Shriram Properties Limited

April 09, 2019

Ratings

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

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) derives 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, 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. The rating also takes note of the improvement in sales and collections during FY18 and 9MFY19 and improvement in liquidity profile of SPL following divestment from Chennai property and Vizag property. Company raised net cashflow of Rs. 347 crore from sale of Chennai SEZ property and with divestment of Gateway residential project resulting in healthy cash balance of company liquidity is expected to strengthen further with receipt of proceeds of Rs. 220 crore from sale of rights of Vizag property to be received over period of 3-4 years. Further, company is also expected to receive another Rs. 185 crore as development manager for future Chennai SEZ property. The above funds are expected to be utilized for future project investments while debt reduction is unlikely.

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 SPL initiating the IPO process involving sale of 33% stake in the company.

Going forward, company's ability to increase the velocity of sales and collection and pace up completion of some of its slow ongoing projects will be the key rating sensitivities.

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) and Shriram EPC Limited (rated CARE D).

Improvement in sales and collections during FY18 and 9MFY19: Company's sales have consistently improved from 1.46msf in FY17 to 1.86msf in FY18 and further to 2.08 msf in 9MFY19 backed by new launches by the group and improvement in overall market scenario. Consistent improvement in sales led to decline in unsold inventory levels to 23 months from earlier 51 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.

Divestment from Chennai and Vizag property: During FY18, company sold Gateway SEZ project to Xander for total value of USD 350 mn (approx. Rs. 2300 crore) including consideration for future development. Around Rs. 350 crore was received by Shriram group.Further group also divested from Shriram Gateway residential project. Company is also expected to receive another Rs. 185 crore from Xander for future development of SEZ over next 2-3 years. Apart from this, company has also sold development rights of balance Vizag property under which company is expected to receive Rs. 220 crore under revenue sharing model. These inflows are expected to enhance liquidity profile of the company. The group is expected to utilize the funds towards future investments in projects while debt reduction plan is unlikely.

Satisfactory execution track record with strong pipeline of ongoing projects: SPPL, since inception in the year 2000, has completed projects with saleable area of 15.35 msf mainly in residential segment. As on Dec'18, the group has strong pipeline of ongoing projects with SPL's saleable area of 22.04 msf (area release for sale: 11.58 msf) of which about 50% is in Bengaluru. Company has sold 72.58% of the area released for sale till Dec'18.

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

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 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 6% to 15% on project to project basis and the same is expected to result in margin accretion.

Key Rating Weaknesses
Moderate execution risk with high dependence on customer advances: The construction progress on the ongoing project was at 46.38% till Dec'18 (Dec'17: 41.83%) 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. 2777 crore pertaining to ongoing projects and Rs.1288 crore has been incurred as on December 31, 2018 and company has a healthy receivable cover ratio of 62.5% on remaining construction cost 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 Profile: Group's liquidity position appears to be comfortable with high unencumbered cash and bank balance of Rs. 365 crore as on Sep'18. Further, group had undrawn bank lines of Rs. 530 crore. Strong liquidity is result of divestment from Shriram Gateway residential project and sale of Shriram Gateway SEZ project to Xander as mentioned above. Further group's liquidity profile is expected to be comfortable as it is also expected to receive another Rs. 185 crore from Xander for future development of SEZ over next 2-3 years. Apart from this, company has also sold development rights of balance Vizag property under which company is expected to receive Rs. 220 crore under revenue sharing model. These inflows are expected to enhance liquidity profile, however, the group is expected to utilize the funds towards future investments in projects for acquiring land parcels and general corporate expenses and debt reduction plan is unlikely.

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 to Credit Ratings
CARE's policy on Default Recognition
Financial Ratios-Non Financial Sector
Rating Methodology: Factoring Linkages in Ratings

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.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	341.70	382.20
PBILDT	42.21	57.92
PAT	7.50	349.90
Overall gearing (times)	0.95	0.83
Interest coverage (times)	0.40	0.65

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
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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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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Issuer Rating-Issuer Ratings	Issuer rat	0.00	CARE BBB+ (Is); Stable	-	-	-	-

Annexure-3 (List of subsidiaries and joint ventures consolidated)

Sr.No	Name of Company	% of holding by SPL
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	Shriprop Housing Private Limited	100.00
6	SPL Constructions Private Limited	100.00
7	Shriprop Constructors Private Limited	100.00
8	Shriprop Homes Private Limited	100.00
9	Shriprop Projects Private Limited	100.00
10	Shriprop Properties Private Limited	100.00
11	SPL Sheltors Private Limited	100.00
12	SPL Realtors Private Limited	51.00
13	SPL Towers Private Limited	51.00
14	Shriprop Living Space Private Limited	51.00
15	Shriram Properties and Infrastructure Private Limited	50.00
16	Shriprop Builders Private Limited	49.00
17	Shrivision Homes Private Limited	30.00
18	Shrivision Towers Private Limited	17.00

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