November 20, 2023

Shapoorji Pallonji And Company Private Limited: Ratings downgraded to [ICRA]BBB-/[ICRA]A3 from [ICRA]BBB+/[ICRA]A2 and removed from rating watch with developing implication; Negative outlook assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/Short- term - Non-fund-based limits	15,000.0	15,000.0	[ICRA]BBB-/[ICRA]A3; downgraded from [ICRA]BBB+/[ICRA]A2 and removed from Rating watch with Developing implication; Negative outlook assigned
Long-term- Fund based limits-Term Loans	3600.0	3600.0	[ICRA]BBB-; downgraded from [ICRA]BBB+ and removed from Rating watch with Developing implication; Negative outlook assigned
Short-term fund-based limits	1000.0	1000.0	[ICRA]A3; downgraded from [ICRA]A2 and removed from Rating watch with Developing implication
Total	**19,600.0**	**19,600.0**	

**Instrument details are provided in Annexure-I*

Rationale

The downgrade in the ratings of Shapoorji Pallonji and Company Private Limited (SPCPL) factors in the higher-than-expected delay in securing the requisite funding tie-up (both non-fund based and fund based) and the consequent impact of this on the engineering, procurement and construction (EPC) operations. This has also weakened SPCPL's liquidity position[1]. The weak operating performance of the EPC business resulted in modest profitability and weak coverage metrics in FY2023, which is expected to continue in the near term. Given the liquidity constraint and sizeable debt repayment obligations, the cash flows are likely to remain under pressure and the company will rely on funding support from the promoter group in the interim. The liquidity profile is further constrained given the liability of ~Rs. 340 crore, payable by November 30, 2023, basis an indemnity agreement signed between the existing promoter (Reliance New Energy Limited) of Sterling and Wilson Renewable Energy Limited (SWREL) and SPCPL. ICRA is given to understand that the aforesaid SWREL liability will be met through fund infusion from SPCPL's promoters. ICRA notes the mandatory prepayment of Rs 1,200 crore by FY2025. Given the weak operating cash flows, SPCPL is expected to meet this obligation by liquidating its stake in SWREL (in line with the debt covenants). Given the recent correction in SWREL's stock price, any shortfall in the valuation would necessitate infusion from the promoter entities to timely honour the payment obligations. Going forward, SPCPL's ability to secure adequate working capital limits, improve its operating profitability along with monetising its asset would remain the key monitorable.

The ratings remain constrained by the leveraged capital structure at the consolidated level. SPCPL, being an operating-cum holding company, has extended credit support to various subsidiaries and associate companies by way of corporate and DSRA guarantees for the debt availed by them. As on June 30, 2023, the corporate guarantees had reduced to Rs. 3,128 crore (March 2023: Rs. 3,935 crore) and DSRA guarantees to Rs. 171 crore (March 2023: Rs. 188 crore). The consolidated external debt had declined by ~Rs. 16,606 crore in the last three years to Rs. 20,564 crore (from Rs. 37,170 crore as on August 31, 2020) and is

[1] unencumbered cash balance declined to Rs. 466.1 crore as on March 31, 2023 (provisional) from Rs.766.1 crore as on March 31, 2022 and working capital limits remains fully utilised

expected to further reduce through asset divestment. Any deterioration in the credit profiles of these credit-supported companies could result in crystallisation of the contingent liabilities and, thus, will remain a key monitorable. Nevertheless, ICRA notes the sizeable reduction in contingent liabilities over the last few years. The management has articulated that while SPCPL's cash flows shall remain invested in its core business operations, the promoter entities shall continue to extend need-based timely financial support to Group companies, if there is a requirement. The working capital intensity has remained high owing to high receivable days, with about 30% of debtors belonging to Group companies. The ability to recover the sticky debtors, and thereby improve the cash flows, remains important. Moreover, the trajectory of improvement in the profitability of the company's core EPC business and coverage metrics at the standalone level remains the key monitorable. The ratings note the stiff competition in the construction sector, which could put pressure on the new order inflows and the company's exposure to sizeable contingent liabilities in the form of bank guarantees, mainly for contractual performance, mobilisation advance and retention money. Nonetheless, ICRA draws comfort from its execution track record and absence of any invocation of guarantees in the past.

