November 28, 2019

Shapoorji Pallonji and Company Private Limited: Long-term rating downgraded to [ICRA]A+, Short-term rating downgraded to [ICRA]A1; ratings removed from watch with developing implications and 'Negative' outlook assigned

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]A+; downgraded from [ICRA]AA-, rating removed from watch with developing implications and 'Negative' outlook assigned; Short-term rating: [ICRA]A1; downgraded from [ICRA]A1+
Fund-based limits	6,000	6,000	Long-term rating: [ICRA]A+; downgraded from [ICRA]AA-, rating removed from watch with developing implications and 'Negative' outlook assigned; Short-term rating: [ICRA]A1; downgraded from [ICRA]A1+
Commercial Paper	2,500	2,500	[ICRA]A1; downgraded from [ICRA]A1+
Total	**23,500**	**23,500**	

*Instrument details are provided in Annexure-1

Rationale

The ratings downgrade and negative outlook takes into account the slower-than-anticipated progress achieved by Shapoorji Pallonji and Company Private Limited (SPCPL) in terms of its deleveraging plans through equity infusion and asset monetization. ICRA has noted that the promoters have infused a total of Rs. ~2,270 crore in SPCPL during H1FY2020, including ~Rs. 1,900 from the proceeds of the Sterling & Wilson Solar Limited (SWSL) Initial Public Offering (IPO), however, contrary to ICRA expectations, the net debt levels have not come down because the same has been deployed to meet the funding requirements of several group companies, especially in the real estate business, both for meeting their debt obligations as well as construction finance to complete the ongoing projects. ICRA has also taken note of reduction in the reported contingent liabilities (financial guarantees & DSRA support) from Rs. 2,942 crore as on March 31, 2019 to Rs. 2,412 crore as on September 30, 2019, through a combination of funds from SPCPL as well as project level cashflow linked debt. The increase in standalone debt has also been on account of elongation in the working capital cycle given the slow realisation of receivables and high inventory levels, especially for EPC projects from Andhra Pradesh government. While the maturity profile of the debt has improved, with a significant reduction in short term debt including commercial papers, it still remains exposed to high refinancing risk. The ratings also factor in the equity mobilization risk towards various ongoing & planned infrastructure projects given the slower pace of progress in group's plans to divest stake in its operational infrastructure projects to partially fund the equity commitments.

ICRA has also taken note of the recent developments in SWSL, wherein its promoters – SPCPL and Mr. Khurshed Yazdi Daruvala, requested for revised repayment schedule of the inter-corporate deposits (ICDs) due from their jointly held entities to SWSL. As part of the commitments made by the promoters during the Initial Public Offering (IPO) of SWSL, a portion of the net offer proceeds from the IPO were to be utilized for repayment of these ICDs. While SPCPL is not a borrower for these ICDs, their impending settlement has resulted in an increase in SP group's overall funding requirements. The management expects to fund these liabilities through mobilising funds at the promoter level as well as additional borrowing at the level of Sterling and Wilson Private Limited, any increase in SPCPL's debt levels to meet SWSL liability would be negative from credit perspective. ICRA will closely monitor the developments on this front.

The long-term ratings have been removed from watch with developing implications and 'negative' outlook has been assigned. ICRA believes the financial risk profile of SPCPL will remain under pressure due to elevated debt levels, high refinancing risk and slower than anticipated progress in asset monetization.

The ratings continue to positively factor in SPCPL's status as the flagship company of the Shapoorji Pallonji Group (SP Group), having a well-established presence in the construction, real estate and infrastructure business. The ratings take into account the financial flexibility enjoyed by the SP Group driven by strong investment portfolio comprising of listed and unlisted equity investments as well as large land and property holdings. The SP Group is the single-largest shareholder in Tata Sons Private Limited (TSPL), the holding company of the Tata Group, with an 18.37% stake. ICRA is given to understand that the financial flexibility arising from shareholding in TSPL remains un-diminished despite the ongoing litigations. The ratings also derive strength from the group's strong execution capabilities, the extensive experience of the promoters, and the expertise of its managerial and technical personnel heading the key business verticals. The ratings also take into account the revenue visibility of its construction business over the near to medium term aided by strong inflow of orders across sectors and geographies. With ramp up in residential project launches during the current year, SPCPL's real estate business vertical is expected to witness good traction with healthy bookings and cashflows.

Key rating drivers

Credit Strengths

- **Flagship company of SP Group –** The Shapoorji Pallonji (SP) Group is one of the well-established and diversified business groups of India having a strong brand value and legacy of over 150 years. SPCPL is the flagship company of the SP Group having presence in construction, real estate and infrastructure businesses.

- **Strong investment portfolio –** SP Group enjoys financial flexibility driven by strong investment portfolio comprising of listed and unlisted equity investments and significant value of land and property holdings. SP Group is also the single largest shareholder in Tata Sons Private Limited (TSPL), the holding company of the Tata Group, with an 18.37% stake.

- **Robust and well diversified order-book position –** SPCPL had an order book of ~Rs. 29,262 crore as on September 30, 2019, after adjusting the orders cancelled/put on hold by Andhra Pradesh government. The well-diversified order book across sectors, geographies and clientele provides revenue visibility in the near to medium term and reduces order book concentration risk. The order book to operating income ratio stands at 2.31 times of FY2019 revenues from construction segment providing revenue visibility in the medium term. The revenue from the core EPC business grew by ~38% during FY2019 led by strong order inflow and execution.

- **Experienced promoters and competent management –** SPCPL derives strength from the extensive experience of its promoters, strong and competent management, reflecting the expertise in its execution capabilities in their key businesses.

