Press Release

Shapoorji Pallonji and Company Private Limited

June 12, 2020

Rating Assigned

Commercial Paper Programmme*	Rs.1500.00 Cr.
Short Term Rating	ACUITE A1+

* Refer Annexure for details

***Erratum:** In the original PR dated 16 December 2019, the hyperlinks to the relevant rating criteria referred to an earlier version, which have now been updated in this version. In addition, the hyperlink to one of the relevant rating criteria was missing which has now been included in this version.*

Rating Rationale

Acuité has assigned the short term rating of **'ACUITE A1+' (read as ACUITE A one plus)** on the Rs.1,500.00 Cr Commercial Paper programme of Shapoorji Pallonji and Company Private Limited (SPCPL).

The rating reflects the long track record and experience of the Shapoorji Pallonji (SP) group in the construction and infrastructure sector, the status of SPCPL as the flagship company of the group, its established presence in EPC and real estate development with demonstrated execution capabilities as well as a healthy order book position both in India and overseas, providing revenue visibility over the medium term. These rating strengths are partly offset by a highly leveraged financial risk profile at standalone and group levels, delays in asset monetization plans and financial guarantees extended by SPCPL to its group companies, which may result in refinancing risk.

Acuité has taken note of the recent developments in SPCPL's subsidiary i.e. Sterling & Wilson Solar Limited (SWSL) and Sterling & Wilson Private Limited (SWPL) with respect to the repayment of inter corporate deposits (ICDs) due to SWSL. These ICDs were proposed to be repaid through the Offer for Sale (OFS) issue of SWSL that mobilised Rs. 2,850 Cr in August 2019, as against the target of Rs. 4,500 Cr . The promoters of SWPL i.e. SPCPL and Mr. Khurshed Daruvala have sought an extension from the board of SWSL to repay the outstanding ICDs which stood at Rs. 2,341 Cr as on September 2019. Acuité expects the promoters to settle the amount as and when the asset monetization plans takes shape and not further leverage the balance sheet of SPCPL for that purpose in the near term.

About the company

Incorporated in 1943, Shapoorji Pallonji and Company Private Limited (SPCPL), owned by the Mistry family, is a part of Shapoorji Pallonji Group (SP Group). SP group is a leading business conglomerate in India founded in 1865, with presence in the sectors of Engineering and Construction, Real Estate, Infrastructure, Water, Energy, and Financial Services.

SPCPL is a flagship company of SP group and functions as a Holding Company (Hold Co) for various key companies of SP group such as Afcons Infrastructure Limited (AIL), Forbes and Company Limited (FCL), Sterling and Wilson Private Limited (SWPL), Sterling and Wilson Solar Limited (SWSL), Shapoorji Pallonji Oil and Gas Private Limited (SPOGPL), Shapoorji Pallonji Infrastructure Capital Company Private Limited (SPICCPL), S. D. Corporation Private Limited among others.

SPCPL also acts as an operating company engaged in construction, infrastructure and real estate activities. SPCPL is one of the oldest and leading construction company in India with demonstrated track record of constructing different complex projects both in India and overseas over the past few decades.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of SPCPL and has additionally factored in the support extended by SPCPL to its group companies in the form of equity and debt guarantees to arrive at this rating.

Key Rating Drivers

Strengths

- **Established presence in the real estate and infrastructure segment**

SPCPL is a part of SP group, which was established in 1865. The group is India's leading business conglomerate having a diversified business presence in Engineering and Construction, Real Estate, Infrastructure, Water, Energy, and Financial Services. The promoters are ably supported by an experienced management team who have extensive experience in their respective domains. The group started its operations in Mumbai and over the years increased their presence in not only India but also overseas covering geographies of Asia, Middle East, Europe, Africa, Americas, Australia. The group had consolidated revenues of around Rs.50,000 Cr in FY2019 with an outstanding order book of over Rs.1,00,000 Cr.

SPCPL is the flagship company of SP group, which acts as both a holding company for the key companies of the group, and also an operating company engaged in construction business. SPCPL on a standalone basis has an unexecuted order book of Rs.37,813 Cr. The order book is fairly diversified with orders from both state and central government undertakings, private players and overseas orders. The orders are spread across different sectors (Engineering and Construction and EPC) and geographies covering India and overseas. The current order book is around three times the standalone revenues of Rs.12,827 Cr for FY2019 providing revenue visibility over the medium term.

SPCPL has established presence in both commercial and residential real estate segment since 1865, over the years the group has constructed marquee projects both in India and globally. SPCPL's residential real estate business has also received moderate traction in their key projects, as can also be witnessed from the low levels of unsold inventory compared to overall market conditions. SP Group's key projects like 'Northern Lights', 'Vicinia', 'Parkwest' have received good sales traction despite the tepid market conditions.

SP Group's portfolio comprises of infrastructure projects across different verticals, namely transportation, energy, port and resources. The group has an operational annuity-based road project and an under-construction (Hybrid Annuity Model) HAM project. The domestic solar segment comprises operational projects aggregating to a total capacity of 298-MW and 470-MW capacity under implementation. The overseas power projects comprise of 50MW solar power project in Egypt and 225MW combined cycle power project in Bangladesh. Under the port vertical, the company is executing the port, LNG terminal and LPG terminal projects. Acuité believes that the company will continue to benefit from its established presence in the construction industry and its strong brand name over the medium term.

