Shapoorji Pallonji And Company Private Limited

October 04, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	3,300.00 (Reduced from 3,600.00)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	16,700.00 (Enhanced from 16,400.00)	CARE A-; Stable / CARE A2 (Single A Minus ; Outlook: Stable/ A Two)	Reaffirmed
Total Bank Facilities	**20,000.00 (₹ Twenty Thousand Crore Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The reaffirmation in ratings assigned to the bank facilities of Shapoorji Pallonji and Company Private Limited (SPCPL) factors its successful exit from One Time Restructuring (OTR) scheme (under the RBI guidelines issued on August 6, 2020, and September 7, 2020) and improvement in financial flexibility of the group demonstrated through significant funds raised by the promoter holding entities during FY22. Aided by fund infusion from promoters and asset monetization's, the debt at SPCPL's standalone level reduced significantly, by ~ Rs.11,000 crore (~Rs.8,300 external debt reduction and the rest from conversion of promoter loans to CCPS/Perpetual debt), by the end of FY22. This apart, the group exposure has also witnessed sharp reduction with recovery of advances and fall off guarantees extended to various entities, thereby reducing the guaranteed obligations. As articulated by the company, the promoter entities are likely to extend need-based support towards outstanding guarantees, while SPCPL's cashflows shall remain available towards its core business purposes. Cumulatively, this has resulted in considerable improvement in SPCPL's financial position and strengthened its debt coverage metrics.

The ratings continue to derive strength from the long-established track record of the Shapoorji Pallonji (SP) group in the infrastructure space, strong parentage, demonstrated project execution capabilities, healthy and diversified order book position providing medium term revenue visibility, financial flexibility with investments in various subsidiaries which have considerably high level of unlocked real estate value. The SP group is the single largest minority shareholders with 18.37% stake in Tata Sons Pvt Ltd. (TSPL, holding company of the Tata Group).

The aforementioned rating strengths are however tempered by SPCPL's subdued operational performance with slower project work execution during the last two years ending FY22 attributed to Covid-19 pandemic induced disruptions and the company prioritising on OTR exit, continued group exposure albeit reduced to a moderate level and elongation in the receivables position raising its working capital intensity. Recovery of debtors and tie-up of working capital bank limits in a timely manner would be critical for a swift recovery in its core operations and consequently its financial health. Also, reduction in overall group external debt with the planned monetization of assets as envisaged will be important from credit perspective.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Improvement in Total Debt /EBITDA to less than 3x on continued basis
- Improvement in EBITDA margins from core business operation
- Improvement in cashflow from operations and working capital cycle.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Support to group by way of additional advances and/or guarantees by SPCPL thereby impacting the cashflow position

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

- Inability to reduce the overall debt at group level
- Higher than envisaged external debt addition (including guarantees, etc.) at SPCPL level resulting in elevated TOL/TNW.

Detailed description of the key rating drivers

Key Rating Strengths

Strong and experienced promoter group:

With more than 150 years of operations, Shapoorji Pallonji (SP) group is one of the India's oldest and well reputed business groups in the construction, infrastructure and real estate space. During its operations, SP group has built diverse civil and engineering structures like factories, nuclear waste handling establishments, landmark stadiums and auditoriums, airports, hospitals, hotels, housing complexes, water treatment plants, roads and power plants, Floating Production Storage and Offloading (FPSO) around the world. As the group's flagship company, SPCPL benefits from vast experience of its qualified promoters and management as well as from the group's resourcefulness.

Robust and well diversified order book

SPCPL had an outstanding order book position of Rs.32,470 crore as on June 30, 2022 (Rs.32,360 crore as on March 31, 2022) which at gross billing level of FY22 (Provisional) provides revenue visibility for ~4-5 years. The order book is well managed across various clients (Government to Private orders at around 70:30), geographies and segments. The orders book is distributed across 8 segments with highest contribution from commercial segment (28% of the orderbook) followed by residential projects (27%), water works (17%), hospitals, hotels & college (11%), etc. A large part of the order book is from clients outside group with group orders comprising only 6% of the overall order book. SPCPL has been majorly involved in the industrial and building construction space with projects viz. construction of office space, Government headquarters, sports complex, commercial complex, residential buildings, etc.

