August 22, 2022

Shapoorji Pallonji and Company Private Limited: Ratings upgraded; rating removed from watch with developing implications; Stable outlook assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-fund-based facilities	15,000.0	15,000.0	[ICRA]A- (Stable)/[ICRA]A2+; upgraded from [ICRA]BBB+/[ICRA]A2, rating removed from Watch with Developing Implications
Term loans	0.0	3,600.0	[ICRA]A- (Stable); upgraded from [ICRA]BBB+; rating removed from Watch with Developing Implications
Short-term Fund-based facilities	0.0	1,000.0	[ICRA]A2+; upgraded from [ICRA]A2; rating removed from Watch with Developing Implications
Long-term / Short-term - Fund based facilities	6,000	0.0	-
Total	**21,000**	**19,600**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings upgrade and revision in outlook to Stable factors in Shapoorji Pallonji and Company Private Limited's (SPCPL) successful exit from a one-time restructuring (OTR) plan with repayment of the entire OTR debt on March 31, 2022, ahead of the OTR timelines through infusion of funds by promoters, proceeds from monetisation of assets and fresh term loan. Further, majority of the promoter debt (~Rs. 3,100 crore out of ~Rs. 3,900 crore) has been converted to compulsorily convertible preference shares (CCPS)/perpetual debt, resulting in improvement in its net worth position. This, coupled with significant reduction in SPCPL's external debt by around Rs. 8,300 crore, has resulted in improvement in the leverage metrics. The company has principal repayment obligations of Rs. 1,500 crore during FY2023-FY2025, out of which Rs. 300 crore was repaid in June 2022, and the rest is expected to be met largely by divesting SPCPL's stake in some of its Group entities. SPCPL had a robust outstanding order book of ~Rs. 32,360 crore (around 6% is from Group companies) as on March 31, 2022 (OB/OI ratio of 5.1 times), providing revenue visibility in the medium term. Moreover, the order book is well-diversified across sectors, geographies, and clientele.

The ratings positively factor in SPCPL's status as the flagship company of the Shapoorji Pallonji Group (SP Group), with a well-established presence in the construction, real estate and infrastructure businesses. The ratings consider the strong investment portfolio of the SP Group comprising listed and unlisted equity investments, along with large land and property holdings. The SP Group is the single-largest minority shareholder[1] in Tata Sons Private Limited (TSPL, rated [ICRA]AAA (Stable)/A1+), the holding company of the Tata Group, with an 18.37% stake. SPCPL's strong execution capabilities, and the expertise of its managerial and technical personnel heading the key business verticals, provide comfort.

The ratings, however, remain constrained by the modest profitability in SPCPL's core construction business in FY2022, owing to slow pace of execution due to limited working capital availability. The company's fund-based facilities were closed as a part of the OTR plan, which had constrained order execution in the recent past. Going forward, with expected sanction of the working capital limits, and a healthy order book, the core construction margins are expected to improve, which along with reduction in interest expenses (because of de-leveraging) should improve the overall net profits. The core construction

[1] The stake is held by Cyrus Investments Private Limited and Sterling Investment Corporation Private Limited

revenues are expected to increase substantially in FY2023, and timely sanction of additional working capital limits remains critical to support the growth in core operations in the medium term.

The ratings also remain constrained by the leveraged capital structure at consolidated level and tepid progress in the monetisation of real-estate assets. The ratings factor in the sizeable contingent liabilities in the form of corporate and debt service reserve account (DSRA) guarantees, which SPCPL has extended to provide credit support to various subsidiaries and associate companies. The consolidated external debt reduced by ~Rs. 13,500 crore during FY2022 to Rs. 23,475 crore as on March 31, 2022 and is expected to further reduce by around Rs. 4,000 crore in FY2023 through asset divestment. ICRA notes the sizeable reduction in contingent liabilities over the last two years (FY2021 – FY2022). Further, the management has articulated that promoter entities shall extend need-based support to Group companies if there is a requirement, while cash flows of SPCPL shall remain invested in its core business operation. The working capital intensity has remained high owing to high receivables days with about 30% of debtors belonging to Group companies. The ability to recover the sticky debtors and thereby improve the cash flows remains important. The trajectory of improvement in the profitability of the company's core EPC business at standalone level and further deleveraging of the consolidated balance sheet by monetising its assets, remain key monitorables.

