

May 03, 2023

Shapoorji Pallonji and Company Private Limited: Ratings downgraded to [ICRA]BBB+/[ICRA]A2 from [ICRA]A- (Stable)/[ICRA]A2+ and Placed on Rating watch with Developing implication

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] BBB+ Placed on Rating watch with developing implication/ [ICRA]A2 Placed on Rating watch with developing implication; downgraded from [ICRA]A-(Stable)/[ICRA]A2+
Term loans	3,600.0	3,600.0	[ICRA]BBB+ Placed on Rating watch with Developing implication; downgraded from [ICRA]A- (Stable)
Short-term Fund-based facilities	1,000.0	1,000.0	[ICRA]A2 Placed on Rating watch with Developing implication; downgraded from [ICRA]A2+
Total	19,600	19,600	

*Instrument details are provided in Annexure-I

Rationale

The downgrade in the ratings of Shapoorji Pallonji and Company Private Limited (SPCPL) factors in the delay in securing the requisite working capital limits, which has impacted the engineering, procurement and construction (EPC) operations in FY2023, resulting in modest profitability and muted debt coverage metrics compared to ICRA's earlier estimates. The company's line of credit was put to restricted use as a part of the One Time Restructuring (OTR) plan in March 2022, which constrained order execution in FY2023. Timely sanction of adequate working capital limits remains critical to support the growth in core operations in the medium term.

The ratings have been placed on 'Watch with Developing Implications' following the company's business restructuring plan. ICRA is given to understand that the guiding principle is to have SPCPL operating only as the holdco-cum-operating company for the construction business, while the real estate as well as other business verticals will be carved out under separate companies, which will also be owned directly / indirectly by promoters. The restructuring process is likely to release capital in these segments, as well as likely to limit incremental funding requirement in these businesses from SPCPL. This is expected to support SPCPL's credit quality owing to reduction in consolidated debt, corporate and DSRA guarantees. However, the ratings have been placed on Watch with Developing Implications given that the finalisation of the contours of the same is still underway. ICRA will continue to monitor developments in this regard and evaluate the impact once there is adequate clarity on the same.

The ratings remain constrained by the leveraged capital structure at the consolidated level. 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. The company (SPCPL) has debt repayment obligations (P+I of over Rs. 650 crore in FY2024 and Rs. 650 crore in FY2025), part of which are expected to be met by divesting SPCPL's stake in some of its group entities. ICRA notes that the promoter group is planning to raise capital in the near term. Going forward, its ability to improve its operating profitability along with monetising its asset and/or capital infusion by the promoter group remains important from the credit perspective. As on December 31, 2022, SPCPL extended corporate guarantees of Rs. 3,689 crore and DSRA guarantees of Rs. 194 crore. The consolidated external debt declined by ~Rs. 15,300 crore, to Rs. 21,870 crore as on December

31, 2022 from Rs. 37,170 crore as on August 31, 2020 and is expected to further reduce through asset divestment. Any deterioration in the credit profile of these credit supported companies could result in crystallisation of the contingent liabilities and thus will remain a key monitorable. Nevertheless, ICRA notes the sizeable reduction in contingent liabilities over the last few years. The management has articulated that while SPCPL's cash flows shall remain invested in its core business operations, the promoter entities shall continue to extend need-based timely financial support to Group companies if there is a requirement. 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. Moreover, the trajectory of improvement in the profitability of the company's core EPC business and coverage metrics at the standalone level remain the key monitorable. The ratings note the stiff competition in the construction sector, which could put pressure on the new order inflows and the company's exposure to sizeable contingent liabilities in the form of bank guarantees, mainly for contractual performance, mobilisation advance and retention money. Nonetheless, ICRA draws comfort from its execution track record and absence of invocation of guarantees in the past.

The ratings, however, 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 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 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. It 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 medium-term revenue visibility. Moreover, the order book is well-diversified across sectors, geographies, and clientele.

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. It enjoys considerable financial flexibility, driven by an investment portfolio comprising listed and unlisted equity investments, along with significant value of land and property holdings. The SP Group is the single largest minority shareholder in TSPL, the holding company of the Tata Group, with an 18.37% stake. SPCPL is the flagship company of the SP Group and is present in the construction, real estate and infrastructure businesses.

Strong execution capabilities in construction industry; healthy order book with diversified presence across geography and clientele – 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. It 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 medium-term revenue visibility. Moreover, the order book is well-diversified across sectors, geographies and clientele.

Credit challenges

Modest profitability in core construction operations resulting in muted debt coverage metrics; delay in proposed enhancement in bank limits has impacted the EPC 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 line of credit was put to restricted use as a part of the OTR plan in March 2022, which constrained order execution in FY2023. Further, delay in securing the requisite working capital limits impacted execution in FY2023, which is estimated to result in muted debt coverage metrics. Timely sanction of adequate working capital limits remains critical to support the growth in core operations in the medium term.