Credit Challenges

- **Slower-than-expected progress on asset monetization plans –** The company has made slower-than-expected progress on its asset monetization plans that has delayed the planned deleveraging of its balance sheet. While ICRA expected major reduction in the standalone debt profit post the receipt of ~Rs. 1,900 crore (SPCPL's share) from the IPO of SWSL, the proceeds were largely deployed towards meeting the commitments (including debt obligation) of various group companies. Timely conclusion of other monetisation, including unlocking equity value in some of the unlisted entities in the group, and utilisation of the proceeds towards standalone debt reduction would be a key rating monitorable.

- **Highly leveraged capital structure –** Being the flagship company of the SP group, SPCPL has made investments and provided financial support to various group companies and ventures. The long gestation period of some of these projects, especially in the real estate sector, has resulted in high debt levels for the company. SPCPL's standalone external borrowing increased from Rs. 8,067 crore as on March 31, 2019 to Rs. 9,019 crore as on September 30, 2019. Besides this, the working capital cycle is expected to elongate going forward given the slow realisation of receivables and high inventory levels, especially for EPC projects from Andhra Pradesh government, which would have a bearing on SPCPL's working capital borrowing levels. Furthermore, the debt at the consolidated level continues to remain high.

- **High refinancing risk** – SPCPL remains exposed to high refinancing risk with Rs. 2,884 crore of debt repayments falling due for repayment in H2FY2020 including commercial papers (CPs) of Rs. 550 crore. However, comfort can be taken from the current liquidity maintained and a demonstrated track record of refinancing debt in the past.

- **High quantum of contingent liabilities –** SPCPL has extended credit support to various subsidiaries and associate companies by way of financial, corporate and DSRA guarantees for the debt availed by them, in addition to performance guarantees extended for various group projects. As on September 30, 2019, SPCPL reported contingent liabilities stood at Rs.3,363 crore, of which Rs. 2,412 crore were towards financial guarantees and remaining Rs. 950 crore towards performance guarantees. However, ICRA takes note of management's stated intent to further reduce the DSRA/financial guarantees by March 2020.

Liquidity position: Adequate

SPCPL's liquidity position is **adequate.** The cash and bank balance stood at ~Rs. 1,300 crore as on September 30, 2019 along with unutilised working capital limit of Rs. 215 crore. The estimated cash flow from operations are not adequate to meet the high repayment obligations falling due over the short to medium term. Therefore, the company remains exposed to refinancing risk. However, comfort can be taken from the promoter's commitment to bring in sizeable amount of equity in the near term, financial flexibility enjoyed by the group with a demonstrated track record of refinancing debt in the past.

Rating sensitivities

Positive triggers – The crystallisation of scenarios for rating upgrade is unlikely over the medium term. The rating upgrade would be contingent upon SP Group's ability to successfully achieve significant deleveraging through various asset monetisation plans, including unlocking equity value in some of the unlisted entities in the group, and equity infusion by promoters. In addition, significant reduction in contingent liabilities especially DSRA/Corporate guarantees by replacing it with long term non-recourse project cashflow linked debt and/or collateral backed security could support an upward change in rating.

Negative triggers – Negative pressure on SPCPL's rating could arise if there is lower than anticipated progress on the Group's deleveraging & DSRA/corporate guarantee reduction plan and any cash outflow from the company to meet the liability of Sterling & Wilson Solar Limited.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Construction Entities ICRA approach for rating commercial paper 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%
RoCE (%)	11.6%	12.1%
Total Debt/ TNW (times)	2.9	2.7
Total Debt/ OPBDIT (times)	5.8	5.9
Interest coverage (times)	1.8	1.9

Source: Company, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Rating (FY2020)						Rating History for the past 3 years			
		Type	Amount Rated	Amount O/s	Current rating	Earlier rating		FY2019		FY2018	FY2017
					28-Nov-2019	21-June-2019	27-May-2019	26-Nov-2018	26-June 2018	08-Dec-2017	10-Nov-2016
1	Fund based limits	Long Term/Short Term	6,000	-	**[ICRA]A+ (Negative)/ [ICRA]A1**	**[ICRA]AA- &/ [ICRA]A1+**	**[ICRA]AA- &/ [ICRA]A1+**	**[ICRA]AA &/ [ICRA]A1+&**	**[ICRA]AA+ (Stable) / [ICRA]A1+**	**[ICRA]AA+ (Stable) / [ICRA]A1+**	**[ICRA]AA+ (Stable) / [ICRA]A1+**
2	Non-Fund based limits	Long Term/Short Term	15,000	-	**[ICRA]A+ (Negative)/ [ICRA]A1**	**[ICRA]AA- &/ [ICRA]A1+**	**[ICRA]AA- &/ [ICRA]A1+**	**[ICRA]AA & / [ICRA]A1+&**	**[ICRA]AA+ (Stable) / [ICRA]A1+**	**[ICRA]AA+ (Stable) / [ICRA]A1+**	**[ICRA]AA+ (Stable) / [ICRA]A1+**
3	CP	Short Term	2,500	-	**[ICRA]A1**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+&**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**

Amount in Rs. Crore; &: Rating watch with developing 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]A+ (Negative)/[ICRA]A1
NA	Non-fund based limits	-	-	-	15,000	[ICRA]A+ (Negative)/[ICRA]A1
NA	CP	-	-	-	2,500	[ICRA]A1

Source: Company

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

Company Name	Ownership	Consolidation Approach
Skyscape Developers Private Limited	-	Limited Consolidation
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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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.

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