Press Release

Shapoorji Pallonji and Company Private Limited (SPCPL)

May 31, 2024

Ratings:

Instrument / Facility	Amount (Rs. Crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Long Term Facilities	3,217.50 (Reduced from Rs.3,300)	IVR BBB/ Negative (IVR Triple B with Negative Outlook)	IVR BBB+/ Negative (IVR Triple B Plus with Negative Outlook	Downgraded	Simple
Long Term/ Short term Facilities -Fund based (including proposed)	1,782.50 (Enhanced from Rs. 1700.00)	IVR BBB/ Negative/ IVR A3+ (IVR Triple B with Negative Outlook/ IVR A Three Plus)	IVR BBB+/ Negative / IVR A2 (IVR Triple B Plus with Negative Outlook)/ IVR A Two)	Downgraded	Simple
Long Term/ Short Term Facilities- Non fund based (including proposed)	15,000.00	IVR BBB/ Negative/ IVR A3+ (IVR Triple B with Negative Outlook/ IVR A Three Plus)	IVR BBB+/ Negative / IVR A2 (IVR Triple B Plus with Negative Outlook)/ IVR A Two)	Downgraded	Simple
Total	**20,000.00 (Rupees Twenty thousand crore only)**				

Details of Facilities are in Annexure 1

Detailed Rationale:

Infomerics has downgraded the ratings assigned to the bank facilities of Shapoorji Pallonji and Company Private Limited (SPCPL) on account of continued subdued performance in FY24 resulting in subpar debt protection metrics, in ordinate delays in disbursal of additional working capital limits and delays in refinancing and fund-raising plans at the promoter level entities. Elongated debtors, high contingent liabilities and high leverage at group level continue to restrain the rating. However, the ratings continue to factor in long established track record of the group, financial flexibility of the promoter group and robust order book position.

The Negative Outlook continues to reflect expected subdued operational and financial performance in the near term due to delays in disbursal of additional working capital facilities critical to support growth of core operations and continued stretched liquidity leading to weak debt protection metrics. It also factors in the delays in refinancing / fund raising plans at the group level against timelines. The outlook may be revised to Stable if there is a significant improvement in SPCPL's operational and financial performance, so also significant progress in asset monetisation efforts.

Key Rating Sensitivities:

Upward Factors

- Significant increase in operating profitability from core operations on a sustained basis
- Reduction in debt and contingent liabilities resulting in improvement of debt coverage ratios and liquidity position on a sustained basis
- Improvement in working capital cycle

Downward Factors

- Deterioration in operating profitability from core operations
- Delays in disbursal of enhanced working capital limits limiting scaling up of operations
- Higher than expected debt at the group level
- Higher than expected support to group companies by way of advances and/or guarantees and/or any delays in refinancing of the guaranteed obligations.

Key Rating Drivers with detailed description

Key Rating Strengths:

Long-established track record of the Shapoorji Pallonji (SP) group

Shapoorji Pallonji Group is a well-established, diversified industrial conglomerate in the construction, infrastructure, and real estate space with more than 150 years of operations. The company specializes in construction, design and building of turnkey projects and has built diverse civil and engineering structures such as factories, stadiums and auditoriums, airports, hospitals, housing complexes, power plants, etc. in India and overseas. Its interest also includes real estate development and water management. As the group's flagship company, SPCPL benefits from the vast experience of its qualified promoters and competent management.

Strong financial flexibility of the promoter group

The SP Group is the single-largest minority shareholder in Tata Sons Private Limited (TSPL), the holding company of the Tata Group, with an 18.37% stake, which provides it financial flexibility. The SP group has raised funds at promoter holding entities backed by pledge of shares in entities holding stake in TSPL. The company had raised Rs.14,300 crores via pledge of Cyrus Investments Private Limited (CIPL) stake in TSPL in June 2023. These proceeds were used to refinance existing promoter level borrowings and to refinance debt maturing at various group companies. Further, the management has articulated that the group is at advanced stage of fund raising via the pledge of Sterling Investment Corporation P. Ltd (SICPL) shareholding, though there have been some delays as against the stipulated timelines. Timely refinancing of the group debt will be a key rating monitorable.

Majority of the businesses are held by SPCPL as subsidiaries, JVs and associates. These subsidiaries, JVs and associates have considerably high level of unlocked real estate value which while not being very liquid, can be monetized.

