

**Opinion on Proposed Related  
Party Transactions of Shriram  
Properties Limited for the  
Financial year  
2023 – 2024**

## Preamble

We have been engaged by M/s. Shriram Properties Limited vide letter dated 11th October 2021 to provide an assessment of the related party transactions between SPL and its Subsidiaries including wholly owned subsidiaries, Associates, and JVs (collectively referred to as “Associated Enterprises”/ “AE’s”), & a related party transaction to which the subsidiary of a listed entity is a party but the listed entity is not a party and provide our opinion on the arms’ length price of these transactions. In this connection, the various related parties and their transactions were scrutinized and the application of the provisions of Section 188 and Section 177 of the Companies Act,2013 were considered to arrive at our opinion. The metrics in relation to the transactions were compared wherever possible, to industry metrics for transactions of comparable nature.

The objective of this transfer pricing analysis is to support the arm’s length nature of the Related Party Transactions entered into by Shriram Properties Limited (hereinafter referred to as “Shriram Properties” or “The Company”) with its Associated Enterprise(s) (hereinafter referred to as “Shriram Group”/ “Group Companies”/ “AE(s)”).

This analysis has been completed in line with the arm’s length principle set out in the Indian Transfer Pricing Regulations. This opinion on transfer pricing has been prepared for the proposed transaction for the FY ending March 31, 2024.

We have prepared this presentation based on the request of M/s Shriram Properties Limited, Bangalore. This presentation is not to be circulated or shared without our prior written consent. A detailed Transfer Pricing and Analysis report on the Applicability of Transfer Pricing provisions and Arm’s Length Price principles to the company is being prepared by us.

**Brief about  
Shriram  
properties  
limited and their  
transactions  
With related  
parties**

Shriram Properties Limited is one of the leading residential real estate development companies in South India, primarily focused on the mid-market and affordable housing categories. The company has an extensive presence in Bangalore and Chennai and a reputation for providing quality construction for two decades since its inception. The company is headquartered in Bangalore and has a registered office in Chennai along with regional offices in Kolkata, Vishakhapatnam, and Coimbatore.

**The transactions between the entities assessed were:**

- A. The interest rate on intercorporate loans given/taken,
- B. Development management fees & Admin fees for Subsidiaries & Joint Ventures,
- C. Redemption of Debentures,
- D. Investment of Debentures,
- E. Cross-charge of marketing and sales promotion expenses,
- F. Payment of passthrough items like GST, TDS, and Electricity bills for SPVs,
- G. Corporate guarantee and commission &
- H. Security provided by subsidiaries

## Applicability of Transfer Pricing provisions to Shriram Properties Limited

- ❑ **Related parties:** WOS and JVs are related parties within the meaning of Section 2(76)(viii) of the Act read with Regulation 2(1)(zb) of LODR
- ❑ **Related Party Transactions:** (a) As per Regulation 2(zc) of LODR “related party transaction” means a transfer of resources, services, or obligations between a listed entity and a related party, regardless of whether a price is charged and a "transaction" with a related party shall be construed to include a single transaction or a group of transactions in a contract.
- ❑ Section 188(1) of the Act specifies some transactions as Related Party Transactions.
- ❑ Section 177(4)(iv) of the Act is much wider as it covers all transactions with related parties.
- ❑ **Approval of transactions (RPT):** (a) Section 177(4)(iv) of the Act: The terms of reference of the Audit Committee inter-alia include "Approval or any subsequent modification of transactions of the Company with related parties". The fourth proviso to Section 177(4)(iv) of the Act exempts transactions between the Company and its WOS from the requirement of “approval” of the Audit Committee unless the said transactions or modification thereof are covered under Section 188 of the Act. Accordingly, approval of the Audit Committee (prior/ post facto) would be required for transactions/ modification of transactions with WOS only for transactions “referred to in Section 188” of the Act.