The ratings, however, positively factor in SPCPL's status as the flagship company of the Shapoorji Pallonji Group (SP Group), with a well-established presence in the construction, real estate and infrastructure businesses. The ratings consider the investment portfolio of the SP Group comprising listed and unlisted equity investments, along with large land and property holdings. The SP Group is the single-largest minority shareholder in Tata Sons Private Limited (TSPL, rated [ICRA]AAA (Stable)/A1+), the holding company of the Tata Group, with an 18.37% stake. SPCPL's strong execution capabilities, and the expertise of its managerial and technical personnel heading the key business verticals, provide comfort. It had an adequate order book of ~Rs. 30,801 crore as on March 31, 2023 (OB/OI ratio of 3.8 times), providing medium-term revenue visibility. Moreover, the order book is well-diversified across sectors, geographies, and clientele.

ICRA notes that the company is exploring business restructuring plans wherein the guiding principle is to have SPCPL operating only as the holding-cum-operating company for the construction business, while the real estate as well as other business verticals will be carved out under separate companies, which will also be owned directly/indirectly by promoters. The restructuring process is likely to release capital in these segments, as well as likely to limit incremental funding requirement in these businesses from SPCPL. This is expected to support SPCPL's credit quality owing to reduction in consolidated debt, corporate and DSRA guarantees. ICRA will continue to monitor developments in this regard and evaluate the impact once there is adequate clarity on the same.

The Negative outlook reflects ICRA's expectation that the company's credit profile is likely to remain under pressure in the medium term, in the backdrop of weak performance in the EPC business due to inadequate funding lines, stretched liquidity and weakened debt coverage metrics.

Key rating drivers and their description

Credit strengths

Flagship company of SP Group – The SP Group is one of the well-established and diversified business groups of India, with a strong brand value and legacy of over 150 years. It enjoys considerable financial flexibility, driven by an investment portfolio comprising listed and unlisted equity investments, along with significant value of land and property holdings. The SP Group is the single-largest minority shareholder in TSPL, the holding company of the Tata Group, with an 18.37% stake. SPCPL is the flagship company of the SP Group and is present in the construction, real estate and infrastructure businesses.

Strong execution capabilities in construction industry; adequate order book with diversified presence across geography and clientele – SPCPL derives strength from the extensive experience of its promoters, strong and competent management, reflected in the expertise in their execution capabilities in the key businesses. It had an adequate order book of ~Rs. 30,801 crore as on March 31, 2023 (OB/OI ratio of 3.8 times), providing medium-term revenue visibility. Moreover, the order book is well-diversified across sectors, geographies and clientele.

Credit challenges

Modest profitability in core construction operations resulting in muted debt coverage metrics; delay in proposed enhancement in bank limits has impacted the EPC operations – SPCPL reported modest operating profitability of 1.2% in the core construction business in FY2023 (FY2022: 7.40%), owing to slow pace of execution on account of limited working capital availability. The company's line of credit was put to restricted use as a part of the OTR plan in March 2022, which constrained order execution in FY2023. Further, delay in securing the requisite working capital limits impacted execution in FY2023, which resulted in muted debt coverage metrics. Timely release of adequate working capital limits remains critical to support the growth in core operations in the medium term. Material slippages in project execution owing to funding constraints, if any, could result in invocation on performance guarantees thereby putting pressure on liquidity and overall credit profile. Nonetheless, ICRA draws comfort from its execution track record and absence of any invocation of guarantees in the past.

Stretched liquidity position; high working capital intensity – Higher-than-expected delays in securing the requisite funding tie-up (both non-fund based and fund based) and the consequent impact of this on the engineering, procurement and construction (EPC) operations have resulted in a stretched liquidity position and also constrained business operations. The weak operating performance of the EPC business resulted in modest profitability and weak coverage metrics in FY2023, which is expected to continue in the near term. Moreover, the liquidity profile is further constrained given the liability of ~Rs. 340 crore, payable by November 30, 2023, basis an indemnity agreement signed between the existing promoter (Reliance New Energy Limited) of Sterling and Wilson Renewable Energy Limited (SWREL) and SPCPL. ICRA is given to understand that the aforesaid SWREL liability will be met through fund infusion from SPCPL's promoters. ICRA notes the mandatory prepayment of Rs 1,200 crore by FY2025. Given the weak operating cash flows, SPCPL is expected to meet this obligation by liquidating its stake in SWREL (in line with the debt covenants). Given the recent correction in SWREL's stock price, any shortfall in the valuation would necessitate infusion from the promoter entities to timely honour the payment obligations. Going forward, SPCPL's ability to secure adequate working capital limits, improve its operating profitability along with monetising its asset would remain the key monitorable. The working capital intensity has remained elevated owing to high receivable days, with about 30% of debtors belonging to Group companies. The ability to recover the sticky debtors, and thereby improve the cash flows, remains important.