During FY22 and FY23, SPCPL successfully monetized few of its investments - Eureka Forbes Limited, Sterling and Wilson Renewable Limited and SP Jammu Udhampur Highway Ltd. The company plans to further divest assets to reduce overall group debt. SP group has taken steps to monetize Gopalpur port and planned initial public offer of Afcons Infrastructure Ltd to reduce the debt at promoter holding entities level. It has entered into a share purchase agreement with Adani Ports and Special Economic Zone Limited for stake sale in Gopalpur ports Limited and has filed Draft Red Herring Prospectus of Afcons Infrastructure Limited. Going forward, timely monetisation of assets to reduce leverage at SPCPL and group level is crucial from credit profile perspective.

Robust order book

SPCPL has a robust order book of Rs. 28,090 crores as of December 31, 2023, which is 3.78 times of FY24 (Provisional) revenues of Rs.7424 crores, providing medium term revenue visibility. The order book is well diversified across sectors, geographies, and clientele. The order book under engineering & construction (Rs.24,941 crores) is well diversified across various segments like real estate (group companies) (5%), industrial (6%), commercial (33%), residential (29%), water/smart city (17%) and hospitals/hotels/airports (11%).

Key Rating Weaknesses:

Continued subdued performance in FY23 & FY24 resulting in muted debt protection metrics.

The operating and financial performance of the company has remained subdued during the last two years. The total operating income (TOI) increased by 11% in FY23 to Rs.7202.66 crore from Rs.6464.15 crore in FY22. However, the company's EBITDA deteriorated on account of increase in the operating expenses. The company also reported net loss of Rs.678.97 crore in FY23 as against net profit of Rs.1715.26 crore in FY22. The net profit in FY22 can primarily be attributed to the gain on sale of investment and an extraordinary income from the asset monetization transaction. In FY24 (provisional) TOI has remained at similar levels at Rs.7424.81 crore and operating profitability continues to be modest.

SPCPL's subdued performance in FY23 and FY24 is due to slow pace of execution of projects along with limited working capital availability. Of the total sanctioned working capital limits of Rs.625 crores only Rs.325 crores are disbursed due to delays in security perfection. The prolonged delays in security documentation as against expected timeline of Q4FY24 has impacted the pace of execution of the core EPC business and ability to scale up operations as envisaged thus resulting in lower profitability and muted debt protection metrics in FY23 and FY24.

Elongated debtors

Total debtors including retention money was Rs.3350 crores as on September 30, 2023 (Rs.3246 crores as on March 31, 2023). The time taken by government clients to certify work and release payment thereafter results in built up of debtors. Also, about 30% of debtors belong to group companies. The ability to recover the sticky debtors and thus improve cash flow position is a credit sensitivity.

High contingent liabilities

SPCPL being an operating cum holding company has extended credit support to various subsidiaries and associate companies by way of financial guarantees for the debt availed by them, in addition to performance guarantees extended for various group projects. The total guarantees given has reduced from Rs.5665 crores in September 2021 to Rs.3977 crores in

June 2023, however, continue to remain high. As on June 30, 2023, SPCPL has extended financial guarantees of Rs.3299 crore and performance guarantees of Rs.677 crore. As per the management, only need based support to group companies will be extended by the promoter entities and cash flows of SPCPL will remain invested in its core business operations. However, for this guaranteed debt, repayment is also dependent on ability to refinance in a timely manner. SPCPL currently acts as a holding-cum-operating company for the entire group. The group plans to reorganize the real estate and other business into separate verticals with SPCPL acting as holding company for the EPC business. This reorganization plans of SPCPL will help reduce the extent of support to the group companies by SPCPL. Further, SPCPL had Sterling and Wilson Renewable Energy Ltd (SWREL) related repayment obligation of Rs.340 crore payable in FY23, basis an indemnity agreement between the existing promoter, Reliance Energy Ltd and SPCPL. The same was repaid by fund infusion from promoters. Timely and continuous support from the promoter group is crucial for the credit profile of SPCPL.

High leverage at a group level

The consolidated debt at SPCPL has reduced from Rs.32,500 crores as on March 31, 2021, to Rs.20,564 crores as on March 31, 2023, however, continues to remain high due to increased borrowings at promoter level to refinance debt in the underlying group companies. Going forward, deleveraging at group level through planned asset monetisation will be a key rating monitorable.

Analytical Approach: Standalone approach factoring in support provided to group entities.

