018, company is undertaking 14 residential projects with total saleable area of 12.56 msf (SPL's share: 11.58 msf). As on Mar'18, Shriram group was holding 43% in SPL while remaining 57% was held by PE investors.

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

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	382.20	702.41
PBILDT	59.90	59.54
PAT	349.90	48.94
Overall gearing (times)	0.83	0.87
Interest coverage (times)	0.65	0.53

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Issuer Rating-Issuer Ratings	Issuer rat	0.00	CARE BBB+ (Is); Stable	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 December 31, 2019)

Sl. No.	Name of the entity	% shareholding by SPL
	Subsidiary Companies	
1	Bengal Shriram Hitech City Private Limited	100.00%
2	Shriprop Developers Private Limited	100.00%
3	Global Entropolis (Vizag) Private Limited	100.00%
4	Shriprop Structures Private Limited	100.00%
5	SPL Constructors Private Limited	100.00%
6	Shriprop Constructors Private Limited	100.00%
7	Shriprop Homes Private Limited	100.00%
8	Shriprop Projects Private Limited	100.00%
9	SPL Shelters Private Limited	100.00%
10	Shriprop Builders Private Limited	100.00%
11	SPL Realtors Private Limited	51.00%
12	SPL Housing Projects Private Limited	100.00%
	Joint Venture	
13	Shrivision Homes Private Limited	70.00%
14	Shrivision Towers Private Limited	50.00%
15	Shriprop Properties Private Limited	100.00%
16	SLP Tower Private Limited	51.00%
17	Shriprop Living Space Private Limited	51.00%
18	SPL Estates Private Limited	0.00%
19	Shriprop Hitech City Private Limited	50.00%

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

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