

January 07, 2021

Shapoorji Pallonji and Company Private Limited: [ICRA]BBB+@/ [ICRA]A2@; ratings continue to be on watch with negative implications

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-fund based limits	15,000	15,000	Long-term rating: [ICRA]BBB+@; rating continues to be on watch with negative implications Short-term rating: [ICRA]A2@; rating continues to be on watch with negative implications
Fund-based limits	6,000	6,000	Long-term rating: [ICRA]BBB+@; rating continues to be on watch with negative implications Short-term rating: [ICRA]A2@; rating continues to be on watch with negative implications
Total	21,000	21,000	

*Instrument details are provided in Annexure-1

Rationale

The ratings of Shapoorji Pallonji and Company Private Limited's (SPCPL) continue to be on watch with negative implications as the implementation of the onetime restructuring of its loans under the Reserve Bank of India's (RBI) resolution framework for Covid-19 related stress announced on August 6, 2020 is still under process. The eligible lenders (barring two lenders¹) invoked the resolution plan on October 26, 2020 and an Inter Creditor's Agreement was signed by the eligible lenders on November 24, 2020. ICRA is given to understand that the servicing of debt for the lenders who are not part of the RP is timely. The rating watch with negative implications reflects the uncertainty around the terms of the resolution plan and its implementation. Timely implementation of the resolution plan within the regulatory timelines², with favorable terms easing the burden on the cash flows resulting in improvement of coverage metrics, remains critical and would be a key rating monitorable. SPCPL had made an application to its lenders for one-time restructuring of its loans (including the lenders' exposure in the form of fund based and non-fund limits, commercial papers, and non-convertible debentures) under the RBI's resolution framework for Covid-19 related stress. The application for

¹ Lenders who extended loans to middle-eastern projects of SPCPL and does not fall under the purview of RBI

² Resolution under this framework must be implemented within 180 days from the date of invocation. Inter Creditor Agreement has to be signed by all the lending institutions within 30 days from the date of invocation.

restructuring was made prior to the due date with an acknowledgment from lenders requesting SPCPL to submit the resolution plan for further evaluation. SPCPL had subsequently missed its repayment obligations (including Rs. 200 crore of CPs that were due on September 25, 2020). However, ICRA had not recognised the missed payment as default in accordance with the rating approach published recently on ICRA's website and available at this link (click [here](#)). Further, ICRA has relied on the communication from SPCPL's management that all the investors in SPCPL's money market instruments and securities (CPs and NCDs) are lending institutions.

The previous detailed rating rationale is available on the following link: [Click here](#)

Key rating drivers

Refer to the previous rating rationale: [Click here](#)

Liquidity position: Stretched

SPCPL's liquidity position is stretched. The company has free cash balance of ~Rs.181.1 crore (along with Rs. 380.9 crore cash balances in international EPC projects) as on November 30, 2020. The estimated cash flow from operations along with the existing cash balance would not be adequate to meet the high repayment obligations falling due over the short to medium term. ICRA has taken note that SPCPL has applied for one-time restructuring of its debt exposure. Timely implementation of the resolution plan in a manner that alleviates the company's tight liquidity position would be crucial.

Rating sensitivities

Positive trigger – The crystallisation of scenarios for rating upgrade are not envisaged over the medium term. The rating watch would be resolved upon successful implementation of the resolution plan within the regulatory timelines. The ratings may see an upward pressure if the company's debt burden eases substantially and overall cashflow position improves sustainably because of improved business conditions or successful asset monetisation or any other reason.

Negative trigger – Negative pressure on SPCPL's rating could arise if the resolution plan is not implemented by the lenders within the regulatory timelines. The ratings may also be downgraded if the resolution plan, even though implemented, does not provide a relief commensurate with maintaining the existing ratings.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Construction Entities Financial consolidation and Rating approach
Parent/Group Support	NA
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 rating are given in Annexure 2 below.

About the company:

Shapoorji Pallonji and Company Private Limited (SPCPL), is the flagship company of the Shapoorji Pallonji Group (SP Group), which is a diversified industrial conglomerate comprising of 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 (Sterling & Wilson Private Limited), contracting (Sterling & Wilson Private Limited), water purification (Eureka Forbes 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 (SP Oil & 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 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 also 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* (Standalone)

	FY2018A	FY2019A
Operating Income (Rs. crore)	9,823	13,474
PAT (Rs. crore)	342	368
OPBDIT/ OI (%)	13.4%	11.9%
PAT/OI (%)	3.48%	2.73%
Total Outside liabilities/ Tangible Net Worth (times)	5.75	5.40
Total Debt/ OPBDITA (times)	5.8	5.9
Interest coverage (times)	1.8	1.9

