November 03, 2017

Shriram Properties Private Limited

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Term Loan – Long Term	44.33 (reduced from 100.00)	[ICRA]BBB (Stable) reaffirmed
Unallocated – Long Term	6.40(earlier nil)	[ICRA]BBB (Stable) reaffirmed
Fund-based – Long Term	5.00	[ICRA]BBB (Stable) withdrawn
Non-fund Based – Short Term	35.00	[ICRA]A3+ withdrawn
Proposed Non-Convertible Debenture	180.00	[ICRA]BBB (Stable) assigned
Total	**230.73**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BBB (pronounced ICRA triple B) to the Rs. 44.33-crore[1] long-term loans (reduced from Rs. 100.00 crore) and unallocated limits of Rs 6.4 crore of Shriram Properties Private Limited (SPPL or the company)[2]. ICRA has also assigned the long-term rating of [ICRA]BBB to the Rs. 180-crore fresh proposed NCD programme of the company. The outlook on the long-term rating is Stable. ICRA has withdrawn the rating assigned to the Rs 5.00-crore fund-based bank limits and Rs. 35.00-crore non-fund based bank limits of SPPL as the limits have been closed and there are no amounts outstanding against these limits.

While assigning the rating, ICRA has taken a consolidated view of SPPL, its subsidiaries and associate companies given the strong operational, financial and management linkages among these entities.

Rationale

The rating reaffirmation takes into account the divestment of SPPL's stake in the Gateway SEZ commercial project in Chennai in FY2018, which generated a net surplus of Rs. 185 crore for it. SPPL is entitled to additional fees as the development manager for the planned construction of additional SEZ office space in the project. These receivables, along with the amounts receivable from the sale of development rights in the second phase of the Vizag project, are expected to support the liquidity profile of SPPL in the near-to-medium term.

The rating reaffirmation also takes into account the company's strong parentage as a part of the Shriram Group and its track record of healthy sales tie-up during the construction phase, particularly in the Bangalore-based projects. The rating also favourably factors in the focus on joint development agreement (JDA)/joint venture (JV) modes of development, which reduces the upfront capital requirement. Further, SPPL has been able to partner with private equity (PE) funds for equity tie-up both at the standalone level as well as at the project SPV level, which reduces its reliance on external borrowings. Further, the date by which the exit has to be provided to the PE investors in SPPL has been deferred to June 2018 and earlier buyback provisions have been removed from the shareholders' agreement.

The rating, however, is constrained by the subdued performance of SPPL's Chennai and Vizag-based projects as well as the slowdown in some of the Bangalore-based projects, on account of subdued market conditions and project-related challenges. The ratings also factor in the modest gross margins generated

[1] *100 lakh = 1 crore = 10 million*

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

by the ongoing projects, which coupled with the high level of overheads, has resulted in poor profitability for the company. ICRA also takes into account the prolonged gestation period of certain projects being undertaken by the subsidiaries and associate companies of SPPL. Although the company has made significant investments in these projects, the profitability from these projects remains subdued at present due to modest execution and sales progress, high share of yet-to-be-launched phases as well as persistent delays in receipt of approvals in the past. The rating also takes into account the susceptibility of SPPL's operations to the cyclicality inherent in the real estate sector.

Going forward, SPPL's ability to improve its sales momentum, collections, and profits from ongoing projects along with the timely launch of subsequent phases of larger township projects will be the key sensitivities.

Key rating drivers

Credit strengths

- **Strong parentage and high net worth base supported by PE investments** – The company is a part of the Shriram Group, which is one of the leading players in the financial services industry. Over the last decade, SPPL has raised equity from various private equity funds, which has supported the large land bank investments of the Group. Moreover, SPPL has tied-up equity funding from PEs at individual SPV level or used JDA mode to reduce its dependence on debt funding for land acquisitions.
- **Demonstrated ability to pre-sell residential projects** – As of September 2017, the company has been able to tie-up sales for 60% of its share of the area launched for sale. The sales tie-up has been healthy for Bangalore-based projects, although projects in Chennai and Vizag reported a subdued performance. Nonetheless, the recent quarters have seen a moderation in sales volumes in Bangalore projects also, in line with the subdued market conditions.
- **Divestment of Gateway SEZ to generate significant cash surpluses** – SPPL sold its stake in the Gateway SEZ project in Chennai in FY2018 and has received net cash flows of Rs. 185 crore as well. Another Rs. 185 crore is expected to be received over a three-year period through the development management agreement with new owners for the remaining construction in this project. The receivables from this transaction, along with receivables of Rs. 256 crore from sale of development rights in second phase of the Vizag project are expected to provide support to the liquidity profile of SPPL in the near-to-medium term.

Credit weaknesses

- **Weak sales performance in certain markets and delays in project execution** – The sales volumes for Chennai and Vizag-based projects of SPPL have been slow, marred by market demand slowdown as well as project-related challenges. This has resulted in subdued cash flows from projects – Shankari, One City and Panorama Hills. In addition, there have been delays in receipt of approvals and execution, which have adversely impacted sales as well as collections in certain projects.
- **Weak profitability levels –** SPPL has poor profitability on account of low gross margins from ongoing projects as well as high level of overheads, resulting in deficits in operational cash flows. The management expects profitability to improve with the newer projects in the portfolio having higher realisations. The company's ability to improve profitability is critical for maintaining its liquidity profile and generating sufficient returns from projects.
- **Market risks –** The company is vulnerable to market risks associated with the large scale of ongoing as well as planned development. With presence mainly in the residential real estate segment, SPPL is also exposed to the cyclicality inherent in this sector.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria

Corporate Credit Rating Methodology

Rating Methodology for Real Estate Entities

About the company

Incorporated in 2003, SPPL is a Bangalore-based private limited company involved in real estate development. The company is the real estate arm of the Shriram Group (SG/the Group), which is a leading player in the financial services industry. The company has completed about 7 million (mn) square feet (sq ft) of space in the past and is at present developing an additional 19 mn sqft. While the company's operations have been concentrated in Bangalore, it has gradually forayed into new markets like Chennai, Kolkata and Coimbatore.

Key Financial Indicators

	FY2016	FY2017 (Provisional)
Operating Income (Rs. crore)	679.47	291.27
PAT (Rs. crore)	-46.16	61.98
OPBDIT/ OI (%)	-41%	22%
RoCE (%)	-39%	61%
Total Debt/ TNW (times)	-0.63	0.88
Total Debt/ OPBDIT (times)	-2.17	9.51
Interest Coverage (times)	-1.46	0.31
NWC/ OI (%)	-199%	145%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);

NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years

Table

S. No.	Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
					November 2017	Aug 2016	June 2015	July 2014
1	Term Loan	Long Term	50.73 (reduced from 100)		[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Positive)	[ICRA]BBB (Stable)
2	Unallocated	Long Term	6.40		[ICRA]BBB (Stable)			
3	Fund Based	Long Term	- (reduced from 5.00)		-	[ICRA]BBB (Stable)	[ICRA]BBB (Positive)	[ICRA]BBB (Stable)
4	Non-fund Based	Short Term	- (reduced from 35.00)		[ICRA]A3+ withdrawn	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+
5	Proposed Non-Convertible Debenture	Long Term	180.00	-	[ICRA]BBB (Stable)	-	-	-

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	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
	Term Loan			30 September 2018	50.73	[ICRA]BBB (Stable)
	Proposed NCD				180.00	[ICRA]BBB (Stable)

Source: Shriram Properties Private Limited

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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.

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