

## Press Release

### Shapoorji Pallonji and Company Private Limited

September 26, 2020



### Rating Downgraded

<b>Commercial Paper Programme*</b>	Rs.1500.00 Cr.
<b>Short Term Rating</b>	ACUITE A1 (Downgraded; Watch with Developing Implications)

\* Refer Annexure for details

### Rating Rationale

Acuité has downgraded the short term rating to '**ACUITE A1' (read as ACUITE A one)**' from '**ACUITE A1+' (read as ACUITE A one plus)**' on the Rs.1,500.00 crore Commercial Paper Programme of Shapoorji Pallonji and Company Private Limited (SPCPL). The rating is now placed on 'Watch with Developing Implications'.

### Reason for revision in Rating and Watch with Developing Implications:

The downward revision in the rating, primarily reflects the ongoing challenges faced by Shapoorji Pallonji Group (SP Group) in maintaining adequate liquidity buffers commensurate with its near term debt repayment obligations. The group's operations have been severely impacted on account of the ongoing Covid-19 crisis; while there has been a pick-up in the extent of its operations, the same however has been slower-than-anticipated. This has led to a significant decline in the operational cash flows for the group in the current year. In addition, the group is also witnessing significant challenges in generating liquidity through the monetization of non-core assets and via its holding in Tata Sons Private Limited as was previously envisaged by the group. The share pledge transaction which was underway to generate liquidity for the group, is currently stalled as the Honorable Supreme Court has granted status quo on the proposed pledge and the matter is currently sub judice. While SP Group has announced its willingness to divest its ~18% stake in Tata Sons, the timelines and closure of the transaction depend on a successful resolution of the matter with Tata Group. The group has significant near term debt obligations which not only includes bank facilities but also Non-Convertible Debentures and Commercial Papers obligations. The group currently is engaging with various lenders/investors/stakeholders for a one-time restructuring (OTR) of debt (including NCDs and CPs) in line with the latest RBI framework on Covid-19 asset resolution. While arriving at the current rating action, Acuité has also relied on the dispensation provided by the regulators (Circular No.: **SEBI/ HO/ MIRSD/ CRADT/ CIR/ P/ 2020/ 160**).

Against the uncertain backdrop of Covid-19, Acuité believes that the company's operational performance will continue to be significantly impaired over the next two quarters given the continuing severity of the pandemic and the slow economic revival. Further, the rapid restoration of supply chain and satisfactory execution of its undergoing projects may also remain a challenge. Acuité believes that SPCPL therefore may face considerable headwinds in its revenue and profitability metrics for FY2021, along with the upcoming debt obligations, will put it near to medium-term liquidity under pressure.

Acuité has also placed the rating of SPCPL under 'Watch with Developing Implications' on account of the evolving scenario on the pledge or stake sale of Tata Sons, uncertainty on the timelines for resolution of the ongoing dispute between the two groups and the lack of clarity on the contours of the possible one-time restructuring (OTR) of the debt of SPCPL and some of its group companies. The rating watch will be resolved on receipt of clarity on the stake sale of Tata Sons and the details of the potential restructuring plan. Acuité is in continuous discussion with the management of SP Group to understand the timelines and quantum of stake sale, details on OTR and also the liquidity position of SPCPL.

### 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 a 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.

**For further details, kindly refer to Acuité's release dated December 16, 2019**

<https://www.acuite.in/documents/ratings/revised/27854-RR-20191216.pdf>

### **Liquidity position: Stretched**

SPCPL has around Rs.5000 Cr. repayment in FY2021. The company's liquidity is adversely impacted on account of the outbreak of Covid-19 followed by prolonged lockdowns across the nation, resulting in a slow pace of contract execution and thus has impacted its liquidity significantly. SPCPL is likely to initiate a restructuring of its debt (including NCDs and CPs) and has also announced its willingness to divest its stake in Tata Sons. Acuité is continuously monitoring the liquidity of SPCPL and will take appropriate action as and when adequate clarity emerges on its liquidity position.

### **Rating Sensitivities**

- Timely receipt of funds from stake sale in Tata Sons
- Favourable and timely OTR of debt
- Timely monetisation of its non-core assets resulting in a 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 Programme - <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)

Date	Name of the Instruments	Term	Amount (Rs. Cr.)	Ratings/Outlook
16-Dec-2019	Commercial Paper	Short Term	1500.00	ACUITE A1+ (Assigned)

### \*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 (Downgraded; Watch with Developing Implications)

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### About Acuité Ratings & Research:

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