Sizeable contingent liabilities, if materialises, could have an adverse impact on credit profile – 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. SPCPL has debt repayment obligations (P+I of over Rs. 650 crore each in FY2024 and FY2025), part of which are expected to be met by divesting SPCPL’s stake in some of its group entities. ICRA notes that the promoter group is planning to raise capital in the near term. Going forward, its ability to improve its operating profitability along with monetising its asset and/or capital infusion by promoter group remains important from the credit perspective. As on December 31, 2022, SPCPL had extended corporate guarantees of Rs. 3,689 crore and DSRA guarantees of Rs. 194 crore. The consolidated external debt has declined by ~Rs. 15,300 crore, to Rs. 21,870 crore as on December 31, 2022 from Rs. 37,170 crore as on August 31, 2020 and is expected to further reduce through asset divestment. Any deterioration in the credit profile of these credit supported companies could result in a crystallisation of the contingent liabilities and, thus, will remain a key monitorable. Nevertheless, ICRA notes the sizeable reduction in contingent liabilities over the last few years. The management has articulated that while cash flows of SPCPL shall remain invested in its core business operation, promoter entities shall continue to extend need-based timely financial support to Group companies if there is a requirement.

High working capital intensity – The working capital intensity has remained elevated 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. 400 crore as on February 28, 2023. 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 its liquidity position. SPCPL has debt repayment obligations (P+I of over Rs. 650 crore each in FY2024 and FY2025), part of which are expected to be met by divesting SPCPL’s stake in some of its group entities. Going forward, its ability to improve its operating profitability along with monetising its asset and/or capital infusion by promoter group remains important from the credit perspective.

Rating sensitivities

Positive factors – The rating watch will be resolved once more clarity emerges around the restructuring exercise being undertaken by SPCPL. The ratings could be upgraded if there is any significant increase in operating profitability from core operations along with material reduction in contingent liabilities, 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 and/or delay in getting working capital enhancement, 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, or higher-than-envisaged debt including guarantees 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 diversified presence across sectors such as construction (SPCPL, Afcons Infrastructure Limited rated [ICRA]A+/Stable/A1), mechanical electrical and plumbing, contracting (Sterling & Wilson Private Limited), infrastructure development (Shapoorji Pallonji Infrastructure Capital Company Private Limited, rated [ICRA]BBB/ Rating Watch with Developing Implications), solar power generation and contracting (Sterling and Wilson Renewable Energy Limited), floating production storage and offloading vessels (Shapoorji Pallonji Oil and Gas Private Limited), etc. The SP Group is 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. It 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 (audited)

SPCPL Standalone	FY2021	FY2022	H1 FY2023*
Operating income	6,679.2	8579.9	4017.2
PAT	-1,396.4	1715.3	-47.9
OPBDIT/OI	7.4%	7.4%	8.6%
PAT/OI	-20.9%	2.4%	1.9%
Total outside liabilities/Tangible net worth (times)	8.4	2.1	2.1
Total debt/OPBDIT (times)	31.7	8.9	8.1
Interest coverage (times)	0.3	0.4	1.0

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years			
	Type	Amount rated (Rs. crore)	Amount outstanding as on Feb 28, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
				May 03, 2023	Aug 22, 2022	Oct 21, 2021	Jan 7, 2021	Oct 5, 2020
1 Term loans	Long term	3,600.0	3,300	[ICRA]BBB+&	[ICRA]A-(Stable)	-	-	-
2 Fund-based facilities	Short term	1,000.0	-	[ICRA]A2&	[ICRA]A2+	-	-	-
3 Non-fund based facilities	Long Term/ Short Term	15,000.0	-	[ICRA]BBB+&/ [ICRA]A2&	[ICRA]A-(Stable)/ [ICRA]A2+	[ICRA]BBB+&/ [ICRA]A2&	[ICRA]BBB+@/ [ICRA]A2@	[ICRA]BBB+@/ [ICRA]A2@
4 Fund-based facilities	Long Term/ Short Term	-	-	-	-	[ICRA]BBB+&/ [ICRA]A2&	[ICRA]BBB+@/ [ICRA]A2@	[ICRA]BBB+@/ [ICRA]A2@

& = 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: [Click Here](#)

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]BBB+ Rating watch with developing implication/ [ICRA]A2 Rating watch with developing implications
NA	Term loans	March 2022	NA	March 2031	3,600	[ICRA]BBB+ Rating watch with Developing implication
NA	Short-term Fund-based facilities	NA	NA	NA	1,000	[ICRA]A2 Rating watch with Developing implication

Source: Company;

[Please click here to view details of lender-wise facilities rated by ICRA](#)

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

Company Name	SPCPL Ownership	Consolidation Approach
SP Armada Oil Exploration Pvt Ltd	51.0%	Limited Consolidation
SP-NMJ Project Pvt Ltd	87.0%	Limited Consolidation

Source: company

ANALYST CONTACTS

Rajeshwar Burla

+91 40 4547 4243

rajeshwar.burla@icraindia.com

Ashish Modani

+91 20 6606 9912

ashish.modani@icraindia.com

Chintan Dilip Lakhani

+91 22 6169 3345

chintan.lakhani@icraindia.com

Rohit Agarwal

+91 022 6169 3329

rohit.agarwal@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



© Copyright, 2023 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.