



Press Release

Shapoorji Pallonji & Company Pvt Ltd (SPCPL)

October 01, 2020

Ratings

Sr. No.	Facilities	Amount (INR crore)	Ratings	Rating Action
1.	Fund Based Facilities (Long & Short Term)	10000.00	IVR A+ (Credit Watch with Developing Implications) [IVR Single A Plus under Credit Watch with Developing Implications] & IVR A1+ [IVR A1 Plus]	Long Term Rating Revised and placed on watch with developing implications & Short Term Rating reaffirmed
2.	Non Fund Based (Long & Short Term)	15000.00	IVR A+ (Credit Watch with Developing Implications) [IVR Single A Plus under Credit Watch with Developing Implications] & IVR A1+ [IVR A1 Plus]	Long Term Rating Revised and placed on watch with developing implications & Short Term Rating reaffirmed
3.	Commercial Papers	1500.00	IVR A1+ [IVR A1 Plus]	Reaffirmed
	Total	26500.00		

Details of Facilities are in Annexure 1

Detailed Rationale

The Revision in rating reflects the challenges faced by the SPCPL in repaying its dues to Sterling and Wilson Solar Ltd for the month of June 2020 and Sept 2020, where, SPCPL has sought for extension of time up to September 30, 2021 to facilitate funding for repayment of the Outstanding Loans.

Moreover, in view of the ongoing developments pertaining to SP group's decision to exit Tata Sons and the Company to apply for one-time restructuring under the special COVID 19 resolution framework, the Rating has been revised and kept on the credit watch with developing implication.



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However, the rating assigned to SPCPL continues to derive 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 Factor

- Substantial deleveraging of the balance sheet coupled with improved operational cash flows will lead to positive rating action.

Downward Factor

- Any further delay in the said asset monetization and/or delay in raising funds would call for a negative rating action.

List of key rating drivers with detailed description

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 June 2020, the order book stood at ~Rs. 36500 crore.



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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.

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 March 31, 2020, the total contingent liabilities of SPCPL stood at ~Rs 7594 crore.

Analytical Approach: Standalone



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Applicable Criteria:

Rating methodology for Construction/ Infrastructure companies
Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity: Stretched

The Company has historically maintained its liquidity profile by holding good amount of cash and bank balances as a cushion against any contingencies. However, amid challenges faced due to Covid - 19 pandemic, the cash flows, monetisation of assets as wells as fund raising initiatives has been impacted adversely. One time restructuring under Covid - 19 resolution framework and expected proceeds from the stake sell in Tata Sons will be crucial for the liquidity in the short to medium term.

About the Company

The Shapoorji Pallonji Group (SP Group) 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	31-03-2018 (Audited)	31-03-2019 (Audited)
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
Ratios		
EBITDA Margin (%)	6.97	6.92
PAT Margin (%)	3.47	2.73
Overall Gearing Ratio (x)	3.12	2.88

*Classification as per Infomerics' standards



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Status of non-cooperation with previous CRA: N.A.

Any other information: N.A.

Rating History for last three years:

Sl. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Fund Based Facilities	Long/Short Term	10000.00	IVR A+ (Credit Watch with Developing Implications) & IVR A1+	IVR AA-/Stable Outlook & IVR A1+ (January 13, 2020)	--	--
2.	Non Fund Based	Long/Short Term	15000.00	IVR A+ (Credit Watch with Developing Implications) & IVR A1+	IVR AA-/Stable Outlook & IVR A1+ (January 13, 2020)	--	--
3.	Commercial Papers	Short Term	1500.00	IVR A1+	IVR A1+ (January 13, 2020)	--	--

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.

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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
Fund Based Facilities (Long & Short Term)	--	--	--	10000.00	IVR A+ (Credit Watch with Developing Implications) & IVR A1+
Non Fund Based (Long & Short Term)	--	--	--	15000.00	IVR A+ (Credit Watch with Developing Implications) & IVR A1+
Commercial Papers	--	--	--	1500.00	IVR A1+