Press Release

Shapoorji Pallonji and Company Private Limited (SPCPL)

November 30, 2023

Ratings:

Instrument / Facility	Amount (Rs. Crore)	Current Ratings	Rating Action	Complexity Indicator
Long Term Facilities	3,217.50 (Reduced from Rs.3,300)	IVR BBB+/ Negative (IVR Triple B Plus with Negative Outlook)	Revised from IVR A/ Stable	Simple
Long Term/ Short term Facilities -Fund based (including proposed)	1,782.50 (Enhanced from Rs. 1700.00)	IVR BBB+/ Negative/IVR A2 (IVR Triple B Plus with Negative Outlook; IVR A Two)	Revised from IVR A/Stable/ IVR A1	Simple
Long Term/ Short Term Facilities- Non fund based (including proposed)	15,000.00	IVR BBB+/ Negative/IVR A2 (IVR Triple B Plus with Negative Outlook; IVR A Two)	Revised from IVR A/Stable/ IVR A1	Simple
Total	**20,000.00 (Rupees Twenty thousand crore only)**			

Details of Facilities are in Annexure 1

Detailed Rationale:

The revision of the ratings assigned to the bank facilities of Shapoorji Pallonji and Company Private Limited (SPCPL) is on account of continued subdued performance in FY23 resulting in subpar debt protection metrics, delays in disbursal of additional working capital limits, elongated debtors, high contingent liabilities and high leverage at group level. The ratings continue to factor in long established track record of the group, strong financial flexibility of the promoter group and robust order book position.

The Outlook has been revised to Negative on account of 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. 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 significant financial flexibility. The company raised Rs.14,300 crores via pledge of its 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. 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 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. The company is in the process of divestment of stake in Gopalpur Ports Ltd and Afcons Infrastructure Ltd over the next one year. 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. 29,799 crores as on June 30, 2023, which is 4.14 times of FY23 revenues of Rs.7202 crores, providing medium term revenue visibility. The order book is well diversified across sectors, geographies, and clientele. The order book under engineering & construction (Rs.28,144 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 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 increased by 11% in FY23 (Prov.) to Rs.7201.74 crore from Rs.6464.15 crore in FY22. However, the company's EBITDA deteriorated on account of increase in the operating expenses such as cost of construction. The company also reported net loss of Rs.709.69 crores in FY23(Prov.) as against net profit of Rs.1715.26 crores 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.

SPCPL’s subdued performance in FY23 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. This has impacted pace of execution of the core EPC business resulting in lower profitability and muted debt protection metrics. The management has articulated that the documentation process for security perfection is at an advanced stage and expects to complete the same by Q4FY24. The interest coverage ratio and DSCR was below unity in FY23(Prov.). As per the company estimates it registered revenue of ~Rs.3400 crores in H1FY24 with EBITDA margin of ~3.5 to 4%.

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 fromRs.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. Further, the reorganization plans of SPCPL will help reduce the extent of support to the group companies by 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. The guarantees given to group entities are given in Annexure 5.

Applicable Criteria:

Criteria of Rating Outlook

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Criteria on Default Recognition

Liquidity – Stretched

The company has to repay Rs.1500 crores of term debt in the first three years from OTR i.e., by FY25. The company has already repaid Rs.382.50 crores as on September 30, 2023. The scheduled principal repayment obligation is Rs.82.50 crores in H2FY24 and Rs. 165 crores in FY25. The balance Rs.870 crores in repayable by FY25. Further SPCPL has Sterling and Wilson Renewable Energy Ltd (SWREL) related repayment obligation of Rs.340 crores payable by November 30, 2023, basis an indemnity agreement between the existing promoter, Reliance Energy Ltd and SPCPL. The repayments are expected to be done through a combination of internal accruals, promoter funds and monetisation of stake in SWREL. Post OTR, the company has sanctioned working capital limits of Rs.625 crores (Rs.325 crores disbursed and remaining disbursal awaiting security perfection). The average monthly utilisation of fund-based bank limit remained at 88.66% 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. Further, the Shapoorji Pallonji group is the largest private shareholder of Tata Sons Pvt Ltd (holding company of the Tata group) with 18.37% stake, which provides financial flexibility. The company had unencumbered cash balance of Rs.466 crores as on March 31, 2023 (Prov.). Going forward, improvement in the core EPC business, along with timely monetisation of assets and/or capital infusion by promoter group remains crucial.