**Applicability  
of Transfer  
Pricing  
provisions to  
Shriram  
Properties  
Limited  
(Continued)**

- ❑ Section 188 of the Act: Section 188(1) stipulates consent of the Board of Directors by a resolution passed at a meeting before contracts/ arrangements can be entered into with related parties in respect of certain types of transactions specified in clauses (a) to (g) therein.
- ❑ First proviso further stipulates that prior approval of shareholders would be required for contracts/ arrangements to be entered into in case of companies having more than a prescribed paid-up capital or where the amount involved is more than a prescribed amount.
- ❑ **Fourth proviso** exempts such prior consent/ approval of the Board/ Shareholders if the transactions entered into by the Company are on an arms' length basis and in the ordinary course of its business.
- ❑ **Fifth proviso** also the requirement of passing the resolution under the first proviso shall not be applicable for transactions entered into between a holding company and its wholly-owned subsidiary whose accounts are consolidated with the such holding company and placed before the shareholders at the general meeting for approval.
- ❑ **Based on the applicability of Section 177, the Arms Length principle for Subsidiaries, JVs, and Wholly Owned Subsidiaries is tested in the analysis**

## SEBI guidelines governing the provisions of the RPT

- ❑ SEBI has recently mandated all listed companies to submit disclosure on Related Party Transactions (RPT), every six months vide its circular no. SEBI/HO/CFD/CMD1/CIR/P/2021/662, dated November 22, 2021, and this new requirement comes into effect from 1<sup>st</sup> April 2022.
- ❑ Further RPT needs to be placed before the Audit Committee (AC) for prior approval on an annual basis.
- ❑ Also seek the Shareholders' approval in a General meeting by way of ordinary resolution if the material transaction exceeds 10% based on the audited Consolidated annual turnover.
- ❑ This data is further to be submitted to stock exchanges in the format specified by the SEBI from time to time (currently as per annexure to circular) every six months., within 15 days of publication of half-yearly results and with effect from 1.4.2023, on the same day of publication of results.

**New SEBI  
guidelines  
governing the  
provisions of  
the RPT  
(Amendment)**

Regulation 2(1)(zc)(ii) – Definition of “related party transaction”

Where a listed entity or any of its subsidiaries, on one hand, transacts with any other person or entity on the other hand which may or may not be a related party (as per the revised definition i.e. April 1, 2023, as mentioned above), but the purpose and effect of which is to benefit a related party (as per revised definition w.e.f April 1, 2023) of the listed entity or any of its subsidiaries, such transactions would be covered under the definition of Related Party Transaction

Regulation 23 (2)(c) – Limit for approval of subsidiaries transactions by the audit committee of the listed entity

with effect from April 1, 2023, a related party transaction to which the subsidiary of a listed entity is a party but the listed entity is not a party, shall require prior approval of the audit committee of the listed entity if the value of such transaction whether entered into individually or taken together with previous transactions during a financial year, exceeds ten percent of the annual standalone turnover, as per the last audited financial statements of the subsidiary

**The  
Subsidiaries  
and JVs in  
relevance to  
TP are:**

Shrivation Homes Private Limited  
Shriprop Developers Private Limited  
SPL Shelters Private Limited  
Shriprop Homes Private Limited  
Shriprop Projects Private Limited  
Global Entropolis (Vizag) Private  
Limited  
Shriprop Constructors Private  
Limited  
Shriprop Structures Private Limited  
SPL Constructors Private Limited  
Shriprop Builders Private Limited  
Shriram Living Space Private Limited  
Shriram Upscale Spaces Private  
Limited  
Shrivation Elevations Private Limited

Suvilas Realities Private Limited  
Bengal Shriram Hitech City Private  
Limited  
SPL Estates Private Limited  
SPL Realtors Private Limited  
SPL Towers Private Limited  
Shriprop Living Space Private Limited  
Shriprop Hitech City Private Limited  
SPL Housing Projects Private Limited  
Shriprop Properties Private Limited  
Shrivation Towers Private Limited



## OUR PROCEDURE

We have been provided with the nature and proposed amount of transactions with related parties for the FY 2023-24.

We also referred to the Unaudited Standalone Financials (FY 2022-23) of SPL to identify all the Related party transactions subjected to regulations of the Transfer Pricing.

For assessment of 'Market value' for Transactions with RPTs, Arms Length Price or the Assessable Open Market value for such services was taken and compared.

The economic analysis involves the selection of the tested party (Shriram Properties), selecting the most appropriate method, conducting a search for uncontrolled comparables based on the selection of the most appropriate method, selecting a measure of profitability (where appropriate), and finally determining the arm's length results. The process may involve identifying a sample of companies that are comparable to the tested party and analyzing the profitability of such comparable companies.