The Stable outlook on the long-term rating reflects ICRA's belief that the company would continue to benefit from its long and established track record in the construction sector, along with a healthy outstanding order book and investment portfolio.

Key rating drivers and their description

Credit strengths

Flagship company of SP Group - The SP Group is one of the well-established and diversified business groups of India, with a strong brand value and legacy of over 150 years. SPCPL is the flagship company of the SP Group and is present in the construction, real estate and infrastructure businesses. SPCPL derives strength from the extensive experience of its promoters, strong and competent management, reflected in the expertise in its execution capabilities in their key businesses.

Strong investment portfolio – The SP Group enjoys financial flexibility driven by a strong investment portfolio comprising listed and unlisted equity investments, along with significant value of land and property holdings. Further, the SP Group is the single-largest minority shareholder in TSPL, the holding company of the Tata Group, with an 18.37% stake.

Diversified healthy order book – SPCPL had a robust outstanding order book of ~Rs. 32,360 crore (around ~6% is from Group companies) as on March 31, 2022 (OB/OI ratio of 5.1 times), providing revenue visibility in the medium term. Moreover, the order book is well-diversified across sectors, geographies, and clientele.

Prepayment of OTR debt and improvement in leverage metrics – SPCPL has successfully exited OTR as on March 31, 2022, with repayment of the entire OTR debt on March 31, 2022, ahead of the OTR timelines through infusion of funds by promoters, proceeds from monetisation of assets and fresh term loan. Further, majority of the promoter debt (~Rs. 3,100 crore out of ~Rs. 3,900 crore) has been converted to CCPS/perpetual debt, resulting in improvement in its net worth position. This, coupled with significant reduction in SPCPL's external debt by around Rs. 8,300 crore, has resulted in improvement in the leverage metrics. The company has principal repayment obligation of Rs. 1,500 crore during FY2023-FY2025, out of which Rs. 300 crore was repaid in June 2022, and the rest is expected to be met largely by divesting SPCPL's stake in some of its Group entities.

Credit challenges

Modest profitability in core construction operations – SPCPL reported modest profitability in the core construction business in FY2022, owing to slow pace of execution on account of limited working capital availability. The company's fund-based facilities were closed as a part of the OTR plan, which has constrained order execution in the recent past. Going forward, with expected sanction of the working capital limits, and a healthy order book, the core construction margins are expected to improve, which along with reduction in interest expenses (because of de-leveraging) should improve the overall net profits.

The core construction revenues are expected to increase significantly in FY2023, and timely sanction of additional working capital limits remains critical to support the growth in core operations in the medium term.

High quantum of contingent liabilities – SPCPL, being an operating-cum-holding company, has extended credit support to various subsidiaries and associate companies by way of corporate and DSRA guarantees for the debt availed by them. As on March 31, 2022, SPCPL had extended corporate guarantees of Rs. 2,889 crore and DSRA guarantees of Rs. 1,939 crore. The consolidated external debt reduced by ~Rs. 13,500 crore in FY2022 to Rs. 23,475 crore as on March 31, 2022 and is expected to further reduce by around Rs. 4,000 crore in FY2023 through asset divestment. ICRA notes the sizeable reduction in contingent liabilities over the last two years. Further, the management has articulated that promoter entities shall extend need-based support to Group companies if there is a requirement, while cash flows of SPCPL shall remain invested in its core business operation.

High working capital intensity – The working capital intensity has remained high owing to high receivable days, with about 30% of debtors belonging to Group companies. The ability to recover the sticky debtors and thereby improve the cash flows remains important.