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)	(Provisional)
Total Operating Income	6,464.15	7,201.74
EBITDA	211.94	-208.26
PAT	1,715.27	-709.62
Total Debt	4,300.89	4,253.63
Tangible Net-worth	6,420.09	5,686.44
Ratios		
EBITDA Margin (%)	3.28	-2.89
PAT Margin (%)	19.99	-8.88
Overall Gearing Ratio (x)	0.89	1.04

**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 2023-24)			Date(s) & Rating assigned in 2022-23 (May 05, 2023)	Rating History for the past 3 years		
		Type	Amount (Rs. crore)	Rating		Date(s) & Rating assigned in 2022-23 (Sept. 23, 2022)	Date(s) & Rating assigned in 2021-22 (May 07, 2021)	Date(s) & Rating assigned in 2020-21 (October 01, 2020)
1.	Term Loan	Long Term	3,217.50	IVR BBB+/ Negative	IVR A / Stable	IVR A/ Stable	IVR BBB (Credit Watch with Developing Implications)	IVR A+ (Credit Watch with Developing Implications)
2.	Fund based facilities (including proposed) – WCDL/OD	Long Term/ Short Term	1,782.50	IVR BBB+/ Negative/ IVR A2	IVR A/ Stable/ IVR A1	IVR A/ Stable/ IVR A1	IVR BBB (Credit Watch with Developing Implications) / IVR A3+	IVR A+ (Credit Watch with Developing Implications) & IVR A1+
3.	Non-fund based facilities (including proposed) – LC/BG	Long Term/ Short Term	15,000.00	IVR BBB+/ Negative/ IVR A2	IVR A/ Stable/ IVR A1	IVR A/ Stable/ IVR A1	IVR BBB (Credit Watch with Developing Implications) / IVR A3+	IVR A+ (Credit Watch with Developing Implications) & IVR A1+
4.	Commercial Papers	Short Term	1,500.00	-	-	-	Withdrawn	IVR A1+

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly 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.

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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 A2
Long Term/ Short term Facilities-Non fund based (including proposed)	-	-	-	15,000.00	IVR BBB+/ Negative/IVR A2

Annexure 2: List of companies considered for consolidated analysis:

Annexure 3: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/len-Shapoorji-nov23.pdf

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

Annexure 5: List of guarantees given to group companies are as follows:

	Name of the company
A	**Financial Guarantee**
1	Bengal Shapoorji Developers Pvt Ltd
2	Galina Consultancy Services Pvt Ltd
3	Joyville Shapoorji Housing Pvt Ltd
4	Master Management Consultants (I) Pvt Ltd
5	PNP Maritime Services Pvt Ltd
6	S D Corporation Pvt Ltd
7	S D Samata Samantha Realty Pvt Ltd
8	S D SVP Nagar Redevelopment Pvt Ltd
9	Shapoorji Pallonji (Gwalior) Private Limited
10	Afcons-SPCPL Joint Venture
11	Ativa Real Estate Developers Pvt Ltd
12	Devine Realty and Construction Pvt Ltd
13	Forvol International Services Ltd
14	Gokak Power & Energy Ltd
15	High Point Properties Pvt Ltd
16	Kanpur River Management Pvt Ltd
17	Next Gen Publishing Ltd
18	Palchin Real Estates Pvt Ltd
19	Shapoorji Pallonji and Co Pvt Ltd and Shapoorji Pallonji Qatar W.L.L. JV
20	Shapoorji Pallonji Infrastructure Capital Co Pvt. Ltd.
21	Shapoorji Pallonji Mid East LLC
22	SP-NMJ Project Pvt Ltd
23	Kutch Sea Water Desalination Pvt Ltd
24	Dwarka Seawater Desalination Pvt Ltd
25	Bhavnagar Desalination Pvt Ltd
26	Gir Somnath Desalination Pvt Ltd
B.	**Performance / Bid Bond Guarantee**
1	Mydream Properties Pvt Ltd
2	Shapoorji Pallonji Bumi Armada Godavari Pvt Ltd
3	SP Armada Oil Exploration Pvt Ltd
4	Afcons-SPCPL Joint Venture
5	Bhavnagar Desalination Pvt Ltd
6	Dwarka Seawater Desalination Pvt Ltd
7	Flamboyant Developers Pvt Ltd
8	Gir Somnath Desalination Pvt Ltd
9	Kanpur River Management Pvt Ltd
10	Kutch Seawater Desalination Pvt Ltd
11	Precaution Properties Pvt Ltd

12	Shapoorji Pallonji and Co KIPL JV
13	Shapoorji Pallonji and Co Pvt Ltd and Shapoorji Pallonji Qatar W.L.L. JV
14	SP-NMJ Project Pvt Ltd

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/.