Sizeable contingent liabilities, if materialises, could have an adverse impact on credit profile – SPCPL, being an operating cum-holding company, has extended credit support to various subsidiaries and associate companies by way of corporate and DSRA guarantees for the debt availed by them. As on June 30, 2023, the corporate guarantees had reduced to Rs. 3,128 crore (March 2023: Rs. 3,935 crore) and DSRA guarantees of Rs. 171 crore (March 2023: Rs. 188 crore). The consolidated external debt had declined by ~Rs. 16,606 crore to Rs. 20,564 crore and is expected to further reduce through asset divestment. Any deterioration in the credit profile of these credit-supported companies could result in a crystallisation of the contingent liabilities and, thus, will remain a key monitorable. Nevertheless, ICRA notes the sizeable reduction in contingent liabilities over the last few years. The management has articulated that while cash flows of SPCPL shall remain invested in its core business operation, promoter entities shall continue to extend need-based timely financial support to Group companies, if there is a requirement.

Liquidity position: Stretched

SPCPL's liquidity is stretched, evident from its fully utilised working capital limits and elongated credit period. The company has sizeable debt repayment obligations as well as SWREL-related obligations in the near term. Given the weak operational cash flows, the timely financial support from the promoter group remains crucial. Going forward, its ability to improve its operating profitability along with monetising its asset and/or timely capital infusion by the promoter group remains important from the credit perspective.

Rating sensitivities

Positive factors - The Outlook will be revised, if there is any significant increase in operating profitability from core operations along with material reduction in contingent liabilities, resulting in healthy improvement in debt coverage metrics and liquidity position, on a sustained basis.

Negative factors - Pressure on SPCPL's ratings could arise, if the company is not able to improve profitability from core operations and/or delay in getting working capital enhancement, resulting in deterioration of debt metrics and liquidity position, on a sustained basis. Further, higher-than-expected support to Group companies from cash flows of SPCPL, or higher-than-envisaged debt including guarantees will be credit negatives.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Construction Entities
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has used limited consolidation approach, under which only the proposed equity investments/funding commitments to various subsidiaries towards debt servicing and operational shortfall have been considered. The list of companies that are consolidated to arrive at the ratings are given in Annexure II.

About the company

The SP Group is a diversified industrial conglomerate comprising a group of companies held by the Mistry family. The SP Group has diversified presence across sectors such as construction (SPCPL, Afcons Infrastructure Limited rated [ICRA]A+/Stable/A1), mechanical electrical and plumbing, contracting (Sterling & Wilson Private Limited), infrastructure development (Shapoorji Pallonji Infrastructure Capital Company Private Limited), solar power generation and contracting (SWREL), floating production storage and offloading vessels (Shapoorji Pallonji Oil and Gas Private Limited), etc. The SP Group is the largest private shareholder (18.37%) in TSPL, the holding company of the Tata Group.

SPCPL, which is held by the Mistry family through various Group companies, functions as the holding-cum-operating company of the SP Group. The company holds stakes in various listed and unlisted companies, within and outside the SP Group, and has significant investments in properties that have high market value. It is one of India's leading construction companies, with a heritage of more than 150 years. Over the years, SPCPL has built diverse civil and engineering structures such as factories, stadiums and auditoriums, airports, hospitals, housing complexes, and power plants.

Key financial indicators (audited)

SPCPL Standalone	FY2022	FY2023 (Prov.)
Operating income (Rs. Crore)	6330.4	7047.1
PAT (Rs. Crore)	1715.3	-709.7
OPBDIT/OI (%)	7.4%	1.2%
PAT/OI (%)	20.0%	-8.9%
Total outside liabilities/Tangible net worth (times)	2.1	2.4
Total debt/OPBDIT (times)	8.9	61.8
Interest coverage (times)	0.4	0.1

