Shriram Properties Limited

February 11, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debenture	104.50	104.50	[ICRA]BBB reaffirmed; outlook revised to Positive from Stable
Total	**104.50**	**104.50**	

*Instrument details are provided in Annexure-1

ICRA had earlier reaffirmed the rating assigned to the NCD programme of SPL with a Stable outlook, as communicated through the press release dated 21 January 2019[1]. The rating action was released in compliance with the timelines for dissemination of rating actions[2], while a review of the rating sought by the company was still under process. The current rating action follows the review done in February 2019. The incremental information considered for the review includes the project status and debt details as on December 2018.

Rationale

The revision in rating outlook reflects the strong pace of pre-sales in SPL's ongoing project portfolio, aided by healthy market response to new project launches in FY2019. SPL's pre-sales during 9mFY2019 grew by around 287% in value terms as compared to the corresponding period of FY2018. SPL has been able to sell around 80% of the new inventory opened for sale during 9mFY2019. ICRA expects that SPL's cash flows will continue to grow at healthy rate, backed by strong sales traction in recent launches.

The rating continues to take into account the company's established brand presence in the real estate sector. SPL has a track record of healthy sales tie-up during the construction phase, particularly in its Bangalore-based projects. SPL has a strong net worth base backed by investments from various private equity investors. 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 also considers the company's proposed initial public offering (IPO) of shares for which the draft offer document has been filed. The IPO would enable the company to prepay a large share of its current debt outstanding, while also providing an exit to the private equity investors. The company's liquidity profile has improved further in FY2019 owing to divestment of economic interest in two ongoing residential projects to institutional investors.

The rating, however, is constrained by the moderate adjusted profitability reported by SPL (excluding exceptional items and adjusted for accounting treatment on finance cost charged on earlier compound financial instruments issued to private equity investors, which has been added to the carrying cost of inventory) due to modest gross margins generated by the ongoing projects along with high overheads in relation to the current scale of operations. 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

[1] ICRA's press release dated 21 January 2019
[2] Monitoring and review of ratings by credit rating agencies

subsequent phases in a timely manner and monetise the investments would be a key monitorable. The rating also takes into account the susceptibility of SPL's operations to the cyclicality inherent in the real estate sector.

Outlook: Positive

The Positive outlook reflects ICRA's expectation that SPL's cash flows will continue to show healthy growth, supported by its established brand in cities like Bangalore and Chennai, strong pipeline of upcoming project launches and healthy market response to recent 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 of equity. Timeliness of the IPO plans of the company will also be a key monitorable. The rating may be upgraded 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 any high land bank investments resulting in increase in debt levels for the Group disproportionate to the operational cash flows.

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 73% of its share of area (excluding unlaunched phases of ongoing projects). SPL's pre-sales during 9mFY2019 grew by around 287% in value terms as compared to the corresponding period of FY2018. The sales tie-up has been healthy in Bangalore based projects, although certain 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 sold part of its economic interest in the Park 63 @ Gateway and Grand City projects, which have generated cash flows of Rs 178.5 crore and Rs 40 crore, respectively.

Credit challenges

Modest profitability levels – SPL has modest profitability metrics on account of moderate gross margins from ongoing projects as well as high level of overheads. The management expects profitability to improve with the newer projects in the portfolio having higher realisations. 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; adjusting for such costs, the company has reported adjusted EBTIDA margin of around 19-20% from FY2017 onwards.

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. Adjusting for the cost against unlaunched phases, the receivables are adequate to cover around 59% of the balance cost and debt outstanding.

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 70% stake in the Park 63 at Gateway project for Rs 178.5 crore 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)	281.4	330.8
PAT (Rs. crore)	-5.2	349.9
OPBDIT/OI (%)	8.4%	2.4%
RoCE (%)	10.3%	3.7%
Total Debt/TNW (times)	0.9	0.8
Total Debt/OPBDIT (times)	24.8	102.6
Interest coverage (times)	0.1	0.1

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 February 2019	Date & Rating in FY2019 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 (Positive)**	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-	-
2	Fund based – Term loan	Long Term	-	**-**	**-**	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Positive)
3	Unallocated	Long Term	-	**-**	**-**	-	[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	104.5 *	[ICRA]BBB (Positive)
INE217L07024	Non-Convertible Debenture	31-Oct-2017	16.913%	29-Oct-2021		[ICRA]BBB (Positive)

*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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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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