## **Selection of the Most Appropriate Transfer Pricing Method**

The Indian Transfer Pricing Regulations (i.e. Section 92C of the Income-tax Act, 1961 read with Rule 10B of the Income-tax Rules, 1962) as well as the OECD Transfer Pricing Guidelines provide the following 5 common transfer pricing methods for evaluating the related party transactions undertaken between entities:

Comparable Uncontrolled Price Method (CUP);  
Resale Price Method (RPM);  
Cost Plus Method (CPM);  
Profit Split Method (PSM);  
Transaction Net Margin Method (TNNM)

Out of the 5 common Transfer Pricing methods, We have selected Comparable uncontrolled Price (CUP Method) for the Interest rate on intercorporate loans given/taken & Transactional Net Margin Methods (TNNM) for all other transactions as the basis for identifying the Arms Length price of transactions of SPL.

\*Detailed notes of each method and their applicability for the tested entity are given later in the report.

## Economic Analysis – Arms Length Results - Summary

NATURE OF TRANSACTION	TRANSFER PRICING METHOD	VALUE FOR FY 2023-24 (IN RS. MILLIONS)	MARGIN/ RATE OF SPL FY 2023-24	COMPARABLE MARGIN/RATES (BASED ON COMPARATIVE ANALYSIS)
Interest rate on intercorporate loans given / taken	CUP	Loan Given - 6100 Loan Taken – 5750	15%	12% to 18% (Based on Market rates of uncontrolled transactions (external comparables) - similar loans; Loans availed by SPL carry interest rates averaging – 13.7% Interest will be simple interest @15% p.a. from 01/04/2022. These are at Arm’s Length price
Cross charge of marketing and sales promotion expenses	N/A	1690		Since these are reimbursed on actual basis, there is no mark-up and Arm Length price requirement.
Payment of passthrough items like GST, TDS, Electricity bills for SPV’s	N/A	790		Since these are reimbursed on actual basis, there is no mark-up and Arm Length price requirement.
Development management fees & Admin fees	CUP/TNNM	722	Ranging from 3% to 8%#	6% to 18.64% (Based on DM Income rates of uncontrolled transactions (internal comparables)-similar DM fees; No External comparable were available for comparison under CUP method. Based on the explanation and information provided to us for comparison of the Internal uncontrolled transactions, they are at Arm’s length price.
Corporate Guarantee commission	CUP	192	1%	CIT/ITAT have recommended a rate of 0.5% as the arms length price.
Security provided by subsidiaries		2000	1%	No compensation in the form of interest or commission is given other than for BHCPL for which 1% Fees is charged as mortgage expenses from Jan 22 for using Land of Bengal Shriram as security.

## Economic Analysis – Arms Length Results - Summary

NATURE OF TRANSACTION	TRANSFER PRICING METHOD	VALUE FOR FY 2023-24 (IN RS. MILLIONS)	MARGIN/ RATE OF SPL FY 2023-24	COMPARABLE MARGIN/RATES (BASED ON COMPARATIVE ANALYSIS)
Redemption of Debentures		1000		Considering this transaction is being carried out based on the Fair market valuation issued by the registered valuer, it is determined that the transaction is carried out at an Arm length price.
Investment in Debentures		2500		Considering this conversion price of the debentures is based on the Fair market valuation arrived by the certified valuer, it is determined as an Arm length price that amounts to ₹2000 Million. Further, the company has a plan to invest in one of the proposed joint venture that amounts to ₹500 Million.
Corporate Guarantee	CUP	12,180	1%	SPL has given/taken a guarantee for the projects for which 1% is charged as a Guarantee Commission. However, CIT/ITAT has recommended a rate of 0.5% as the arms-length price.

# Economic Analysis – Arms Length Results – Summary

(Proposed RPT transactions between Subsidiaries/JV's and other group companies for FY 2023-24)

