

Company Overview

Shriram Properties Limited incorporated as 'Synectics Infoway Private Limited' on March 28, 2000 at Chennai, Tamil Nadu is one of the leading residential real estate development companies in South India, primarily focused on the mid-market and affordable housing categories. It is a part of the prestigious "Shriram Group" which is a prominent business group with four decades of operating history in India and a well-recognized brand in the retail financial services sector and several other industries. As of September 30, 2021, they have 29 completed projects, representing 16.7 Mn sq ft of saleable area, out of which 24 completed projects in the cities of Bengaluru and Chennai accounted for 90.56% of their saleable area. In addition, they have a total portfolio of 35 projects in ongoing projects, projects under development and forthcoming projects aggregating to 46.7 Mn sq ft of estimated saleable area and a land bank of approximately 197.47 Acres, with a development potential of approximately 21.45 Mn sq ft. The management has indicated that they are transitioning from a real estate development model to a combination of real estate development and service model through the use of joint-development agreements ("JDA") with landowners or through development management ("DM") business, whereby they provide end-to-end real estate development services to smaller real estate developers and other landowners. This DM model accounts for 31.92% of their portfolio as on of September 30, 2021.

Objects of the issue

The IPO proceeds shall be used towards the following purposes

- ⇒ Repayment and/ or pre-payment, in full or part, of certain borrowings availed by the company and their subsidiaries
- ⇒ General corporate purposes

Investment Rationale

Core strategy of asset light development management model and focus on mid market and affordable segment

The Company has stabilized their "DM model" having entered into definite agreements for 14 different projects and DM segment contributing 22% revenue in FY21. This allows them to earn fee income based on project development milestones achieved in terms of project sales, construction progress and customer collections, apart from reimbursement of costs and overheads. This model if scaled will allow them higher margins than their industry counterparts. In addition since inception they have been focused on the mid-market and affordable housing categories as their target segment within the residential housing market. The mid-market and affordable housing categories have accounted for significant share of overall market absorption in India in recent years. According to JLL, mid-market and affordable housing categories accounted for 74% of overall residential unit absorption during calendar year 2020. Thus as a result of this they have lower inventory levels.

Strong parentage - The "Shriram" brand with the backing of marquee investors

They are a part of the Shriram Group, which is a prominent business group with four decades of operating history in India and a well-recognized brand in the retail financial services sector and several other industries. This relationship with the Shriram Group provides them with strong brand recall and the ability to leverage its reputation among stakeholders in performing business operations.

Valuation and Outlook

Shriram Properties is among the top five residential real estate companies in South India and is well positioned to benefit from "RERA" induced Industry consolidation. They have an asset light business model with efficient utilisation of capital resulting in lower debt. However, the company has been posting net losses after tax for last two fiscals and H1FY22. On the upper end of the price band, the issue is priced at a 35.8x EV/EBITDA based of FY21 financials, which is significantly higher than its listed peers. Also the company's geographical concentration in South India increases its risk profile. Hence, we recommend "AVOID" rating on this issue.

Issue Details	
Offer Period	8 th Dec- 10 th Dec 2021
Price Band	INR. 113 to INR. 118
Bid Lot	125
Listing	BSE&NSE
Issue Size (no. of shares in mn)	50.84
Issue Size (INR. in bn)	6
Face Value	INR. 10

Issue Structure	
QIB	75%
NIB	15%
Retail	10%

BRLM	Axis Capital, ICICI Securities, Nomura
Registrar	KFin Technologies Pvt. Ltd.

Particulars	Pre Issue Post Issue	
	%	%
Promoter and promoter group	32%	28%
Public	68%	72%
Total	100%	100%

(Assuming issue subscribed at higher band)

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Income Statement (In mn)