Source: Company, ICRA research; *Audited financials for FY2020 are not available

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Rating (FY2021)					Rating History for the past 3 years						
		Type	Amount Rated	Amount O/s	Current rating		FY2020				FY2019		FY2018
					Jan-07-2021	Oct-05-2020	Mar-24-2020	Nov-28-2019	June-21-2019	May-27-2019	Nov-26-2018	June-26-2018	Dec-08-2017
1	Fund based limits	Long Term/Short Term	6,000	-	[ICRA]BBB+@/[ICRA]A2@	[ICRA]BBB+@/[ICRA]A2@	[ICRA]A+ (Negative)/ [ICRA]A1	[ICRA]A+ (Negative)/ [ICRA]A1	[ICRA]AA- &/[ICRA]A1+	[ICRA]AA- &/[ICRA]A1+	[ICRA]A &/[ICRA]A1+&	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+
2	Non-Fund based limits	Long Term/Short Term	15,000	-	[ICRA]BBB+@/[ICRA]A2@	[ICRA]BBB+@/[ICRA]A2@	[ICRA]A+ (Negative)/ [ICRA]A1	[ICRA]A+ (Negative)/ [ICRA]A1	[ICRA]AA- &/[ICRA]A1+	[ICRA]AA- &/[ICRA]A1+	[ICRA]A & / [ICRA]A1+&	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+
3	CP	Short Term	2,500	-	-	-	Withdrawn	[ICRA]A1	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+&	[ICRA]A1+	[ICRA]A1+

Amount in Rs. Crore; &: Rating watch with developing implications; @: Rating watch with negative implications

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund Based Limits	-	-	-	6,000	[ICRA]BBB+ @ /[ICRA]A2@
NA	Non-fund based limits	-	-	-	15,000	[ICRA]BBB+ @ /[ICRA]A2@

Source: Company; @: Rating watch with negative implications

Annexure-2: List of companies where limited consolidation has been used to arrive at the ratings

Company Name	Ownership	Consolidation Approach
Afcons Infrastructure Limited	68.20%	Limited Consolidation
Bengal Shapoorji Housing Development Private Limited	20%	Limited Consolidation
Bengal Shapoorji Infrastructure Development Private Limited	100%	Limited Consolidation
Bengal Shapoorji Developers Private Limited	100	Limited Consolidation
Delphi Properties Private Limited	100%	Limited Consolidation
Mrunmai Properties Limited	100%	Limited Consolidation
Floreat Investments Limited	100%	Limited Consolidation
Forbes & Co Limited	73.51%	Limited Consolidation
Forvol International Services Limited	100%	Limited Consolidation
Galina Consultancy Services Private Limited	-	Limited Consolidation
Gokak Power and Energy Limited	86.52%	Limited Consolidation
Gokak Textiles Limited	74%	Limited Consolidation
Grand View Estates Private Limited	-	Limited Consolidation
High Point Properties Private Limited	100%	Limited Consolidation
Joyville Shapoorji Housing Private Limited	48.50%	Limited Consolidation
Lucrative Properties Private Limited	100%	Limited Consolidation
Master Management Consultants (I) Private Limited	-	Limited Consolidation
Meriland Estates Private Limited	100%	Limited Consolidation
Next Gen Publishing Limited	66.35%	Limited Consolidation
Palchin Real Estate Private Limited	100%	Limited Consolidation
PNP Maritime Services Private Limited	-	Limited Consolidation
S D Corporation Private Limited	50%	Limited Consolidation
S D Suburban and Developers Private Limited	-	Limited Consolidation
SD SVP Nagar Redevelopment Private Limited	50%	Limited Consolidation
Shapoorji Pallonji Energy (Gujarat) Private Limited	100%	Limited Consolidation
Shapoorji Pallonji Forbes Shipping Limited	18.38%	Limited Consolidation
Shapoorji Pallonji Infrastructure Capital Company Private Limited	100%	Limited Consolidation
Shapoorji Pallonji International FZE Dafza	100%	Limited Consolidation
Shapoorji Pallonji Mid-East LLC	49%	Limited Consolidation
Shapoorji Pallonji Oil and Gas Private Limited	100%	Limited Consolidation
Skyscape Developers Private Limited	-	Limited Consolidation

Company Name	Ownership	Consolidation Approach
SP Imperial Star Private Limited	-	Limited Consolidation
SP Cement Gujarat Private Limited	-	Limited Consolidation
Sunny View Estates Private Limited	100%	Limited Consolidation
TN Solar Power Energy Private Limited	100%	Limited Consolidation

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