Improvement in financial position with exit from OTR

SPCPL witnessed elevated debt level till FY21 and total debt more than doubled within a span of four years (between March 2016 to March 2020) while the profit level witnessed slower growth impacting the capital structure. Subsequently, due to Covid-19 pandemic, the business operations of SPCPL were affected and the company opted for OTR under RBI guidelines issued on August 6, 2020, and September 7, 2020. SPCPL has successfully exited OTR as on March 31, 2022, ahead of timelines with repayment of entire external debt under OTR (around Rs.12500 crore) which was largely funded through fund raising at promoter level, planned asset monetization and fresh term debt. The debt level witnessed reduction of about ~Rs.11,000 crore (~Rs.8,300 external debt reduction and the rest from conversion of promoter loans to CCPS/Perpetual debt) during FY22 with external debt as on April 01, 2022, comprising term debt of Rs.3600 crore and overseas working capital facility of Rs.149 crore. The term debt has further reduced to Rs.3300 crore as on August 31, 2022. The company has total external borrowings of Rs.3,667 crore including Rs.3300 crore of term loan and remaining working capital borrowings as on August 31, 2022. The company does not envisage any additional external debt except working capital limits (around 2 months revenue) to support its business operations. By virtue of being a holding company, SPCPL extended corporate guarantees to various entities in the past. With repayment and trigger-based events, the guarantees have fallen off with outstanding guarantee close to ~Rs.5,364 crore as on March 31, 2022 against ~Rs.9,400 crore as on Mar 31, 2020. For the guarantees outstanding, the management has articulated that promoter entities are likely to extend need-based support while cashflows of SPCPL shall remain invested in its core business operation.
Considerable debt reduction has resulted in improvement in coverage metrics with TOL/TNW (TOL includes Mobilization advance of Rs.2,494 crore as on March 31, 2022) at 2.13x as on Mar.31, 2022 as against 8.72x as on Mar.31, 2021 (TOL includes Mobilization advance of Rs.2,265 crore as on March 31, 2021).

Improvement in financial flexibility

Most of groups' businesses are held by SPCPL as subsidiaries, JVs and associates with significant market value. These subsidiaries, JVs and associates hold several land parcels in the country with high market value which can be monetized. During FY22 & FY23, SPCPL has successfully monetized few of its investments - Eureka Forbes Limited, Sterling and Wilson Renewable Energy Limited and SP Jammu Udhampur Highway Ltd. Majority of the proceeds were used to reduce the OTR debt. As indicated by the company, the Group shall continue to pursue divestment options, to reduce the overall debt at group level. Going forward, reduction in overall group debt with the planned monetization of assets as envisaged will be an added advantage.

The Shapoorji Pallonji group is also the single largest minority shareholder of Tata Sons P. Ltd (TSPL, holding company of the Tata group) with 18.37% stake, which provides financial flexibility. The promoters have raised funds during the period March 31, 2021- April 2022 by pledging stake in investment companies holding shares in TSL.

Key Rating Weaknesses

High group exposure

In the present form, SPCPL operates as holding cum EPC entity and hence has large exposure to group entities by way of investments/advances and guarantee extended. Aggregate exposure to group companies in the form of investments/ loans reduced by ~Rs.3,250 crore during the last one year period ending April 30, 2022.

Going forward, the group has proposed simplification of business structure with SPCPL operating as only construction business entity and moving the holding operations to other entities. Successful materialization of the planned reorganization would facilitate to regain business focus for SPCPL and reduce the group exposure considerably.

Slower business growth during FY21-22

The revenue growth has remained subdued during the last 2 years. In FY22, while the revenue registered a y-o-y growth of about 34%; it remains lower than pre-covid level of FY19-20. While the company has a strong order book aggregating Rs.32,470 crore (~4.9x of FY22 revenue), low working capital availability and OTR related challenges have dampened execution. The company is in the process of tying up working capital limits which is expected to support the work execution & revenue growth from H2FY23.

The construction business margins have remained sub 10% with overall margins supported by return from holding company operations (in form of interest/dividend income). However, the construction business was severely hit with slower execution, falling revenue, lower recovery of fixed overhead expenses and rising commodity prices.

With the OTR related issues resolved, operational performance is likely to pick up pace and reach pre-covid levels from FY24 onwards.

Elongated receivable days

SPCPL has been witnessing extended collection period with both normal debtors elongated as well as contract asset built up due to milestone-based billings/time taken for work certification by the Government clients and high receivables from group companies. The debtor level has elongated significantly during the last 2 years with about 20% debtors (excluding contract assets) belonging to various group entities. The ability to recover the long pending debtors and thereby improve the cashflow position is important from credit perspective.

Liquidity: Adequate

SPCPL has a cash balance of Rs.804 crore as on July 31, 2022. The liquidity profile remains satisfactory with reduction in debt level. The term debt sanction stipulates prepayment of Rs.300 crore of term debt in current fiscal which has been completed by the company. This apart there is no other principal repayment obligation for balance fiscal of FY23. The principal repayments commence from FY24 thereby providing cushion to cash flows. The cash flow from the operations are expected to improve with pick up in project execution on tie up of working capital limits.

Analytical approach

Standalone, factoring in credit support provided to group entities. While SPCPL is a construction company, it also acts as a holding company for various group companies involved in businesses across various segments. Consequently, it has extended substantial support to its subsidiaries/ associates, in the form of investments, advances and corporate guarantees which are also factored in the assessment. List of entities that derive support from SPCPL is attached Annexure 6.

Applicable criteria

Construction
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Investment Holding Companies
Liquidity Analysis of Non-financial sector entities
Policy on default recognition
Rating Outlook and Credit Watch
Short Term Instruments

About the company

SPCPL is the holding-cum-operating and the flagship company of the SP Group. It is involved in construction activities with a reputed clientele and presence in both Indian and overseas market. SPCPL is held by Mistry family through various group entities. The SP Group is an extensive conglomerate with business interests in several sectors such as construction, EPC, Oil & Gas, real estate, renewable power, ports, roads, shipping & logistics, consumer products and textiles amongst others. Most of groups' businesses are held by SPCPL as subsidiaries, JVs and associates.