Particulars	FY19	FY20	FY21	H1FY22
Revenue				
Revenue from Operations	6,501	5,720	4,315	1,182
Total Revenue	6,501	5,720	4,315	1,182
Expenses				
Land Cost	916	255	273	6
Material and Construction Cost	2,972	2,262	1,376	964
Changes in Inventories	966	1,007	739	(367)
Employee Benefit Expenses	783	848	634	345
Other Expenses	794	1,023	555	231
Total Operating Expenses	6,432	5,394	3,576	1,180
EBITDA	69	325	739	2
Depreciation and Amortization Expense	53	64	66	34
Other Income	736	599	698	370
EBIT	753	860	1,371	337
Finance Cost	1,051	1,232	1,253	639
Impairment Losses	7	20	226	1
Loss of Joint Venture	90	409	332	184
Exceptional Items	(1,224)	15	12	40
PBT	829	(817)	(452)	(527)
Current Tax	79	102	20	3
Deferred Tax Charge	262	(55)	210	70
Total Tax	341	47	230	73
PAT	488	(864)	(682)	(600)
Diluted EPS	3	(6)	(5)	(5)

Source: RHP, BP Equities Research

Cash Flow Statement (In mn)

Particulars	FY19	FY20	FY21	H1FY22
Cash flow from operating activities	(1,792)	1,291	1,476	550
Cash flow from investing activities	1,739	928	74	(72)
Cash flow from financing activities	(69)	(2,274)	(1,185)	(872)
Net increase/(decrease) in cash and cash equivalents	(122)	(55)	365	(394)
Cash and cash equivalents at the beginning of the period	549	410	428	792
Cash acquired on obtaining control	37	72	-	-
Cash and cash equivalents attributable to sale/disposal of stake in group component	(53)	(0)	-	-
Cash and cash equivalents at the end of the period	410	428	792	399

Source: RHP, BP Equities Research



Balance Sheet (In mn)

Particulars	FY19	FY20	FY21	H1FY22
Liabilities				
Share Capital	1,481	1,481	1,481	1,481
Other Equity	8,316	7,563	6,894	6,207
Non controlling Interests	(101)	(104)	(103)	(20)
Net worth	9,696	8,941	8,273	7,668
Lease Liabilities	18	14	13	13
Borrowings	1,491	786	494	484
Deferred Tax Liabilities (Net)	181	148	158	149
Provisions	38	44	45	49
Other Financial Liabilities	903	597	308	327
Total Non Current Liabilities	2,632	1,590	1,017	1,024
Borrowings	6,965	6,586	6,777	6,467
Lease Liabilities	4	4	4	5
Trade Payables	1,376	1,410	1,449	1,440
Other Financial Liabilities	1,555	2,978	3,475	3,578
Other Current Liabilities	11,250	12,369.69	11,691	12,438
Provisions	30	31	33	41
Current Tax Liabilities	148	263	276	275
Total Current Liabilities	21,328	23,642	23,705	24,242
Total Liabilities	33,656	34,173	32,995	32,934
Assets				
Property, Plant & Equipment	489	671	614	588
Capital Work in Progress	63	-	-	-
Investment Property	0	0.57	0.57	0.57
Goodwill	106	106	106	106
Other Intangible Assets	3	34	37	33
Intangible Assets Under Development	17	-	-	-
Investments Accounted for Using Equity Method	800.58	585.53	448.99	408.64
Financial Assets	1,878	1,600	1,561	997
Deferred Tax assets (Net)	571.35	592.16	391.91	312.62
Non Current Tax assets	55	101	104	99
Other Non Current Assets	1,178	1,638	1,346	1,379
Total Non Current Assets	5,162	5,328	4,608	3,925
Inventories	19,250	20,921	20,261	20,626
Investments	1,910	402	14	14
Trade Receivables	2,095	1,645.9	1,324	1,082
Cash and Cash Equivalents	410	428	792	399
Bank Balances	150	17	22	23
Other Financial Assets	2,643	3,342	3,226	3,761
Loans	693	450.97	577	662
Other Current Assets	1,343	1,638	2,171	2,442
Total Current Assets	28,495	28,845	28,387	29,009
Net Current Assets	7,166	5,204	4,682	4,767
Total Assets	33,656	34,173	32,995	32,934

Source: RHP, BP Equities Research

Key Risks

- ⇒ Significantly dependent on performance of real estate market in India and particularly South India which is significantly exposed to external factors
- ⇒ The impact of Covid-19 business on real estate has been negative and its impact on future is uncertain and cannot be predicted
- ⇒ The company being involved in Capital intensive business has significant amount of debt which may affect the ability to obtain future financing
- ⇒ Significant increases in prices of, or shortages of, or disruption in supply of labor and key building materials could affect estimated construction cost and timelines resulting in cost overruns, impacting the profitability

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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