Liquidity position: Adequate

SPCPL's liquidity is expected to remain adequate, evident from its unencumbered cash balance of Rs. 768.2 crore as of March 31, 2022. The company is enhancing its fund-based working capital limits to Rs 1,000 crore, which along with improvement in the core EPC business, will support the company's liquidity position.

Rating sensitivities

Positive factors – The ratings could be upgraded if there is any significant increase in revenues, operating profitability from core operations, material reduction in debt and improvement in the working capital cycle, resulting in healthy improvement in debt coverage metrics and liquidity position, on a sustained basis.

Negative factors – Pressure on SPCPL's ratings could arise if the company is not able to improve profitability from core operations, resulting in deterioration of debt metrics and liquidity position, on a sustained basis. Further, higher-than-expected support to Group companies from cash flows of SPCPL and higher-than-envisaged consolidated debt will be credit negatives.

Analytical approach

♦ Analytical Approach	♦ Comments
♦ **Applicable rating methodologies**	Corporate Credit Rating Methodology Rating Methodology for Construction Entities Rating approach – Consolidation
♦ **Parent/Group support**	♦ Not Applicable
♦ **Consolidation/Standalone**	♦ For arriving at the ratings, ICRA has used limited consolidation approach, under which only the proposed equity investments/funding commitments to various subsidiaries towards debt servicing and operational shortfall have been considered. The list of companies that are consolidated to arrive at the ratings are given in Annexure II.

About the company

The Shapoorji Pallonji Group (SP Group), which is a diversified industrial conglomerate comprising a group of companies held by the Mistry family. The SP Group has a diversified presence across sectors such as construction (SPCPL, Afcons Infrastructure Limited), mechanical electrical and plumbing, contracting (Sterling & Wilson Private Limited), infrastructure development (Shapoorji Pallonji Infrastructure Capital Company Private Limited), solar power generation and contracting (Sterling & Wilson Private Limited and Shapoorji Pallonji Infrastructure Capital Company Private Limited), floating production storage and offloading (FPSO) vessels (Shapoorji Pallonji Oil and Gas Private Limited), etc. The SP Group is also the largest private shareholder (18.37%) in Tata Sons Private Limited, the holding company of the Tata Group.

SPCPL, which is held by the Mistry family through various Group companies, functions as the holding-cum-operating company of the SP Group. The company holds stakes in various listed and unlisted companies, within and outside the SP Group, and has significant investments in properties that have high market value. SPCPL is one of India's leading construction companies, with a heritage of more than 150 years. Over the years, SPCPL has built diverse civil and engineering structures such as factories, stadiums and auditoriums, airports, hospitals, housing complexes, and power plants.

Key financial indicators

SPCPL Standalone	FY2021	FY2022
	Audited	Provisional
Operating income	6,679.2	8,768.3
PAT	-1,396.4	143.1
OPBDIT/OI	7.4%	20.2%
PAT/OI	-20.9%	1.6%
Total outside liabilities/Tangible net worth (times)	8.4	2.0
Total debt/OPBDIT (times)	31.4	2.6
Interest coverage (times)	0.2	1.2

