February 26, 2021

Shriram Properties Limited - Update

Summary of rating(s) outstanding

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Outstanding
Non-convertible debentures	104.50	104.50	[ICRA]BBB (Negative)
Total	**104.50**	**104.50**	

Rationale

The update captures the impact of Covid-19 pandemic on the operations of Shriram Properties Limited (SPL / the Group) in FY2021. Following the lockdowns implemented in Q1FY2021, the company's sales, collections and construction progress in ongoing projects were adversely impacted. However, with gradual easing of restrictions and improvement in customer sentiments, there has been sequential improvement in quarterly sales and collection values. The sales value and collections at the enterprise level[1] during the first ten months of FY2021 are around Rs 447 crore and Rs 415 crore respectively. With corresponding reduction in construction spend during the year, the cash from operations are estimated to be in line with the previous year. Sustained recovery in the operational metrics will be a key rating monitorable.

The Group has applied for one-time restructuring for some of its project loans under the regulatory measures announced following Covid-19 pandemic. Successful implementation of these resolutions plans (RPs) can support the liquidity profile of the Group by extending the repayment schedule. ICRA has not treated missed principal payments following invocation of the resolution plans as a default, in line with the approach published by ICRA in the document titled "Loan Restructuring and Rating Implications", available here.

The rating continues to take into account the company's established brand presence in the real estate sector and association with the Shriram Group. SPL has a track record of healthy sales tie-up during the construction phase, particularly in the Bangalore-based projects. SPL has a strong net worth base which has supported its ability to invest in certain large township projects in Kolkata, Vizag and Chennai. Going forward, the company intends to focus on joint development agreement (JDA) / joint venture (JV) modes of development, while also diversifying into fee income-based development management model, which can reduce the capital requirements going forward.

The rating, however, is constrained by the weak profitability reported by SPL (excluding exceptional items) due to modest gross margins generated by the ongoing projects along with high overheads in relation to the current scale of operations. The profitability is also adversely impacted due to the finance costs charged on earlier compound financial instruments issued to private equity investors, which has been added to the carrying cost of the inventory. ICRA also takes into account the prolonged gestation period of certain large-sized projects being undertaken by SPL, which constrains the return indicators. The company has made significant investments in the large township projects such as the Grand City project in Kolkata where there is a high share of unlaunched phases. The ability of the company to launch the subsequent phases in a timely manner and monetise the investments would be a key monitorable. Any significant delay in concluding the IPO may also pose challenges in providing exit to the private equity investors as per the terms of the shareholders' agreements.

Please refer to the following link for the previous detailed rationale that captures Key rating drivers and their description, Liquidity position, Rating sensitivities, Key financial indicators: **Click here**

[1] Including projects in joint venture companies; excluding projects under development management model.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology](#) [Rating Methodology for Real Estate Entities](#)
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on the consolidated financials of SPL. The list of entities considered for consolidation is shown in Annexure-2.

About the company

Founded in 1995, SPL is the real estate arm of the Shriram Group, which is a leading player in financial services industry. The company has primarily been engaged in residential real estate development and has completed about 12.2 mn sqft of space in the past and is presently developing an additional 12.7 mn sq.ft (excluding unlaunched phases of ongoing projects). While the company's operations have been concentrated in Bangalore, it has gradually forayed in new markets like Chennai, Kolkata, Coimbatore and Vizag.

Key financial indicators (audited)

SPL Consolidated	FY2019	FY2020
Operating Income (Rs. crore)	650	572
PAT (Rs. crore)	58	-45.5
OPBDIT/OI (%)	1.1%	8.1%
PAT/OI (%)	8.9%	-8.0%
Total Outside Liabilities/Tangible Net Worth (times)	2.3	2.5
Total Debt/OPBDIT (times)	122.0	14.8
Interest Coverage (times)	1.9	0.7

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	FY2021	FY2019		FY2018
					26-Feb-2021	13-Apr-2020	11-Feb-2019	21-Jan-2019	03-Nov-2017
1	NCD	Long-term	104.5	74.6	**[ICRA]BBB (Negative)**	**[ICRA]BBB (Negative)**	**[ICRA]BBB (Positive)**	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Stable)**

** outstanding as on December 31, 2019*

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs Crore)	Current Rating and Outlook
INE217L07016	NCD	31-Oct-2017	13.2%	29-Oct-2021	104.5	[ICRA]BBB (Negative)
INE217L07024	NCD	31-Oct-2017	16.91%	29-Oct-2021		

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Bengal Shriram Hitech City Private Limited	100%	Full Consolidation
Shriprop Developers Private Limited	100%	Full Consolidation
Global Entropolis (Vizag) Private Limited	100%	Full Consolidation
Shriprop Structures Private Limited	100%	Full Consolidation
Shriprop Housing Private Limited	100%	Full Consolidation
SPL Constructors Private Limited	100%	Full Consolidation
Shriprop Constructors Private Limited	100%	Full Consolidation
Shriprop Homes Private Limited	100%	Full Consolidation
Shriprop Projects Private Limited	100%	Full Consolidation
Shriprop Builders Private Limited	100%	Full Consolidation
SPL Shelters Private Limited	100%	Full Consolidation
SPL Estates Private Limited	100%	Full Consolidation
SPL Realtors Private Limited	51%	Full Consolidation
SPL Towers Private Limited	51%	Limited Consolidation
Shriprop Living Space Private Limited	51%	Limited Consolidation
Shrivision Homes Private Limited	100%	Full Consolidation
Shrivision Towers Private Limited	51%	Limited Consolidation
Shriprop Properties Private Limited	28%	Limited Consolidation

Source: *Company*

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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