NATURE OF TRANSACTION	TRANSFER PRICING METHOD	VALUE FOR FY 2023-24 (IN RS. MILLIONS)	MARGIN/ RATE OF SPL FY 2023-24	COMPARABLE MARGIN/RATES (BASED ON COMPARATIVE ANALYSIS)
Security Given/Released		Security Given – 6000 Security Released – 307	1%	For Which 1% Fee is charged, a similar fee SPL charges for its subsidiaries. These are at the Arm's Length Price.
Mortgage Fees		75	1%	No compensation in the form of interest or commission for which 1% Fee is charged.
Loan Given / Taken	CUP	Loan Given – 1700 Loan Taken – 1600	15%	14% to 21% (Based on Market rates of uncontrolled transactions (external comparables) - similar loans; Interest will be simple interest @15% p.a. from 01/04/2022. These are at Arm's Length price
Interest	CUP	337	15%	14% to 21% (Based on Market rates of uncontrolled transactions (external comparables) - similar loans; These are at Arm's Length price
Sale of Mivan/ Purchase of Mivan		390	Less than Cost Price	Considering this as a sale of the scarp ( used Fixed Asset) which is sold at a concessional rate for re-use in other projects, it is determined this transaction has been carried out at Arms Length Price.
Cross-Charge of marketing Expenses & other Expenses	NA	290		Since these are reimbursed on actual basis, there is no mark-up and Arm Length price requirement.

# Economic Analysis – Arms Length Results – Summary

(Proposed RPT transactions between Subsidiaries/JV's and other group companies for FY 2023-24)

NATURE OF TRANSACTION	TRANSFER PRICING METHOD	VALUE FOR FY 2023-24 (IN RS. MILLIONS)	MARGIN/ RATE OF SPL FY 2023-24	COMPARABLE MARGIN/RATES (BASED ON COMPARATIVE ANALYSIS)
Guarantee Given / Released	CUP	Given - 2000 Released – 750	1%	Subsidiaries have given guarantees to other group companies for the projects for which 1% is charged as a Guarantee Commission. However, CIT/ITAT has recommended a rate of 0.5% as the arms-length price.
Guarantee Commission	CUP	30	1%	Subsidiaries have given guarantees to other group companies for the projects for which 1% is charged as a Guarantee Commission. CIT/ITAT has recommended a rate of 0.5% as the arms-length price.
Reimbursement of expenses/ Passthrough/ taxes etc.	NA	50		Since these are reimbursed on an actual basis, there is no mark-up and Arm Length price requirement.
Revenue share receivable		200		As per the Terms and Condition of the Agreements
Interest expense on security deposit	NA	30		Since this is an IND AS requirement, there is no markup and Arm Length price requirement.

**Interest rate  
on  
intercorporate  
loans  
given/taken  
interest**

CUP method is adopted for this transaction. The comparable uncontrolled price (“CUP”) method evaluates the arm’s length character of a controlled transaction by comparing the price charged in the controlled transaction to the amount charged in a comparable uncontrolled transaction in comparable circumstances. We compared the prevailing market rates of business loans (external comparables) and loans availed by SPL (internal comparables), and 15% has been charged for the transactions between Subsidiaries/JV and other group companies where SPL is not the Party. The range of interest rates for business loans was from 12% to 18% based on their tenure and quantum. The loans availed by SPL carry interest rates averaging 13.70%, thus instituting the Arms’ length principle. The interest rates for all RPT transactions will be calculated on the basis of Simple interest from 1<sup>st</sup> April 2023 and not compounded Annually.

The RPM is most useful when applied to selling and distribution operations wherein the reseller/distributor does not add substantial value to the “product” through the use of the tangible or intangible property. Further, the applicability of RPM to a distributor is dependent on the availability of data for gross margin. Since such data is not available for this transaction, the RPM method is not appropriate for this transaction.

The Cost Plus Method tests the arm’s length character of a transfer price in a controlled transaction by reference to the profit markup realized in a comparable uncontrolled transaction. Since the required data is not available for this transaction this method is not adopted.

Profit Split Method: The profit split methods are designed to be applied where transactions are very interrelated. The operations of SPL and AEs are distinct such that there is no difficulty in evaluating the entities independently. Having regard to these factors, PSM is not considered as the most appropriate method.

## Development management fees & Admin fees

CUP method is adopted for this transaction. The comparable uncontrolled price (“CUP”) method evaluates the arm’s length character of a controlled transaction by comparing the price charged in the controlled transaction to the amount charged in a comparable uncontrolled transaction in comparable circumstances. In this transaction, we have taken the Development Management Fee charged by SPL to other third parties and their income rates to be compared with rates charged to RPTs.

