

Shriram Properties Limited

January 21, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based- Term Loan	44.33	0.00	[ICRA]BBB(Stable); Withdrawn
Long Term- Unallocated	6.40	0.00	[ICRA]BBB(Stable); Withdrawn
Non-Convertible Debenture	180.00	104.50	[ICRA]BBB(Stable); Reaffirmed
Total	230.73	104.50	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation takes into account the improvement in the company's liquidity profile owing to divestment of Shriram Properties Limited's (SPL) stake in the Park 63 residential project of the company in Chennai, in favour of Mitsubishi; and phase II of the Grand City project in Kolkata, in favour of Kotak Realty Fund for joint development of the project. These stake dilutions have provided inflows of more than Rs. 200 crore during FY2019. ICRA also takes into account the healthy sales tie-up in the company's Bangalore-based projects.

The rating reaffirmation takes 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. During 9 months of CY 2018 ending September 2018, SPL reported pre-sales of Rs 826 crore, an increase of 250% over the pre-sales in corresponding period of CY2017. 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. Over FY2018 and FY2019, the company has received substantial amounts through divestment of stakes in certain completed and ongoing projects, which has supported the liquidity profile and provides capital for investment in future projects.

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 accounting a financial instrument as equity as per Ind-AS. 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. SPL's receivables from sold area covers only 35% of the balance cost on ongoing projects and the debt outstanding, leading to high dependence on incremental sales. The ability of the company to launch the subsequent phases in a timely manner and monetise the investments would be a key monitorable. The rating also takes into account the susceptibility of SPPL's operations to the cyclicity inherent in the real estate sector.

Outlook: Stable

The Stable outlook reflects ICRA's expectation that SPL's business profile will be supported by its established brand in cities like Bangalore and Chennai and the strong pipeline of upcoming project launches. The company has filed a draft offer document for an initial public offering, through which it intends to raise up to Rs 250 crore. Timeliness of the IPO

plans of the company will also be a key monitorable. The outlook may be revised to Positive if there is significant improvement in profitability in ongoing and upcoming projects or successful diversification into the development management model or reduction in debt levels through the IPO proceeds. The outlook may be revised to Negative if there is a sustained weakness in the sales momentum or slow construction progress and high land bank investments resulting in increase in debt levels for the Group.

Key rating drivers

Credit strengths

Association with Shriram Group and strong net worth base from private equity 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, SPL has raised equity from various private equity funds, which has supported the large land bank investments of the Group. Moreover, SPL 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. Further, SPL is planning to increase its focus on its development management business which requires lower capital investment and can generate increased return on capital employed.

Established brand and demonstrated ability to pre-sell residential projects – As of September 2018, the company has been able to tie up sales for 51% of its share of area launched for sale. The sales tie-up has been healthy in Bangalore based projects, wherein pre-sales are 67% of the area launched, although projects in Chennai and Vizag reported a subdued performance.

Divestment in certain subsidiaries has resulted in an improved liquidity profile – In FY2018, SPL divested its stake in the Gateway SEZ project and received net cash inflows of Rs. 185 crore. It has an additional upside of Rs. 185 crore in the capacity of a development manager for the balance developable area in the IT SEZ portion which will be received over a period of three years. The company will also receive Rs. 256 crore from the sale of development rights in the second phase of the Panorama Hills project. This apart, the company had few more stake dilutions in the Gateway and Grand City project which will generate cash flows of Rs 178 crore and Rs 40 crore, respectively.

Credit challenges

Weak profitability levels – SPL 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. The profitability is also adversely impacted due to accounting a financial instrument as equity as per Ind-AS.

Large investments in township projects with long gestation period – The company has made significant investments in certain large-scale township projects in Kolkata, Vizag and Chennai wherein there is a high share of unlaunched phases. The prolonged gestation period of these projects puts a strain on the return indicators. The timely launch of the unlaunched phases and sales tie-up is a key monitorable.

Modest cover of receivables from sold area – SPL's receivables from sold area covers only 35% of the balance cost to be incurred and debt outstanding leading to high dependence on customer advances from incremental sales. The company has significant costs to be incurred for the unlaunched phases of the large-scale projects.

Liquidity Position:

As on September 2018, the company had bank balances of Rs 87 crore and investment in mutual funds of Rs 195 crore (excluding investments under lien for borrowings). This healthy liquidity is largely arising from the divestment of 30% stake in the Residences at Gateway project for Rs 178 crore to Mitsubishi Corporation during FY2019. This amount may be utilized by the company towards its investments in JDA deposits and advances for future projects. The debt repayments in the near term are moderately high and timely tie-up of sales and collection of advances from customers would be critical for maintaining the liquidity profile.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Real Estate Entities
Parent/Group Support	None
Consolidation	The rating is based on the consolidated financials of SPL

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 20.4 mn sq.ft. 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)

	FY2017	FY2018
Operating Income (Rs. crore)	291.3	331.8
PAT (Rs. crore)	58.6	341.7
OPBDIT/OI (%)	13.7%	-0.2%
RoCE (%)	65.3%	25.9%

Total Debt/TNW (times)	0.9	0.8
Total Debt/OPBDIT (times)	14.8	NM
Interest coverage (times)	1.3	4.7

NM: Not Meaningful

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2019)					Chronology of Rating History for the Past 3 Years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating January 2019	Date & Rating in FY2018 November 2017	Date & Rating in FY2017 August 2016	Date & Rating in FY2016 June 2015
1 NCD	Long Term	104.5	104.5	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-	-
2 Fund Based-Term Loan	Long Term	-(reduced from Rs. 44.33)	-	[ICRA]BBB (Stable) Withdrawn	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Positive)
3 Unallocated	Long Term	-(reduced from Rs. 6.40)	-	[ICRA]BBB (Stable) Withdrawn	[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 Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE217L07016	Non-Convertible Debenture	31-Oct-2017	13.2%	29-Oct-2021	160.25*	[ICRA]BBB(Stable)
INE217L07024	Non-Convertible Debenture	31-Oct-2017	16.913%	29-Oct-2021	14.75*	[ICRA]BBB(Stable)
-	Term Loan				44.33	[ICRA]BBB(Stable) Withdrawn
-	Unallocated				6.40	[ICRA]BBB(Stable) Withdrawn

*The debentures have been partly repaid and the current outstanding amount is Rs 104.5 crore.

Source: Shriram Properties Limited

Annexure-2: List of entities considered for consolidated analysis (as on 31st March 2018)

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 Properties Private Limited	100%	Full Consolidation
SPL Shelters	100%	Full Consolidation
SPL Realtors Private Limited	51%	Proportional Consolidation
SPL Towers Private Limited	51%	Proportional Consolidation
Shriprop Living Space Private Limited	51%	Proportional Consolidation
Shriprop Builders Private Limited	49%	Equity Method
Shrivision Homes Private Limited	30%	Equity Method
Shrivision Towers Private Limited	17%	Equity Method
Shriprop Properties Private Limited	28%	Equity Method

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