

Shriram Properties Limited

SSIS IPO GRADE 2.5/5 (Below Average)

7th December, 2021

Rating Overview

Shriram properties is backed by Marquee Investors and the Shriram group. It is one of the Leading Residential Real Estate Development Companies in South India which focuses on Mid-market and Affordable Housing Categories. Despite that, this issue won't be a good fit in anyone's portfolio. Let's see why?

The company has demonstrated capabilities in project identification and has a strong execution track record; it's scalable and has an asset light business model, its well positioned to benefit from regulatory and industry developments and has an experienced and professional management, despite that this is not the right time for investing in this issue.

The company has a significant amount of debt, which could affect their ability to obtain future financing or pursue their growth strategy and the effect of COVID on its earnings has been significant. The demand of residential real estate picked up with low interest rates but is not being sustained. The Kolkata real estate market has a direct impact on the company's earning.

As of September 30, 2021, approximately 22.09% of company's estimated Saleable Area is located in Kolkata, West Bengal; as a result company's future business, financial condition and results of operations are significantly dependent on the conditions affecting the real estate market in Kolkata.

Apart from that the company has some unique strategies as well. They develop projects benefitting mid-market and affordable housing categories. They have presence in major cities of South India. They command a strong presence in the Plotted Development Category. They have a unique Asset Light Business Model. They focus on building scale, consolidate position and enhance execution capabilities to capitalize on present opportunities.

Our overall rating of Shriram Properties is below average given its weak fundamentals, low business scale and better listed opportunities in the sector. The analyst has no plans of subscribing to the offer and does not hold any shares in the company prior to, or at the time of writing this review.

Company Overview

Shriram Properties Ltd. (SPL) 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 among the top five residential real estate companies in South India in terms of the number of units launched between the calendar years 2012 and the third quarter of 2021 across Tier 1 cities of South India including Bengaluru, Chennai and Hyderabad. (Source: JLL Report) The company is also present in the mid-market premium and luxury housing categories as well as commercial and office space categories in core markets. SPL is operating on an asset-light model of activities and has no land bank.

It is 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 helps it to enjoy strong brand recall and benefits under Shriram Brand.

SPL commenced operations in Bengaluru in the year 2000 and has since expanded its presence to other cities in South India, i.e., Chennai, Coimbatore and Visakhapatnam. In addition, it also has a presence in Kolkata in East India, where it is developing a large mixed-use project. Bengaluru and Chennai are two key markets for it. These cities are among two key residential housing markets in India, contributing to approximately 29.3% of the launches in India between the calendar year 2012 and the third quarter of the calendar year 2021, and 28.7% of the sold inventory in India between the calendar year 2019 and the third quarter of the calendar year 2021. (Source: JLL Report)

Since its inception, it has focused on the mid-market and affordable housing categories as target segments within the residential housing market. The mid-market and affordable housing categories have accounted for a significant share of overall market absorption in India in recent years. According to the JLL report, mid-market and affordable housing categories accounted for 75.00%, 72.00% and 74.00% of overall residential unit absorption during calendar years 2018, 2019 and 2020, respectively.

Fundamental Overview

On the financial performance front, for the last three fiscals, SPL has (on a consolidated basis) posted total revenue/net profit (Loss) of Rs. 723.78 cr. / Rs. 48.79 cr. (FY19), Rs. 631.84 cr. / Rs. - (86.39) cr. (FY20), Rs. 501.31 cr. / Rs. - (68.18) cr. (FY21). For the first half of current FY22 ended on September 30, 2021, it has posted a loss of Rs. 60.03 cr. on total revenue of Rs. 155.15 cr.

For the last three fiscals, on a consolidated basis, the company has posted an average EPS of Rs. - (3.67) per share and an average RoNW of 0.86%. The issue is priced at a P/BV of 2.29 based on its NAV of Rs. 51.53 as of September 30, 2021, and at a P/BV of 1.96 based on its post-issue NAV of Rs. 60.07 (at the upper cap). SPL's last two and a half fiscals EPS ratio could not be ascertained as it has posted losses.

