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Shriram Properties plans to enter into fractional ownership

NEW DELHI: Shriram Properties (SPL) wants to enter into fractional ownership model as they think it will pick up serious momentum. The company is also looking to expand in Pune and monetize about 60 acres of land parcel in Kolkata.

For the financial year 2023-24, the company has guided the market for about 4.8 million sq ft of pre-sales volume and Rs 2,400-2,500 crore of sales value. It is also looking to deliver about 3,000 units by the FY24-end and three new launches during Q3 FY24.

The company achieved sales volumes of 1.15 million sq ft, sales values of Rs 608 crore and gross collections stood at Rs 430 crore in Q2 FY24. For H1 FY24, SPL achieved sales volumes of 1.9 million sq ft, sales values of Rs 1,066 crore and gross collections stood at Rs 721 crore.

SPL intends to complete and deliver about 7 million sq ft over the next two years.

Both Murali Malayappan, chairman and managing director and Gopal Krishnan , executive director & group CFO of SPL sat down with ETRealty for an interview, highlighting company's future plans.

Edited excerpts:

How was April-September 2023 for you? And what plans you have for H2 FY24?

Murali: Since listing we've been showing growth quarter-after-quarter. Last quarter (July-September 2023) has also been pretty good compared to last year. H2 FY24 is also looking very bright. We are confident that we should be able to cross our projected numbers comfortably.

Gopal: For the financial year 2023-24, we have guided the market for about 4.8 million sq ft of pre-sales volume, Rs 2,400-2,500 crore of sales value depending on the project mix, Rs 1,500-1,600 crore of collections and Rs 750-800 crore of construction spent. We are planning to deliver about 3,000 units during this financial year of which about 830 units have already been delivered in H1 FY24.

In H1 FY24, our pre-sales volume was 1.9 million sq ft and sales volume was approximately Rs 1,066 crore.

How many projects you are looking to complete in this financial year?

Gopal: For this financial year, we are looking to complete about 4.3 million sq ft of which 1.8 million sq ft has already been delivered and rest about 2.5 million sq ft is planned for H2 FY24.

We have about 51 million sq ft of pipeline, out of which 22 million sq ft is ongoing projects (about 78-80% is sold) and balance is to be launched. In total, over the next 24-30 months, we will be launching a total of 20-21 million sq ft of projects. About 65 per cent of our total pipeline is joint development agreement (JDA) or joint ventures (JV).

Why acquiring land is not in your strategy?

Murali: From the day-one, we never wanted to be land aggregator. We also list down all the things we should not do and land banking was on the top. When we started there was no capital availability for us and there were several other challenges. Whatever capital was available was at very high interest. If eventually land is not yielding returns or appreciating, it makes no business sense. The day the capital available is lower than the market appreciation, one should get into land banking.

Also, currently there are lot of stuck projects and investments and that's where the asset light model comes in. We prefer the development management (DM) model. At present, about 34 per cent of our portfoliio is development management model. Even if you look at from the margin perspective, sure, outright purchase will be the most profitable among the three but at over Rs 7,000 per sq ft average selling price, the margin difference is very negligible. And at the same time, the capital you deploy, investment you make or exposure you have is very different is outright purchase and JDA/JV.

Gopal: Development management model is a very low cost growh engine. So, lets say if you want to add 10 million sq ft of pipeline, its relatively easier to do it in DM model. The capital required is lot less.

We have also done projects under JV like with Ask Property co-investment platform where we put 20% and they put 80%. This is useful in acquiring stressed assets. The first project we acquired under the platform was a stressed project-Shriram Pristine Estates from IIFL.

Can you give us details about the Chennai project under Ask Property Fund?

SPL and ASK Property Fund have jointly invested Rs 206 crore towards 100% of development rights in an ongoing project in Chennai, through SPL's wholly owned subsidiary, Shrivision Elevations . Our investment is roughly about 20 per cent (about Rs 45-46 crore)

With a total saleable area of 1.9 million sq ft spread across two phases, the project - Shriram 122 West has an aggregate revenue potential of Rs 1,200 crore in next five years. It comprises of about 1,900 residential units, predominantly targeting the mid-income group.

Context: In November 2022, ASK & Shriram announced a co-investment platform - ASK Real Estate Special Opportunities Fund IV with an aggregate capital commitment of Rs 500 crore. Collectively between both projects, the platform has utilised 60% of its committed capital already.

What is your current debt?

Gopal: Currently our net debt is Rs 430 crore, debt-equity ratio 4.38 and cost of debt is 11.3%-11.4%. Cost of debt pre-IPO was 14.1% and in March 2023 it was 11.9%. Now, I think we have stabilised and maybe further drop will be marginal. We used to have a joint venture with Mitusbishi Corporation for a project (Shriram Park63, Chennai). They put about Rs 130 crore for 70% equity stake in the project. Phase-I is complete, phase-II is nearing completion. Now, we are exiting them and acquired their stake through three tranches (September 2023, December 2023 and December 2024). Because of this arbitrage, we are getting an incremental revenue of Rs 400 crore on this project. So there about Rs 142 crore of debt that came in Q2 FY24, therefore the gross ratio is higher.

