November 22, 2023

Shapoorji Pallonji Infrastructure Capital Company Private Limited: Ratings downgraded to [ICRA]BB+/ [ICRA]A4+ from [ICRA]BBB/[ICRA]A3+ and removed from Watch with Developing Implications; Negative outlook assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Term loan#	160.00	160.00	[ICRA]BB+ (Negative); Downgraded from [ICRA]BBB and removed from Rating Watch with Developing Implications; Negative outlook assigned
Fund-based limits (sub-limit of non-fund based limits)	(50.00)	(50.00)	[ICRA]BB+ (Negative)/ [ICRA]A4+; Downgraded from [ICRA]BBB/ [ICRA]A3+ and removed from Rating Watch with Developing Implications; Negative outlook assigned
Non-fund based limits	130.00	130.00	[ICRA]BB+ (Negative)/ [ICRA]A4+; Downgraded from [ICRA]BBB/ [ICRA]A3+ and removed from Rating Watch with Developing Implications; Negative outlook assigned
Fund-based – Short-term loan	25.00	25.00	[ICRA]A4+; Downgraded from [ICRA]A3+ and removed from Rating Watch with Developing Implications
Total	**315.00**	**315.00**	

**Instrument details are provided in Annexure-I; #- Term loan of 160 crore has been repaid*

Rationale

The downgrade in the ratings of Shapoorji Pallonji Infrastructure Capital Company Private Limited (SPICCPL) factors in the moderation in the credit profile of the parent entity, Shapoorji Pallonji and Company Private Limited (SPCPL rated [ICRA]BBB-(Negative)/[ICRA]A3). Moreover, SPICCPL's cash flows are expected to remain stretched and the company remains exposed to high refinancing risk in the near to medium term, in the backdrop of sizeable debt repayment (Rs. 223.0 crore in H2 FY2024 and FY2025) and residual equity commitment of Rs. 268 crore towards under-construction projects. The equity commitments and debt obligations are largely likely to be met through the pending proceeds from completed divestments, expected sale of solar and hybrid annuity model (HAM) project and additional debt tie-up at SPICCPL level. ICRA notes the stated intent of the promoter group to timely support SPICCPL in case of any requirement as witnessed in the past. The ratings remain constrained by the residual execution risks for the port and road projects. The company's ability to commission these projects in a timely manner within the budgeted costs would remain important from the credit perspective.

The ratings, however, draw comfort from the Shapoorji Pallonji (SP) Group's strong execution capabilities, the extensive experience of the promoters, the expertise of its managerial and technical personnel heading the key business verticals, and track record of timely financial and operational support from SPCPL and promoter entities. Over the last three years, with the divestment of assets, SPICPL has been able to reduce its consolidated debt to Rs. 2,400 crore in September 2023 from Rs. 6,300 crore in March 2021.

The Negative outlook on SPICCPL's ratings reflects the Negative outlook on SPCPL's rating. ICRA expects the company's credit profile to remain under pressure in the medium term owing to expected cash flow mismatch and dependence on the Group for timely infusion of funds to meet its equity and debt obligations.

Key rating drivers and their description

Credit strengths

Part of SP Group; diversified portfolio of projects – SPICCPL is the wholly-owned subsidiary of SPCPL and acts as the infrastructure holding company of the Shapoorji Pallonji (SP) Group's infrastructure business. The ratings draw comfort from the SP Group's strong execution capabilities, the extensive experience of the promoters, the expertise of its managerial and technical personnel heading the key business verticals. The ratings favourably note the track record of timely financial and operational support from SPCPL and promoter entities. SPICCPL has a diversified portfolio mix comprising roads, renewable energy, ports, and minerals. Its projects include one under construction HAM road project in Himachal Pradesh, 120 MW of operational domestic solar power portfolio in Karnataka and Maharashtra, one under-construction port in Gujarat and an operational mine in Oman, which holds exclusive operating license to extract and sell limestone.

