

Press Release

Shapoorji Pallonji and Company Private Limited

March 09, 2021



Rating Downgraded

| | |
|------------------------------------|---|
| Commercial Paper Programme* | Rs.1500.00 Cr. |
| Short Term Rating | ACUITE A2 (Downgraded; Watch with Developing Implications) |

* Refer Annexure for details

Rating Rationale

Acuité has downgraded its short term rating to '**ACUITE A2' (read as ACUITE A two)**' from '**ACUITE A1' (read as ACUITE A one)**' on the Rs.1,500.00 Cr Commercial Paper Programme of Shapoorji Pallonji and Company Private Limited (SPCPL). The rating continues to be on 'Watch with Developing Implications'

Reason for revision in Rating and Watch with Developing Implications:

The downward revision in the rating primarily reflects the significant deterioration in operating and financial profile of Shapoorji Pallonji and Company Private Limited due to the impact of the Covid-19 pandemic. SPCPL had applied for One-time Restructuring (OTR) facility of its complete debt stock (which includes Bank debts, Non-Convertible Debentures, and Commercial Paper) under the RBI Guidelines on Covid – 19 asset resolution (RBI guidelines issued on August 6, 2020 and September 7, 2020). Further, SPCPL has not made any payments due to the lenders (including CP of Rs.250 Cr. due on 24-February-2021) post application under OTR. The OTR was invoked on October 26, 2020 and the Inter Creditor Agreement (ICA) was signed by all the eligible lenders by November 24, 2020. The implementation of OTR as per the regulatory timelines is 180 days from the date of invocation. Further, Acuité is given to understand by the management that the OTR plan is at a finalization stage. However, the final terms of the OTR Plan along with the implementation timelines are not known at the current juncture.

Further, Acuité has noted multiple Qualified Opinion by the Auditors of SPCPL in FY2020, which is likely to further impinge the financial flexibility. The group continues to witness significant challenges in generating liquidity through the monetization of non-core assets and via its holding in Tata Sons Private Limited as per earlier expectations. 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 subjudice. 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 rating of SPCPL continues to remain on 'Watch with Developing Implications' on account of the pending implementation of the OTR proposal, uncertainty on the pledge or stake sale of Tata Sons and lack of clarity on the timelines for resolution of the ongoing dispute between the two groups. The rating watch will be resolved on receipt of clarity on the stake sale of Tata Sons and implementation of OTR Plan. Acuité is in touch with the SP Group management and is monitoring the progress of the OTR implementation. Acuité believes that the timely implementation of the OTR plan will be the key to SPCPL maintaining its credit profile.

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). The group started its operations in Mumbai and over the years, increased their presence in not only India but also overseas 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.

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 the construction business. SPCPL on a standalone basis has an unexecuted order book of more than Rs.35,000 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.

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 underconstruction (Hybrid Annuity Model) HAM project. It also has 190MW of solar power portfolio (of which 150MW is operational, including 50MW solar project in Egypt) and 40MW is under-implementation. Also, the company has an under-construction 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.

Weaknesses

- **Highly leveraged financial risk profile; timely implementation of OTR**

SPCPL had significantly leveraged capital structure marked by peak gearing of 3.22 times as on March 31 2020. 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 2020 stood at Rs.13,313.70 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.6,613 Cr as on December 2020 from Rs.10,157 Cr as on March 31, 2019. The company has applied for OTR for its debt outstanding; however, timely implementation of OTR will remain key monitorables.

SP group is currently undergoing a One Time Restructuring as per RBI Guidelines on Covid – 19. Acuité is given to understand that the implementation of OTR plan is on a finalization stage. However, the final terms of the OTR Plan, along with the implementation timelines, are not known at the current juncture. Further, the group is also facing challenges in monetizing its holding in Tata Sons Limited. Acuité believes timely inflow of the funds from monetizing the holding in Tata Sons Limited will significantly alter the credit profile of SP Group.

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. 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. 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 over the near to medium term.

Liquidity position: Stretched

SPCPL has applied for OTR (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 implementation of the OTR of SPCPL's debt
- Receipt of funds from stake sale in Tata Sons
- Monetization of its non-core assets resulting in reduction of debt levels

Material Covenants

None

About the Rated Entity - Key Financials

| | Unit | FY20 (Actual) | FY19 (Actual) |
|-------------------------------|---------|---------------|---------------|
| Operating Income | Rs. Cr. | 8,985.84 | 12,777.75 |
| PAT | Rs. Cr. | 676.25 | 367.85 |
| PAT Margin | (%) | 7.53 | 2.88 |
| Total Debt/Tangible Net Worth | Times | 3.22 | 2.73 |
| PBDIT/Interest | Times | 1.79 | 1.87 |

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)

| Date | Name of the Instruments | Term | Amount (Rs. Cr.) | Ratings/Outlook |
|--------------|-------------------------|------------|------------------|--|
| 26-Sept-2020 | Commercial Paper | Short Term | 1500.00 | ACUITE A1 (Downgraded; Watch with Developing Implication) |
| 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 A2 (Downgraded; Watch with Developing Implications) |

Contacts

| Analytical | Rating Desk |
|--|--|
| Aditya Gupta Vice President – Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in | Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in |
| Kashish Shah Assistant Manager - Rating Operations Tel: 022-49294042 kashish.shah@acuite.in | |

About Acuité Ratings & Research:

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