- **Strong financial flexibility of the group**

The group has large land bank which are held for development through the real estate arm of the group. The group has also developed infrastructure assets over the years, which are operating and can be monetized and proceeds from the same be utilized for meeting the funding requirements for assets currently under development. The group's future equity commitments till FY 2022, is around ~Rs.2400 Cr, while on the other hand the group has monetizable assets in the solar energy and roads space can provide for not only the equity commitment but will also lead to significant debt reduction on a consolidated level.

The group is single largest shareholder in TATA Sons Private Limited (TSPL) with stake of 18.37 percent. TSPL is a holding company for various TATA group of companies like Tata Consultancy Services (TCS), Tata Motors Limited (TML), Tata Steel Limited (TSL), The Indian Hotels Company Limited (IHCL) to name a few. The promoters have demonstrated track record of extending support to various entities within the group as and when needed by the means of equity infusion and advances. The group has also supported the borrowings of its entities by extending DSRA guarantees/corporate guarantees/ Letter of Comfort as and when needed. The financial flexibility of the group has allowed the entities like SPCPL to raise funds from market and refinance its existing debt at competitive rates.

Acuité believes that SPCPL's credit profile will continue to be supported by strong financial flexibility of SP group. While the group has witnessed a challenging funding environment in the current year, their solid businesses backed by strong assets is expected to ensure that their financial flexibility remains healthy.

Weaknesses

- **Highly leveraged financial risk profile with significant refinancing risk**

  SPCPL had significantly leveraged capital structure marked by peak gearing of 3.28 times as on March 31 2017, which has sequentially improved to 2.74 times as on March 31, 2019. SPCPL has extended loans and advances to its group entities; majorly in real estate sector, where the flow of advances has been slow. As a result, the overall indebtedness to continue to remain high. The total debt on standalone basis as on March 31 2019 stood at Rs.9,441.19 Cr (including promoter loan of Rs. 1,374.25 Cr) which increased from Rs.7,561.64 Cr (including promoter loans of Rs. 134.40 Cr) as on 31 March 2018. Acuité has observed that the total commitments under DSRA, performance and financial guarantees has reduced to Rs.8350 Cr as on September 2019, from Rs.10,157 Cr as on March 31, 2019. The company has debt repayment obligations worth Rs.2,884 Cr due during October – March of FY2020 which exposes the company to high refinancing risk.

  SP group is currently undertaking a debt realignment/refinancing exercise to reduce the levels of corporate loans by converting the same into debt backed by project cashflows. Although, the total debt outstanding on the group's real estate division has not reduced significantly and currently stands at Rs.5,532 Cr, there has been a significant reduction in the level of corporate loans which were not assigned to any particular project. The total corporate loans on the real estate division of the group have reduced to Rs.685 Cr as on October 31, 2019 as compared to Rs.1,390 Cr as on March 31, 2019. SP Group is also undertaking an exercise to replace the short-term debt with long term, particularly the commercial papers outstanding across the group. The total commercial paper outstanding stands at Rs.510 Cr as on November 14, 2019 as compared to Rs.2,704 Cr as on March 31, 2019. Acuite notes the reduction of general corporate loans in the real estate division. Though, the realignment does provide the group some cushion in the near-term maturities and cashflow cover, the overall cashflow generation from the group's ongoing real estate projects remains a key monitorable.

  The group is in process of deleveraging its capital structure by way of monetizing its infrastructure assets like power plants roads, ports and its overseas assets. From the real estate assets, the group has already monetized assets worth Rs.556 crores during H1 FY 2020 and has signed term sheets for additional Rs.80 crores during the period Oct – Dec 2019. The cash flow from the already monetized assets is expected to flow in H2 FY 2020. The Group is planning to generate additional liquidity by raising funds through an IPO, stake dilution/ sale or any combination of the same for its holding in Eureka Forbes Limited. The group has received the term sheet for bridge funding arrangement of Rs.900 crore for EFL transaction and is expecting to receive Rs.900 crore by January 2020, which will be used for repaying its current maturities for FY2020.

  Acuité believes that any delays in the asset monetization plans can not only impact the deleveraging plans of SPCPL but also pose liquidity challenges for the group in the context of significant loan repayments over the medium term.

Liquidity position: Adequate

SPCPL has adequate liquidity position to service its debt obligations in a timely manner. SPCPL has cash and bank balance of Rs.1300 Cr as on September 2019 to take care of its short-term debt maturities. Further, the liquidity is also supported by the asset monetization pipeline that has been developing over the last few quarters, strong financial flexibility of the promoters, and their commitment to support the group and SPCPL in case of any financial distress.

Rating Sensitivities

- Lower than expected sales traction in the real estate projects leading to increased dependence on refinancing of debt will have an negative bias on the rating
- Timely monetisation of its assets resulting in reduction of debt levels

Material Covenants

None

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	12,827.43	9,249.84
PAT	Rs. Cr.	367.85	341.52
PAT Margin	(%)	2.87	3.69
Total Debt/Tangible Net Worth	Times	2.74	2.92
PBDIT/Interest	Times	1.87	1.77

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
- Infrastructure Entities - https://www.acuite.in/view-rating-criteria-51.htm
- Real Estate Entities- https://www.acuite.in/view-rating-criteria-63.htm
- Financial Ratios And Adjustments - https://www.acuite.in/view-rating-criteria-53.htm
- Commercial Paper - https://www.acuite.in/view-rating-criteria-54.htm

Note on complexity levels of the rated instrument

https://www.acuite.in/view-rating-criteria-55.htm

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Commercial Paper	Not Applicable	Not Applicable	Not Applicable	1500.00	ACUITE A1+

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