Reduction in debt both at consolidated and standalone level through divestment proceeds – The proceeds from the sale of assets have been utilised to repay SPICCPL's debt, which reduced to Rs. 223 crore as of September 2023 from Rs. 1,089 as of March 2021. Overall, the debt on a consolidated level has reduced to ~Rs. 2,400 crore as of September 2023 from more than Rs. 6,300 crore as of March 2021. ICRA notes that the company has successfully monetised its stake in some of the key projects in the past year, which include 20 MW of domestic solar assets in Karnataka, one operational road asset and 225-MW power plant in Bangladesh, ~22 crore of which is expected to be realised in H2FY2024.

Credit challenges

Deterioration in credit profile of parent entity – The downgrade reflects the deterioration in the credit profile of SPCPL, with weakening in liquidity position owing to further delay in securing the requisite working capital limits and consequent impact on core EPC operations. The weak operating performance is reflected in SPCPL's modest profitability and muted coverage metrics in FY2023, and ICRA's expectations of sustenance the same in the near term. Given the liquidity constraint and sizeable debt repayment obligations, SPICCPL's cash flows are likely to remain under pressure. The company will rely on asset monetisation and funding support from the interim debt tie up.

Sizeable equity commitments and external debt repayment over next three years; exposed to time and cost overrun risks in under-construction project – SPICCPL's cash flows are expected to remain stretched. The company remains exposed to high refinancing risk in the near to medium term, in the backdrop of sizeable debt repayment (Rs. 223.0 crore in H2 FY2024 and H2FY2025 and FY2026) and residual equity commitment of Rs. 268 crore towards the under-construction projects. The equity commitments and debt obligations are largely expected to be met through the pending proceeds from completed divestments, likely sale of solar and HAM projects and additional debt tie-up at SPICCPL level. ICRA notes the stated intent of the promoter group to extend timely support to SPICCPL in case of any requirement as witnessed in the past. The ratings remain constrained by the residual execution risks for the port and road projects. The company's ability to commission these projects in a timely manner within the budgeted costs would remain important from the credit perspective.

High quantum of contingent liabilities – SPICCPL has extended credit support to various subsidiaries and associate companies by way of financial and corporate guarantees for the debt availed by them, in addition to performance guarantees extended for various group projects. As on September 30, 2023, its contingent liabilities stood at Rs. 622 crore. Further, the assets where corporate guarantees are issued by SP Infra, are in the process of monetization, where the project debt will be passed on to the incoming investor.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.

Liquidity position: Stretched

SPICCPL's liquidity position is stretched. The company has free cash balance of Rs. 26.9 crore and investments in liquid mutual funds of Rs. 8.6 crore as on September 30, 2023. Given its status as a holding entity, it remains dependent on timely realisation of divestment proceeds to meet the debt servicing obligations and equity commitments.

Rating sensitivities

Positive factors – The outlook will be revised if there is an improvement in the Group's credit profile, liquidity position and upon timely realisation of asset monetisation proceeds resulting in significant debt reduction.

Negative factors – Pressure on the rating could emerge if there is deterioration in the Group's credit profile, delay in realisation of divestment proceeds or delayed commissioning/cost overrun of its under-construction projects.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology – Holding Companies
Parent/Group support	Parent/Group Company: SP Group The ratings assigned to SPICCPL factor in the likelihood of its parent, SPCPL, along with the promoter entities (together referred as the SP Group), extending financial support to it because of close business linkages among the entities. ICRA expects the SP Group to extend financial support to SPICCPL out of its need to protect its reputation from the consequences of a Group entity's distress. There also exists a consistent track record of the SP Group entities having extended timely financial support to SPICCPL in the past whenever required.
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 have been considered. The list of companies that are consolidated to arrive at the ratings are given in Annexure II.