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Source: Company; ICRA Research, ratios are as per ICRA's calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of rating history for the past 3 years						
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2022 (Rs. crore)	Date & Rating in	Date & rating in FY2022	Date & rating in FY2021		Date & rating in FY2020			
					Aug 22, 2022	Oct 21, 2021	Jan 7, 2021	Oct 5, 2020	Mar 24, 2020	Nov 28, 2019	June 21, 2019	May 27, 2019
1	**Term Loans**	Long term	3,600.0	3,600	[ICRA]A- (Stable)	-	-	-	-	-	-	-
2	**Fund-Based Facilities**	Short term	1,000.0	-	[ICRA]A2+	-	-	-	-	-	-	-
3	**Non-Fund-Based Facilities**	Long Term/Short Term	15,000.0	-	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]BBB+&/ [ICRA]A2&	[ICRA]BBB+ @/[ICRA]A2 @	[ICRA]BB B+@/[ICR A]A2@	[ICRA]A+ (Negative)/ [ICRA]A1	[ICRA]A+ (Negative)/ [ICRA]A1	[ICRA]AA- &/ [ICRA]A1 +	[ICRA]AA- &/ [ICRA]A1+
4	**Fund Based Facilities**	Long Term/Short Term	0.0	-	-	[ICRA]BBB+&/ [ICRA]A2&	[ICRA]BBB+ @/[ICRA]A2 @	[ICRA]BB B+@/[ICR A]A2@	[ICRA]A+ (Negative)/ [ICRA]A1	[ICRA]A+ (Negative)/ [ICRA]A1	[ICRA]AA- &/ [ICRA]A1 +	[ICRA]AA- &/ [ICRA]A1+
5	**Commercial Paper**	Short Term	-	-	-	-	-	-	Withdraw n	[ICRA]A1	[ICRA]A1 +	[ICRA]A1+

&= Under watch with developing implications

@= Under watch with negative implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term / Short Term - Non-fund-based limits	Very Simple
Term Loans – Long Term fund-based limits	Simple
Short-term fund-based limits	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Non-Fund-Based Facilities**	NA	NA	NA	15,000	[ICRA]A-(Stable)/[ICRA]A2+
NA	**Term Loans**	March 2022	NA	March 2031	3,600	[ICRA]A-(Stable)
NA	**Short-Term Fund-Based Facilities**	NA	NA	NA	1,000	[ICRA]A2+

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	SPCPL Ownership	Consolidation Approach
Afcons-SPCPL Joint Venture	99.9%	Limited Consolidation
Bangalore Streetlighting Private Limited	59.0%	Limited Consolidation
Devine Realty and Construction Pvt Ltd	100.0%	Limited Consolidation
Flamboyant Developers Pvt Ltd	100.0%	Limited Consolidation
Forvol International Services Ltd	100.0%	Limited Consolidation
Galina Consultancy Services Pvt Ltd	-	Limited Consolidation
Gokak Power & Energy Ltd	86.5%	Limited Consolidation
High Point Properties Pvt Ltd	100.0%	Limited Consolidation
Joy Ville Shapoorji Housing Pvt Ltd	48.5%	Limited Consolidation
Kanpur River Management Pvt Ltd	74.0%	Limited Consolidation
Master Management Consultants (I) Pvt Ltd	-	Limited Consolidation
Mydream Properties P Ltd	-	Limited Consolidation
Next Gen Publishing Ltd	65.4%	Limited Consolidation
Palchin Real Estates Pvt Ltd	100.0%	Limited Consolidation
PNP Maritime Services Pvt Ltd	20.0%	Limited Consolidation
Precaution Properties Pvt Ltd	100.0%	Limited Consolidation
S D Corporation Pvt Ltd	50.0%	Limited Consolidation
S D Samata Samantha Realty Pvt Ltd	50.0%	Limited Consolidation
S D SVP Nagar Redevelopment Pvt Ltd	50.0%	Limited Consolidation
Shapoorji Pallonji and Co KIPL JV	98.0%	Limited Consolidation
Shapoorji Pallonji and Co KIPL Sewerage JV	98.0%	Limited Consolidation
Shapoorji Pallonji and Co Pvt Ltd and Shapoorji Pallonji Qatar W.L.L. JV	86.7%	Limited Consolidation
Shapoorji Pallonji Bumi Armada Godavari Pvt Ltd	70.0%	Limited Consolidation
Shapoorji Pallonji Infrastructure Capital Co Pvt. Ltd.	100.0%	Limited Consolidation
Shapoorji Pallonji Mid East LLC	49.0%	Limited Consolidation
SP Armada Oil Exploration Pvt Ltd	51.0%	Limited Consolidation
SP-NMJ Project Pvt Ltd	87.0%	Limited Consolidation

Source: Company

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