What kind of investment are you looking at in this financial year?

Gopal: In the last 18 months, we have invested about Rs 175 crore. We think similar trend will continue in future.

Shriram Group was looking to exit from Shriram Properties. Has there been any update on this front?

Murali: Its a continuous exercise and if at some stage there is an opportunity, I will look at buying out their stake. Together we own 28% in Shriram Properties (Shriram Group Executive Welfare Trust owns 19% and Murali owns 9%). Promoter holding will change. Even after the exit we will continue to pay the royalty for the brand name. We incur about Rs 10-15 crore of brand royalty fee every year but today we have got our own brand recall value in cities that we are present in, so we may change the logo to avoid/save this royalty fee. So the name will continue and logo may change.

What are your plans for Pune?

Murali: In Pune we are launching about 2 million sq ft project under development management model. We may look at more projects in Pune as it has more similarities to Bengaluru.

What is your current average price realisation?

Its about Rs 6,378 per sq ft as of September 30, 2023 as against Rs 6,000 per sq ft in March FY23. So, as a basket, if I look at our projects, our average realisation has gone up by about 14% this year.

What is your take on fractional ownership?

Murali: We will be looking at fractional ownership once we have regulatory clarity on the same. There is a huge demand for this segment and it will have huge attraction and we will be looking at launching projects catering to fractional ownership.

What is your take on REITs? Why it has not picked up?

Murali: All the REITs are struggling to get their hands on good high quality assets. Because all the Grade-A assets are already occupied by other people. Grade-B and Grade-C properties are available in plenty but there are no takers. There is lots of funds available in REITs side but there is no supply at all. Quality of supply is the main challenge.

We will not be looking at REITs. Our strength is that we are a real estate developer and we have the capability to generate 20-30% internal rate of return (IRR) and we will focusing on creating such assets.

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Shriram Properties plans to enter fractional ownership model

Shriram Properties (SPL) is considering entering the fractional ownership model, anticipating significant momentum. Simultaneously, the company aims to expand in Pune and monetise approximately 60 acres of land in Kolkata.For the financial year 2023-24, SPL has provided market guidance of about 4.8 million sq ft of pre- sales volume and sales value in the range of Rs 24-25 billion. Additionally, the company plans to deliver around 3,000 units by the end of FY24 and launch three new projects during Q3 FY24.

In Q2 FY24, SPL achieved sales volumes of 1.15 million sq ft, sales values of Rs 6.08 billion, and gross collections of Rs 4.3 billion. For H1 FY24, the company accomplished sales volumes of 1.9 million sq ft, sales values of Rs 10.66 billion, and gross collections of Rs 7.21 billion.

SPL aims to complete and deliver approximately 7 million sq ft over the next two years. Murali Malayappan, Chairman and Managing Director, and Gopal Krishnan, Executive Director & Group CFO of SPL, discussed the company's future plans in an interview.

The company's performance in April-September 2023 has been positive, showing continuous growth since its listing. The outlook for H2 FY24 is optimistic, with confidence in surpassing projected numbers comfortably.

For the current financial year, SPL plans to complete about 4.3 million sq ft, with 1.8 million sq ft already delivered and the remaining 2.5 million sq ft planned for H2 FY24. The pipeline includes 51 million sq ft, with 22 million sq ft in ongoing projects (78-80% sold) and the rest awaiting launch. Approximately 65% of the pipeline involves joint development agreements (JDA) or joint ventures (JV).

Land acquisition is not part of SPL's strategy, as the company prefers an asset-light model, particularly the development management (DM) model, which is considered a low-cost growth engine. The focus on DM and JDA/JV models aligns with the company's approach to managing capital efficiently.

Regarding a Chennai project under Ask Property Fund, SPL and ASK Property Fund jointly invested Rs 2.06 billion in an ongoing project, Shriram 122 West, with an aggregate revenue potential of Rs 12billion in the next five years.

As of the latest update, SPL's net debt is Rs 4.3 billion, with a debt-equity ratio of 4.38 and a cost of debt ranging from 11.3% to 11.4%. The company has maintained a stable financial position, and the joint venture exit with Mitsubishi Corporation has resulted in incremental revenue.

In terms of investment, SPL has invested about Rs 1.75 billion in the last 18 months, with a similar trend expected to continue. Regarding Shriram Group's exit from Shriram Properties, it is an ongoingconsideration, and if an opportunity arises, there might be a buyout of their stake.

For Pune, SPL plans to launch a 2 million sq ft project under the development management model, with potential for more projects in the future. The current average price realisation stands at Rs 6,378per sq ft as of September 30, 2023, reflecting a 14% increase compared to March FY23.

SPL expresses interest in fractional ownership, awaiting regulatory clarity, and anticipates launching projects in this segment. On the topic of Real Estate Investment Trusts (REITs), SPL believes the main challenge is the scarcity of Grade-A assets, and the company intends to focus on developing high- quality assets with the capability to generate a 20-30% internal rate of return (IRR).