About the company

SPICCPL is a wholly-owned subsidiary of Shapoorji Pallonji and Company Private Limited. It acts as the holding company for the Group's infrastructure asset ownership businesses. The SP Group's portfolio comprises projects across different verticals, namely transportation, renewable energy, port and resources. Under the transportation vertical, it has an operational HAM road project. The domestic solar segment constitutes operational projects aggregating to a total capacity of 120-MW in Karnataka and Maharashtra. Under the port vertical, the company is executing a port project in Gujarat. Under the resource vertical, SPICCPL has acquired a mine in Oman, which holds the exclusive operating license to extract and sell limestone of high-grade quality, which can be used by steel and cement industries and the limestone aggregates/rock can be used for building materials, breakwater, etc.

Key financial indicators (audited)

SPICCPL Standalone	FY2022	FY2023
Operating income (OI, Rs. crore)	259.5	213.9
PAT (Rs crore)	-112.6	201.0
OPBDIT/OI (%)	34.5%	21.2%
PAT/OI (%)	-43.4%	93.9%
Total outside liabilities/Tangible net worth (times)	3.69	0.96
Total debt/OPBDIT (times)	21.07	19.44
Interest coverage (times)	0.44	0.38

Source: Company, ICRA Research. PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

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 Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Nov 22, 2023	Feb 23, 2023	Nov 16, 2021	Oct 16, 2020
1	Term loan	Long-term	160.00	0.00	[ICRA]BB+ (Negative)	[ICRA]BBB&	[ICRA]BBB&	[ICRA]BBB (Negative)
2	Fund-based limits (sublimit of non-fund-based limits)	Long-term & Short-term	(50.00)	-	[ICRA]BB+ (Negative)/ [ICRA]A4+	[ICRA]BBB&/ [ICRA]A3+&	[ICRA]BBB&/ [ICRA]A3+&	[ICRA]BBB (Negative)/ [ICRA]A3+
3	Non-fund based limits	Long-term & Short-term	130.00	-	[ICRA]BB+ (Negative)/ [ICRA]A4+	[ICRA]BBB&/ [ICRA]A3+&	[ICRA]BBB&/ [ICRA]A3+&	[ICRA]BBB (Negative)/ [ICRA]A3+
4	Non-fund based limits	Long-term	-	-	-	-	[ICRA]BBB&	[ICRA]BBB (Negative)
5	Non-fund based limits	Long-term	-	-	-	-	[ICRA]BBB+(CE)@; Withdrawn	[ICRA]BBB+ (CE)@
6	Fund-based – Short-term loan	Short-term	25.00	-	[ICRA]A4+	[ICRA]A3+&	[ICRA]A3+&	[ICRA]A3+

@: Rating under Watch with Negative Implications; &: Rating under Watch with Developing Implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loan	Simple
Fund-based limits (sub-limit of non-fund based limits)	Simple
Non-fund based limits	Simple
Fund-based – Short-term loan	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	Term loan	FY2017	-	FY2023	160.00	[ICRA]BB+ (Negative)
NA	Fund-based limits (sub-limit of non-fund based limits)	-	-	-	(50.00)	[ICRA]BB+(Negative)/ [ICRA]A4+
NA	Non-fund based limits	-	-	-	130.00	[ICRA]BB+(Negative)/ [ICRA]A4+
NA	Short-term loan	-	-	-	25.00	[ICRA]A4+

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	Ownership	Consolidation Approach
Global Energy Projects Holdings	100%	Limited Consolidation
Global Energy Ventures Mauritius	100%	Limited Consolidation
Global Infra FZCO	-	Limited Consolidation
Musandam Rock LLC	100%	Limited Consolidation
Shapoorji Pallonji Pandoh Takoli Highway Private Limited	-	Limited Consolidation
Simar Port Private Limited	100%	Limited Consolidation
SP Cement Gujarat Private Limited	100%	Limited Consolidation
SP Road Private Limited	100%	Limited Consolidation
SP Solar Holding Private Limited	100%	Limited Consolidation
Suryoday One Energy Private Limited	100%	Limited Consolidation
Universal Mine Developers & Service Providers Private Limited	-	Limited Consolidation
Atnu Solar Private Limited	51%	Limited Consolidation
Auriko Energy Private Limited	100%	Limited Consolidation

Source: Company

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About ICRA Limited:

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