Brief Financials (Rs. crore)	FY21 (A)	FY22(Provisional)	Q1FY23
Total operating income	6,457	7,416	NA
PBILDT	932	883	NA
PAT	(1,396)	143	NA
Overall gearing (times)*	6.69	1.20	NA
Interest coverage (times)	0.56	0.60	NA

A: Audited Financials are re-classified as per CARE's internal standards NA: Not Available

*Debt includes mobilization advance as on last 2 account closing dates. Excluding mobilization advance, overall gearing 5.84x as on Mar.31, 2021 and 0.78x as on Mar.31, 2022

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Non-fund-based - LT/ ST-BG/LC		-	-	-	15300.00	CARE A-; Stable / CARE A2
Fund-based - LT-Term Loan		-	-	March - 2031	3300.00	CARE A-; Stable
Fund-based - LT/ ST-Working Capital Limits		-	-	-	1400.00	CARE A-; Stable / CARE A2

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (30-Sep-21)	1)CARE BBB (CWD) (05-Mar-21) 2)CARE BBB (CWD) (01-Mar-21) 3)CARE A- (CWN) (29-Sep-20) 4)CARE A+ (CWD) (27-Apr-20) 5)CARE A+ (CWD) (07-Apr-20)	1)CARE A+ (CWD) (26-Nov-19) 2)CARE AA- (CWD) (06-Jun-19) 3)CARE AA (CWD) (05-Apr-19)
2	Commercial Paper-Commercial Paper (Standalone)	ST	-	-	-	1)Withdrawn (30-Sep-21)	1)CARE A3+ (CWD) (05-Mar-21) 2)CARE A3+ (CWD) (01-Mar-21) 3)CARE A2+ (CWN) (29-Sep-20) 4)CARE A1+ (CWD) (07-Apr-20)	1)CARE A1+ (CWD) (21-Feb-20) 2)CARE A1+ (CWD) (26-Nov-19) 3)CARE A1+ (06-Jun-19) 4)CARE A1+ (05-Apr-19)
3	Non-fund-based - LT/ ST-BG/LC	LT/ST*	15300.00	CARE A-; Stable / CARE A2	1)CARE A-; Stable / CARE A2 (14-Jun-22)	1)CARE BBB; Stable / CARE A3+ (06-Oct-21)	-	-
4	Fund-based - LT-Term Loan	LT	3300.00	CARE A-; Stable	1)CARE A-; Stable (14-Jun-22)	-	-	-
5	Fund-based - LT/ ST-Working Capital Limits	LT/ST*	1400.00	CARE A-; Stable / CARE A2	1)CARE A-; Stable / CARE A2 (14-Jun-22)	-	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: NA

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT/ ST-Working Capital Limits	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Annexure 6: Names of group companies which derive support from SPCPL

Sr. No.	Name of Company
A	**Financial Guarantee**
1	Galina Consultancy Services Pvt Ltd
2	Joyville Shapoorji Housing Pvt Ltd
3	Master Management Consultants (I) Pvt Ltd
4	PNP Maritime Services Pvt Ltd
5	S D Corporation Pvt Ltd
6	S D Samata Samantha Realty Pvt Ltd
7	S D SVP Nagar Redevelopment Pvt Ltd
8	Afcons-SPCPL Joint Venture
9	Devine Realty and Construction Pvt Ltd
10	Floreat Investments Ltd
11	Forvol International Services Ltd
12	Gokak Power & Energy Ltd
13	High Point Properties Pvt Ltd
14	Next Gen Publishing Ltd
15	Palchin Real Estates Pvt Ltd
16	Shapoorji Pallonji and Co Pvt Ltd and Shapoorji Pallonji Qatar W.L.L. JV
17	Shapoorji Pallonji Infrastructure Capital Co Pvt. Ltd.
18	Shapoorji Pallonji Mid East LLC
19	SP-NMJ Project Pvt Ltd
B	**Performance / Bid Bond Guarantee**
1	Mydream Properties Private Ltd
2	Shapoorji Pallonji Bumi Armada Godavari Pvt Ltd
3	SP Armada Oil Exploration Pvt Ltd
4	Afcons-SPCPL Joint Venture
5	Bangalore Streetlighting Private Limited
6	Flamboyant Developers Pvt Ltd
7	Kanpur River Management Pvt Ltd
8	Precaution Properties Pvt Ltd
9	Shapoorji Pallonji and Co KIPL JV
10	Shapoorji Pallonji and Co KIPL Sewerage JV
11	Shapoorji Pallonji and Co KIPL Sewerage JV
12	Shapoorji Pallonji and Co Pvt Ltd and Shapoorji Pallonji Qatar W.L.L. JV
13	SP-NMJ Project Pvt Ltd
14	Sterling & Wilson Pvt Ltd

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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