Press Release

Shapoorji Pallonji & Company Pvt Ltd.

January 13, 2020

Rating

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating Assigned
1	Fund Based Facilities (Long & Short Term)	10000.00	IVR AA-/Stable Outlook (IVR Double A Minus with Stable Outlook)& IVR A1+ (IVR A1 Plus)
2	Non- Fund Based (Long & Short Term)	15000.00	IVR AA-/Stable Outlook (IVR Double A Minus with Stable Outlook)& IVR A1+ (IVR A1 Plus)
3	Commercial Papers	1500.00	IVR A1+ (IVR A1 Plus)
	Total	**26500.00**	

Details of facilities are in Annexure 1

Rating Rationale

The assigned rating derives strength from strong group that is led and managed by experienced promoters, the growing scale of operations and the continued profitability. The rating however is constrained by high financial leverage, uncertainty involved with asset monetization plan and high level of contingent liabilities.

Key Rating Sensitivities

- **Upward Factors –** The ability of SPCPL to monetize the identified assets in timely manner thereby reducing its financial leverage from the proceeds would be crucial for the company and the group and would call for a positive rating action.
- **Downward Factors –** Any delay in the said asset monetization would add stress to company's financial health and would call for a negative rating action.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Strong Group with experienced promoters

Shapoorji Pallonji Group is one of the leading diversified industrial conglomerate having a rich legacy in country. It specializes in construction, infrastructure, real estate, energy, water, mechanical electrical and plumbing etc. The group promoters are renowned businessmen having extensive experience and business acumen in driving the different business verticals. They are supported by a well-qualified management team.

Growing operations

The total operating income of SPCPL has consistently increased for the past three years despite of slowdown in the real estate industry. From a top-line of Rs. 7442.39 crore in FY17, the company registered a growth of ~23.5% and stood at Rs. 9190.14 crore in FY18 followed ~40% growth in FY19 to stand at Rs. 12777.76 crore. The major revenue source for the company is construction income which forms 95-96% of its total operating income. As on September, 30, 2019, the order book stood at Rs. 41,829.74 crore, which is more than three times the revenue of FY19.

Continued Profitability

SPCPL has been able to maintain its profitability parameters along with its rapidly growing operating income by controlling expenses and in turn the margins. The EBITDA margin stood at 6.92% in FY19, a marginal decrease from 6.97% in FY18.

Regular infusion of funds from the promoters

The group promoters have regularly infused funds in the business by the way of direct equity, preference shares or subordinated loans and plans to continue with same in near future as well, providing some comfort to the leveraged structure.

Key Rating Weaknesses

High financial leverage

The capital structure of SPCPL is highly leveraged with increasing levels of debt. The overall gearing stood at a high of 2.88x in FY19, which was a slight improvement from 3.12x of FY18. The improvement was a result of fresh equity infusion worth Rs 500 crore by the promoters. The TOL/TNW stood at 5.19x in FY19. Going forward the company plans to refinance its short term debt by long term facilities thus elongating the maturities.

Uncertainty involved with asset monetization

With the high financial leverage at both standalone and group level, the company plans to monetize its assets mainly from infrastructure and real estate verticals to fulfil its debt obligations. Major chunk of the identified deals are still at the primary stage of discussions with the potential investors. The timely successful implementation of same would be crucial going forward.

High level of contingent liabilities

SPCPL being the holding company of the group, the onus of shielding other group companies by backing their debt obligations and arranging for their funding requirements from time to time lies on SPCPL, as a result of which, SPCPL has reported high levels of contingent liabilities that has accumulated in the form of performance and DSRA guarantees given to various lenders. As on September 30, 2019, the total contingent liabilities of SPCPL stood at Rs ~8350 crore.

Analytical Approach & Applicable Criteria:

- Standalone Method
- Rating methodology for Construction/ Infrastructure companies
- Financial ratios and Interpretation (Non-Financial Sector)

Liquidity: Adequate

The company has historically maintained its liquidity profile by holding good amount of cash and bank balances as a cushion against any contingencies. Its liquidity would not be a point of concern provided the company is able to monetize its planned assets and raise the expected amount of equity in near future in its group companies. A lot also depends on the refinancing that the company is targeting to wind upits short term facilities. Future stake dilution in group entity that is valued between Rs 5000 crore to Rs. 5500 crore, refocusing on infrastructure verticals to reduce debt and identification of strategic investors in real estate are SPCPL's goals that would help the company to have enough liquidity cushion. Overall the liquidity position of the company looks to be Adequate.

About the company

The Shapoorji Pallonji Group (SP) is a globally diversified institution, with a leading presence in the sectors of Engineering & Construction, Infrastructure, Real Estate, Water, Energy and Financial Services. Established in 1865, SP Group today is a leading conglomerate, having a rich legacy of over 153 years of business. The Group has 6 major businesses within 16+ group companies, having presence across 70+ countries, with over 69,000 employees. SPCPL is the flagship company of the group. It specializes in construction, design and build of turnkey projects and has built diverse civil and engineering structures.

Financials (Standalone) **(Rs.Crore)**

For the year ended / As on	31-Mar-18 (A)	31-Mar-19 (A)
Total Operating Income	9190.14	12777.76
EBITDA	640.14	884.76
PAT	341.52	367.86
Total Debt	7511.62	9387.17
Tangible Net worth	2404.06	3254.27
EBIDTA Margin (%)	6.97	6.92
PAT Margin (%)	3.47	2.73
Overall Gearing ratio (x)	3.12	2.88

* Classification as per Infomerics' standards

Any other information: N.A

No Cooperation status with previous CRA: NIL

Rating History for last three years:

Name of Instrument/ Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
	Type	Amount outstanding (Rs. Crore)	Rating	Rating assigned in 2018-19	Rating assigned in 2017-18	Rating assigned in 2016-17
Fund Based Facilities	Long/Short Term	10000.00	IVR AA-/Stable Outlook & IVR A1+	--	--	--
Non Fund Based Facilities	Long/Short Term	15000.00	IVR AA-/Stable Outlook & IVR A1+	--	--	--
CP	Short Term	1500.00	IVR A1+	--	--	--
	Total	**26500.00**				

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company’s long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

Annexure 1: Details of Facilities

Sr. no	Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. crores)	Rating Assigned/ Outlook
1	Long/Short Term Fund Based	--	--	--	10000.00	IVR AA-/Stable Outlook & IVR A1+
2	Long/Short Term Non-Fund Based	--	--	--	15000.00	IVR AA-/Stable Outlook & IVR A1+
3	CP	--	--	--	1500.00	IVR A1+
Total					**26500.00**	