April 27, 2020 Revised

Shriram Properties Limited: Rating reaffirmed; outlook revised to Negative

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 Negative from Positive
Total	**104.50**	**104.50**	

**Instrument details are provided in Annexure-1*

Rationale

The revision in the rating outlook takes into account the slower than anticipated ramp-up in customer advances from SPL's ongoing projects. Though the company had reported healthy pre-sales in FY2019 and 9mFY2020, the collections have not been in line with earlier expectations due to high cancellation of bookings and slower than anticipated construction progress in certain projects. The revision in outlook also considers the delay in the conclusion of the proposed IPO of the company's shares, which would have enhanced the equity capital base and also provided an exit to the private equity investors.

The rating action also takes into account the outbreak of Covid-19, with the ongoing pan India lockdown, contagion fears, and economic uncertainties expected to impact the operations and cash flows of real estate developers. Demand is expected to witness moderation and committed receivables from already booked sales are also expected to get impacted, given that milestone based payments may get deferred and some buyers may delay payments on account of economic uncertainties. On the supply side, new launches are expected to slow down further and execution of ongoing projects is expected to get hampered due to reduced labour force presence and raw material supply chain disruptions. This may result in moderation in project profitability and return metrics, particularly in case of price reductions, delayed collections and / or cost overruns. Overall project cash flows are thus expected to get adversely impacted, resulting in a weakening of the credit risk profile of real estate developers. ICRA will continue to monitor the situation and the possible impact on the operating metrics and risk profile of the company.

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.

Key rating drivers and their description

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 December 2019, the company has been able to tie up sales for 79% of its share of area (excluding unlaunched phases of ongoing projects). SPL's pre-sales during 9mFY2020 grew by around 3% in value terms as compared to the corresponding period of FY2019, despite a strong base of pre-sales in FY2019. The sales tie-up has been healthy in Bangalore based projects, although certain projects in Chennai and Vizag reported subdued performance.

Focus on JDA, JV and DM model expected to lower capital requirements going forward – 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 company has demonstrated healthy pre-sales volumes in the DM projects and sustaining the pace of construction in such projects can translate into healthy fee income for SPL over the medium term.

Credit challenges

Slower than anticipated collections in FY2020; Covid-19 likely to have adverse impact on FY2021 performance: The ramp-up in customer advances from SPL's ongoing projects was slower than ICRA's expectations. Customer advances from projects under development grew at only 3% during 9mFY2020 on year on year basis. Though the company had reported healthy pre-sales in FY2019 and 9mFY2020, the collections have not been in line with earlier expectations due to cancellation of booking and slower than anticipated construction progress in certain projects. SPL's performance in FY2021 is likely to be negatively impacted by the Covid-19 related disruptions, which may result in lower pre-sales, collections, construction progress and new launches as compared to earlier expectations.

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.

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.

Delay in conclusion of the proposed IPO – SPL had filed a DRHP for an IPO of its shares, including raising fresh equity of up to Rs 250 crore. Given the volatile market conditions, the IPO is yet to be launched. The IPO is also critical to provide exit to the private equity investors who have preferential rights as per the shareholders' agreement in terms of exit timelines and mode.

Liquidity position: Adequate

The liquidity position of SPL is adequate on account of the available cash and bank balances from various stake divestment transactions concluded over the last three years. For the projects under development, SPL's customer advances and undrawn debt limits would be adequate to fund the balance construction costs. Nonetheless, the extent of impact of Covid-

19 related disruptions on the cash flows of SPL will be a key monitorable. SPL, on a consolidated basis (excluding joint ventures) had cash and bank balances of Rs 43 crore as on December 31, 2019, apart from mutual fund investments under lien for some of its borrowings of Rs 113 crore.

Rating sensitivities

Positive triggers: Upgrade of rating is unlikely in the near term as the rating outlook is negative. However, substantial growth in the sales and collections from ongoing projects, along with sustained improvement in profitability can be a trigger for revising outlook to Stable.

Negative triggers: Sustained weakness in sales and collections from ongoing projects and delays in launch of new projects, especially in light of Covid-19 related disruptions to the industry, resulting in higher dependence on debt or reduction in liquidity buffer. Significant delay in completing the IPO process may also enhance the risks of additional leverage being used to provide exit to the PE investors.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Real Estate Entities
Parent/Group Support	None
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)

	FY2018	FY2019
Operating Income (Rs. crore)	368	650
PAT (Rs. crore)	343	58
OPBDIT/OI (%)	0.3%	1.1%
RoCE (%)	27.0%	11.2%
Total Outside Liabilities/Tangible Net Worth (times)	2.3	2.3
Total Debt/OPBDIT (times)	638.6	122.0
Interest Coverage (times)	4.7	1.9
DSCR	4.3	0.5

Status of non-cooperation with previous CRA: Not applicable

Any other information:

SPL has opted for the moratorium on payments permitted by the RBI and has missed some of its debt payments during the period April-August 2020, as part of the COVID-19 Regulatory Package announced by the Reserve Bank of India (RBI) on March 27, 2020 even as a formal approval from the lender may be received subsequent to the original date of debt servicing. As guided by the SEBI vide its circular SEBI/ HO/ MIRSD/ CRADT/ CIR/ P/ 2020/ 53 dated March 30, 2020, ICRA has not considered the above missed payment as a default. However, if there is no official deferment communication from the lending institutions in due course, ICRA might review the above stance on default recognition.

Rating history for past three years

		Current Rating (FY2021)				Chronology of Rating History for the Past 3 Years		
	Instrument	Type	Amount Rated	Amount Outstanding	Date & Rating 27-Apr-2020	FY2019 11-Feb- 2019	FY2019 21-Jan-2019	FY2018 03-Nov-2017
1	NCD	Long Term	104.5	74.6 *	[ICRA]BBB (Negative)	[ICRA]BBB (Positive)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)

Amounts in Rs crore
* 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 click here

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated	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: SPL; Amounts in Rs crore; * outstanding of Rs 74.6 crore as on December 31, 2019

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	30%	Limited Consolidation
Shrivision Towers Private Limited	51%	Limited Consolidation
Shriprop Properties Private Limited	28%	Limited Consolidation

* as on March 31, 2019

Corrigendum

Document dated April 27, 2020, has been revised as detailed below:

Disclosure on moratorium availed on certain debt facilities has been added under the section "Any other information".

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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.

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