The DM/admin fee charged by SPL for their Subsidiaries/Wholly Owned Subsidiaries/Joint Ventures (JVs) ranged from 3% to 8% of the project value based on the tenure, scope and geographic locations of the project, however there were other internally comparable transactions with much higher charges in the range of 6% to 18.64% entered between SPL & third parties (Uncontrollable transactions) using past years data. We were provided with further information on the development fee charged by SPL to the third parties and the rationale under the transactions to understand the establishment of Arm’s Length Price.

Based on the information and explanation given to us, the tested transactions are at Arm’s Length as required by the regulations of Indian Transfer Pricing Regulations.

TNNM Method for this transaction may be adopted for this transaction based on the Data Base availability of similar entities in the same turnover & profit band.

The TNMM of comparable entities with the Industry Profit Level Indicator of Profit Before Taxes /Operating Expenses was tested for 330 entities and an Industry band of 4.49% to 17.27% was arrived at.

The RPM, CPM & PSM were not particularly appropriate to identify the ALP.



## Provision of Corporate Guarantee to Subsidiaries

Since there are no specific guidelines for determining ALP for Corporate guarantees given for domestic subsidiaries (Specified Domestic Transactions). We have referred to the below-mentioned case laws to determine the common range of Guarantee/commissions and their Arms Length Prices.

- Rate of 0.5 percent guarantee fee/commission would be at arm's length where rates of guarantee commission charged by various banks were found to be in the range of 0.15 percent to 3 percent. (Godrej Household Products Ltd. V. Addl. CIT [2014] 41 taxmann.com 386 (Mum.- Trib.))
- ITAT held that TPO should adopt 0.5 percent as arm's length guarantee commission charges in respect of the corporate guarantee given by the assessee for its foreign AE. (Aditya Birla Minacs Worldwide Ltd. [2015] 56 taxmann.com 317 (Mumbai – Trib.))
- Rate of 0.5 percent charged by the assessee for giving corporate guarantee to its AE was appropriate. (Hindalco Industries Ltd. [2015] 62 taxmann.com 181 (Mumbai – Trib.))

Based on the above, the Tested entity's rate of 1% commission is within the ALP.

The RPM, CPM & PSM were not particularly appropriate to identify the ALP

## Cross-charge of marketing and sales promotion expenses/Payment

Since these transactions are cross charged by SPL to related parties & between Subsidiaries/JV's and other group companies where the listed entity is not party on actuals and without any markup, the arm's length principle is naturally established. Hence, no other methods of computation of the Arm's Length Price are necessary.

## Provision of Security Guarantee to Holding Company

CUP method is adopted for this transaction. The comparable uncontrolled price ("CUP") method evaluates the arm's length character of a controlled transaction by comparing the price charged in the controlled transaction to the amount charged in a comparable uncontrolled transaction in comparable circumstances

No compensation in the form of interest or commission is made to the subsidiary by the Holding company for its service of providing a security guarantee. However, a clear benefit has accrued to SPL by the guarantee provided by BHCPL as it improved creditworthiness, and hence 1% Fee is charged on new loans from 1<sup>st</sup> April 2022 for using Bengal land as security, and the same 1% fee as be charged by the Subsidiaries/JV's and other group companies where the listed entity is not a party.

## Redemption of Debentures

SPL proposed to redeem the debenture relating to Shrivision Homes Private Limited carrying 25% IRR when the project has sufficient cash flows, planning to redeem partial with respect to SPL Housing Projects Private Limited & Shriprop Builders Private Limited as per the terms & based on the fair market valuation. Considering this transaction is being carried out based on the Fair market valuation issued by the registered valuer, it is determined that the transaction is carried out at an Arm length price.

## Investment in Debentures

Investment in debenture relating to Bengal Shriram Hitech City Private Limited is conversion of Inter Corporate Deposits (ICD) to Optional Convertible Debentures (OCD) where conversion ratio is based on fair market value of the Shares determined at the time of issuance of the OCDs. Considering this conversion price of the debentures is based on the Fair market value arrived by the certified valuer, it is determined as an Arm length price.

## Sales of Mivan

The sale of Mivan has been carried out between related parties where the listed entity is not the party, this transaction has taken place when the usage of Mivan is completed in one project for which shell life is still available and is transferred to the other group companies at concession price which is less than the cost price.

Considering this as a sale of the scarp ( used Fixed Asset) which is sold at a concessional rate for re-use in other projects, it is determined this transaction has been carried out at Arms Length Price.



# THANK YOU