# Shriram Properties Private Limited

| Instrument | Amount (Rs. Crore) | Rating Action (July 2016) |
|---|---|---|
| Term Loan | 100.00 | [ICRA]BBB reaffirmed; outlook revised from Positive to Stable |
| Fund Based | 5.00 | [ICRA]BBB reaffirmed; outlook revised from Positive to Stable |
| Non Fund Based (LC) | 35.00 | [ICRA]A3+ reaffirmed |
| **Total** | **140.00** | |

ICRA has reaffirmed the long term rating of [ICRA]BBB (pronounced ICRA triple B)[1] and short term rating of [ICRA]A3+ (pronounced ICRA A three plus) to the term loans, fund based and non fund based bank facilities of Shriram Properties Private Limited (SPPL) aggregating to Rs. 140 crore. The outlook on the long term rating has been revised from Positive to Stable.

The revision in the outlook takes into account significant delay in the planned divestment of SPPL's stake in the Gateway SEZ commercial project in Chennai and moderation in SPPL's operational performance during FY2016 with reduction in overall sales volumes and collections as compared to FY2015. Consequently, the expected improvement in SPPL's financial profile has been delayed as compared to earlier expectations. As per the management, discussions for the divestment of SPPL's stake in Gateway SEZ are currently in advanced stages with an identified investor and on completion of the transaction, SPPL is expected to realize cash surpluses of close to Rs 330 crore over the next three years, thus providing support to the liquidity position of the company.

The reaffirmation of rating takes into account SPPL's strong parentage by virtue of being part of the Shriram Group and the demonstrated track-record of healthy sales tie-up during the construction phase, particularly in the Bangalore based projects, leading to low market risks for these projects. Moreover, the expected divestment in the Gateway SEZ project and another residential project is expected to support the company in covering the current deficit in fund flow from operations, servicing of debt obligations and funding of land investments in the near term to medium term. The rating also favourably factors in the launch of new projects during FY2017, which are expected to contribute majorly towards future collections. The rating also takes into account the growing focus on Joint Development Agreement (JDA) / Joint Venture (JV) modes of development which reduces the upfront capital requirement. Further, SPPL has been actively looking at partnerships with PE entities at a project level, which further reduces the capital requirement.

The rating, however, is constrained by the subdued performance of SPPL's Chennai and Vizag based projects in the past two years, marred by the slowdown in the markets coupled with project related challenges. The ratings also factors in the moderate cash surplus generated by the on-going projects, which along with the high level of overheads resulted in poor profitability for the company. The same coupled with high debt servicing obligations has resulted in increased reliance on external source of funding. The rating also takes into account the prolonged gestation period of certain projects being undertaken by subsidiaries and associate companies of SPPL. While SPPL has made significant investments in these projects, the profitability from these projects remains subdued at present due to the significant share of unlaunched phases as well as persistent delays in receipt of approvals in the past. The company, however, has recently launched its project in Kolkata on the land acquired from Hindustan Motors in 2006, which provides some comfort. The rating continues to remain constrained by the company's aggressive expansion plans, currently weak profitability levels, vulnerability to market risks for upcoming projects and high dependence on customer advances for funding the project costs. The rating also takes into account the susceptibility of SPPL's operations to cyclicality inherent in the real estate sector.

Going forward, SPPL's ability to conclude the planned stake divestments as per the expected timelines, and improve its sales momentum and collections will be the key rating sensitivity factors. Further, the extent of investments made by it towards acquiring new projects would be the other key rating monitorable.

[1] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

**Company Profile**
Incorporated in 2003, Shriram Properties Private Limited ("SPPL"/ "the company") is a private limited company engaged in real estate development based out of Bangalore. The company is the real estate arm of the Shriram Group ("SG"/ "the group") which is a leading player in financial services industry. The company has completed about 7 million (mn) square feet (sqft) of space in the past and is presently developing an additional 16 mn sqft. While the company's operations have been concentrated in Bangalore, it is gradually making a foray in new markets like Chennai, Kolkata and Coimbatore. Further, the company has made a foray in commercial real estate development through its subsidiaries and associate companies.

**Recent Results**
The company, on a standalone basis, reported a profit before tax of Rs. 26.72 crore on an operating income of Rs. 257.26 crore in FY2016, as per provisional financials, as compared to a net loss of Rs. 60.25 crore on an operating income of Rs. 160.96 crore in FY2015.

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