Applicable Criteria:

Criteria of Rating Outlook
Rating Methodology for Infrastructure Companies
Financial Ratios & Interpretation (Non-Financial Sector)
Policy on Default Recognition
Complexity Level of Rated Instruments/Facilities

Liquidity – Stretched

The company has principal repayment of Rs.1035 crore in FY25 (including mandatory repayment of Rs.870 crore) in FY25. The scheduled repayment for June 2024 has already been repaid in December 2023. The balance of Rs.993.75 crore will be repaid in FY25 primarily through the stake sale in a listed entity as per sanctioned terms. Post OTR, the company has sanctioned working capital limits of Rs.625 crores (Rs.325 crores disbursed and remaining disbursal awaiting security perfection). However, delay in release of limits and weak operating performance has stretched liquidity of SPCPL. The average monthly utilisation of fund-based bank limit remained at ~89% for 12 months ended September 2023 providing limited liquidity buffer. The debtor and creditor days are also elongated. Given the weak operational cash flows, the timely financial support from the promoter group remains crucial. The company had unencumbered cash balance of Rs.590 crore as on March 31, 2024. Going forward, improvement in the core EPC business, along with timely monetisation of assets and/or capital infusion by promoter group remains crucial. Further, the SP group is the largest private shareholder of TSPL with 18.37% stake, which provides financial flexibility.

About the company:

Established in 1865, having a legacy of over 150 years of business, the Shapoorji Pallonji Group is a diversified industrial conglomerate held by the Mistry family. It has a leading presence in the sectors of engineering & construction, infrastructure, real estate, water, energy and financial services through its various group companies. The SP Group is also the largest minority shareholder (18.37%) in Tata Sons Private Limited. SPCPL is held by the Mistry family through various group companies. It is the flagship company and a holding cum operating company of the SP Group. Most of the groups' businesses are held by SPCPL as subsidiaries, JVs, and associates. 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*	31-03-2022	31-03-2023
	(Audited)	(Audited)
Total Operating Income	6,464.15	7,202.66
EBITDA	211.94	-108.99
PAT	1,715.27	-678.97
Total Debt	4,300.89	4,250.95
Tangible Net-worth	6,420.09	5,275.85
Ratios		
EBITDA Margin (%)	3.28	-1.51
PAT Margin (%)	19.99	-8.54
Overall Gearing Ratio (x)	0.89	1.11

**Classification as per Infomerics Standards*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Sr. No	Name of Instrument/ Facilities	Current Ratings (Year 2024-25)			Rating History for the past 3 years		
		Type	Amount (Rs. crore)	Rating	Date(s) & Rating assigned in 2023-24	Date(s) & Rating assigned in 2022-23	Date(s) & Rating assigned in 2021-22
1.	Term Loan	Long Term	3,217.50	IVR BBB /Negative	**(November 30, 2023)** IVR BBB+/ Negative **(May 05, 2023)** IVR A / Stable	**(Sept. 23, 2022)** IVR A/ Stable	**(May 07, 2021)** IVR BBB (Credit Watch with Developing Implications)
2.	Fund based facilities (including proposed) – WCDL/OD	Long Term/ Short Term	1,782.50	IVR BBB/ Negative/ IVR A3+	**(November 30, 2023)** IVR BBB+/ Negative/ IVR A2 **(May 05, 2023)** IVR A/ Stable/ IVR A1	**(Sept. 23, 2022)** IVR A/ Stable/ IVR A1	**(May 07, 2021)** IVR BBB (Credit Watch with Developing Implications) / IVR A3+

Sr. No	Name of Instrument/ Facilities	Current Ratings (Year 2024-25)			Rating History for the past 3 years		
		Type	Amount (Rs. crore)	Rating	Date(s) & Rating assigned in 2023-24	Date(s) & Rating assigned in 2022-23	Date(s) & Rating assigned in 2021-22
3.	Non-fund based facilities (including proposed) – LC/BG	Long Term/ Short Term	15,000.00	IVR BBB/ Negative/ IVR A3+	**(November 30, 2023)** IVR BBB+/ Negative/ IVR A2 **(May 05, 2023)** IVR A/ Stable/ IVR A1	**(Sept. 23, 2022)** IVR A/ Stable/ IVR A1	**(May 07, 2021)** IVR BBB (Credit Watch with Developing Implications) / IVR A3+
4.	Commercial Papers	Short Term	1,500.00	-	-	-	**(May 07, 2021)** Withdrawn

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which help corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations. Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary. For more information visit www.infomerics.com.

Annexure 1: Details of Facilities:

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. crore)	Rating Assigned/ Outlook
Long Term Fund Based Facility –Term Loan	-	-	March 31, 2031	3,217.50	IVR BBB/ Negative
Long Term/ Short term Facilities -Fund based (including proposed)	-	-	-	1,782.50	IVR BBB/ Negative/IVR A3+
Long Term/ Short term Facilities-Non fund based (including proposed)	-	-	-	15,000.00	IVR BBB/ Negative/IVR A3+

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/len-SPCPL-31may24.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

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 https://www.infomerics.com/.