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As per the offer documents, SPL has shown Sobha Ltd., Prestige Estates, Brigade Enterprises, Godrej Properties, Oberoi Realty and Sunteck Realty as its listed peers. They are currently trading at a P/E of 77.34, 65.83, 42.38,

00, 60.49 and 253.88 (as of December 06, 2021). However, they are not truly comparable on an apple to apple basis.

The Company has neither any formal dividend policy nor declared any dividends for Fiscals 2021, 2020 and 2019 and has not declared any dividend in the current Fiscal. It will adopt a prudent dividend policy going forward based on its financial performance and future prospects.

Summary of financial Information				
Particulars	For the year/period ended (Rs in Millions)			
	30-Jun-21	31-Mar-21	31-Mar-20	31-Mar-19
Total Assets	32,933.63	32,994.87	34,173.03	33,656.31
Total Revenue	1,551.50	5,013.08	6,318.43	7,237.80
Profit After Tax	- 600.33	- 681.78	- 863.93	487.91

Issue Details

To part finances its plans for repayment/prepayment of certain borrowings by the group companies (Rs. 200.00 cr.), general corpus funds, SPL is coming out with a maiden IPO of equity shares of Rs. 10 each worth Rs. 600.00 cr. (approx. 50847500 shares at the upper price band) via book building route. The issue will have a fresh equity issue worth Rs. 250.00 cr. (21186500 shares at the upper cap) and an offer for sale (OFS) (29661000 shares - at the upper price band) valued at Rs. 350 cr. This issue opens for subscription on December 08, 2021, and will close on December 10, 2021. SPL has fixed a price band of Rs. 113 to Rs. 118 per share of Rs. 10 each. Minimum application is to be made for 125 shares and in multiples thereon, thereafter. Post allotment, shares will be listed on BSE and NSE.

The issue constitutes 29.98% of the post issue paid-up capital of the company. The company has reserved shares worth Rs. 3.00 cr. for its eligible employees and offering them a discount of Rs. 11 per share. From the residual portion, it has allocated 75% for QIBs, 15% for HNIs and 10% for the Retail investors.

The joint Book Running Lead Managers (BRLMs) to this issue are Axis Capital Ltd., ICICI Securities Ltd., and Nomura Financial Advisory and Securities (India) Pvt. Ltd., while KFin Technologies Pvt. Ltd. is the registrar to the issue.

Having issued initial equity at par, the company raised further equity in the price range of Rs. 96.06 to Rs. 791.18 per share between November 2007 to June 2014. It has also issued bonus shares in the ratio of 1 for 1 in September 2006 and 5 for 1 in August 2009. The average cost of acquisition of shares by the promoters/selling stakeholders is Rs. 0.63, Rs. 1.31, Rs. 100.50 / Rs. 0.83, Rs. 1.67, Rs. 1.87, Rs. 10.00, Rs. 101.00, Rs. 127.39, Rs. 132.27, Rs. 176.98 and Rs. 176.99 per share.

Post-IPO, SPL's current paid-up equity capital of Rs. 148.41 cr. will stand enhanced to Rs. 169.60 cr. Based on the upper cap of the IPO price, the company is looking for a market cap of Rs. 2001.26 cr.

Application Dates	Dec 8, 2021 – Dec 10, 2021
Issue Type	Book Built Issue IPO
Face Value	₹10 per equity share
IPO Price	₹113 to ₹118 per equity share
Market Lot	125 Shares
Listing At	BSE, NSE
Issue Size	[.] Eq Shares of ₹10 (Up to ₹600.00 Cr)

Issue Timeline

Basis of Allotment Date	Dec 15, 2021
Initiation of Refunds	Dec 16, 2021
Credit of Shares to Demat Account	Dec 17, 2021
IPO Listing Date	Dec 20, 2021

Investment Strategy

The company has been posting losses at the net level since FY20. H1 of FY22 too indicates a further dip in profits. The company claims that it has priced the IPO reasonably. The only favourable point, for now, is the Shriram Group tag and their efforts to back on track in the near term. Thus this issue is purely and only for long term investors who have surplus funds and risk appetite. Others can skip this issue and may buy at dip post listings.