Source: ICRA Research, company; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)					Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as on March 31, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
					Nov 20, 2023	May 03, 2023	Aug 22, 2022	Oct 21, 2021	Jan 7, 2021	Oct 5, 2020
1	Term loans	Long term	3,600.0	3,300	[ICRA]BBB- (Negative)	[ICRA]BBB+&	[ICRA]A- (Stable)	-	-	-
2	Fund-based facilities	Short term	1,000.0	-	[ICRA]A3	[ICRA]A2&	[ICRA]A2+	-	-	-
3	Non-fund based facilities	Long Term/ Short Term	15,000.0	-	[ICRA]BBB- (Negative) /[ICRA]A3	[ICRA]BBB+&/ [ICRA]A2&	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]BBB+&/ [ICRA]A2&	[ICRA]BBB+@/ [ICRA]A2@	[ICRA]BBB+@/ [ICRA]A2@
4	Fund-based facilities	Long Term/ Short Term	-	-	-	-	-	[ICRA]BBB+&/ [ICRA]A2&	[ICRA]BBB+@/ [ICRA]A2@	[ICRA]BBB+@/ [ICRA]A2@

& = Under Watch with Developing Implications

@= Under Watch with Negative Implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term / Short-term – Non-fund-based limits	Very Simple
Term loans – Long-term – Fund-based limits	Simple
Short-term – Fund-based limits	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Non-fund-based facilities	NA	NA	NA	15,000	[ICRA]BBB- (Negative) /[ICRA]A3
NA	Term loans	March 2022	NA	March 2031	3,600	[ICRA]BBB- (Negative)
NA	Short-term Fund-based facilities	NA	NA	NA	1,000	[ICRA]A3

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA]

Annexure II: List of entities considered for consolidated analysis

Company Name	SPCPL Ownership	Consolidation Approach
Afcons Infrastructure Limited	68.20%	Limited Consolidation
Afcons-SPCPL Joint Venture	99.9%	Limited Consolidation
Bangalore Streetlighting Private Limited	59.0%	Limited Consolidation
Devine Realty and Construction Pvt Ltd	100.0%	Limited Consolidation
Flamboyant Developers Pvt Ltd	100.0%	Limited Consolidation
Forvol International Services Ltd	100.0%	Limited Consolidation
Galina Consultancy Services Pvt Ltd	-	Limited Consolidation
Gokak Power & Energy Ltd	86.5%	Limited Consolidation
High Point Properties Pvt Ltd	100.0%	Limited Consolidation
Joy Ville Shapoorji Housing Pvt Ltd	48.5%	Limited Consolidation
Kanpur River Management Pvt Ltd	74.0%	Limited Consolidation
Master Management Consultants (I) Pvt Ltd	-	Limited Consolidation
Mydream Properties P Ltd	-	Limited Consolidation
Next Gen Publishing Ltd	65.4%	Limited Consolidation
Palchin Real Estates Pvt Ltd	100.0%	Limited Consolidation
PNP Maritime Services Pvt Ltd	20.0%	Limited Consolidation
Precaution Properties Pvt Ltd	100.0%	Limited Consolidation
S D Corporation Pvt Ltd	50.0%	Limited Consolidation
S D Samata Samantha Realty Pvt Ltd	50.0%	Limited Consolidation
S D SVP Nagar Redevelopment Pvt Ltd	50.0%	Limited Consolidation
Shapoorji Pallonji and Co KIPL JV	98.0%	Limited Consolidation
Shapoorji Pallonji and Co KIPL Sewerage JV	98.0%	Limited Consolidation
Shapoorji Pallonji and Co Pvt Ltd and Shapoorji Pallonji Qatar W.L.L. JV	86.7%	Limited Consolidation
Shapoorji Pallonji Bumi Armada Godavari Pvt Ltd	70.0%	Limited Consolidation
Shapoorji Pallonji Infrastructure Capital Co Pvt. Ltd.	100.0%	Limited Consolidation
Shapoorji Pallonji Mid East LLC	49.0%	Limited Consolidation
SP Armada Oil Exploration Pvt Ltd	51.0%	Limited Consolidation

Company Name	SPCPL Ownership	Consolidation Approach
SP-NMJ Project Pvt Ltd	87.0%	Limited Consolidation
Shapoorji Pallonji (Gwalior) Private Limited	-	Limited Consolidation
Ativa Real Estate Developers Pvt Ltd	-	Limited Consolidation
Kutch Sea Water Desalination Pvt Ltd	-	Limited Consolidation
Dwarka Seawater Desalination Pvt Ltd	-	Limited Consolidation
Bhavnagar Desalination Pvt Ltd	-	Limited Consolidation
Gir Somnath Desalination Pvt Ltd	-	Limited Consolidation

Source: company

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Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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