Sunny View Estates Private Limited

April 21, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Short term Bank Facilities	75.00	**Provisional CARE A1+(CE); (Provisional A One Plus [Credit Enhancement]; under credit watch with developing implications)**	**Assigned**
Total Facilities	**75.00 (Rs. Seventy Five crore only)**		

Details of facilities in Annexure-1

^Credit enhancement in the form of an unconditional, irrevocable and revolving DSRA (Debt Service Reserve Account) Guarantee provided by Shapoorji Pallonji and Company Private Limited (SPCPL, rated CARE A+ / CARE A1+; under Credit Watch with Developing Implications)

Unsupported Rating [2]	**CARE A4 (A Four)**

Note : Unsupported Rating does not factor in the explicit credit enhancement

Detailed Rationale of Sunny View Estates Private Limited (Sunny View)

The provisional rating assigned to the Short Term Facilities of Sunny View factors in the comfort derived from the proposed credit enhancement in the form of unconditional, irrevocable and revolving Debt Service Reserve Account (DSRA) guarantee to be extended by SPCPL, valid throughout the tenure of the facility.

SPM (Structured Payment Mechanism) for DSRA creation in case of proposed term loan is stipulated in a manner that if the Borrower (Sunny View) is unable to fund the DSRA with the amount equivalent to two consecutive principal and four consecutive interest payable, by T-10 business days (where T stands for scheduled payment date), lenders will inform the Credit enhancement (CE) provider 'SPCPL to fund the DSRA to that extent by T-7 business days. Thereafter, Lenders will liquidate the DSRA and transfer the same to Escrow Account latest by T-5 business day. CARE also notes that the obligation of the CE provider include all the payouts as defined under the Facility Agreement including interest payments, principal amounts as well as all outstanding secured obligations payable, arising out of any Event of Default or Early Redemptions also.

Any variation in the credit profile of the CE provider i.e. SPCPL as well as non-adherence to the Structured Payment Mechanism would be the key rating sensitivities.

<u>Key Rating Drivers of Sunny View</u>

The unsupported rating takes into account low occupancy levels resulting into negligible cash flow from operations as well as high tenant concentration risk with only three tenants accounting for 56% of the leased area as on March, 2020.

Ability of the company to improve occupancy levels and generate positive cash flow from operations as well as monetizing the assets would be the key rating sensitivities. The implications of the exit of any of the existing tenants will also remain a key rating monitorable.

Structured Payment Mechanism (SPM) for loan repayment is stipulated in a manner that **Escrow Account** shall be funded by the Borrower (Sunny View) atleast T-5 business (where T stands for Scheduled Payment Date). Incase Escrow Account is not funded by the Borrower on T-5 business day, Lenders will liquidate the DSRA and fund the Escrow Account by T-3 business day.

SPM for DSRA replenishment is stipulated in a manner that on T-3 business day itself, Lender(s) will issue the notice to Borrower to replenish the DSRA by T-1 business day(where T stands for Scheduled Payment Date). In case if the Lenders liquidate the DSRA to fund the Escrow Account and the Borrower fails to replenish the DSRA by T-1 business day, lenders will inform CE provider on the same day and the guarantor (SPCPL) will be required to replenish the DSRA by Day-T till 12.00 pm. The scope of CE provider is to arrange for the funds and replenish the DSRA by given timelines as per the Facility Agreement.

Detailed Rationale & Key Rating Drivers of SPCPL (DSRA Guarantor)

The ratings assigned to Shapoorji Pallonji & Company Private Limited continue to remain under credit watch with developing implications. The ratings derive strength from the strong and resourceful promoter group Shapoorji Pallonji Group (SP Group, headed by Mr. Shapoor Mistry and Mr. Cyrus Mistry), proven track record and customer base in the infrastructure and real estate business, increase in revenue during FY2019 and well-diversified order book that provide healthy revenue visibility

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

[2] *As stipulated vide SEBI circular no SEBI/ HO/ MIRSD/ DOS3/ CIR/ P/ 2019/ 70 dated June 13, 2019. As per this circular, the suffix 'CE' (Credit Enhancement) is assigned to the ratings with explicit external credit enhancement, against the earlier used suffix 'SO' (Structured Obligation).*

over medium term and adequate liquidity. CARE also notes the progress made by SPCPL in reduction of its off-balance sheet exposure in the form of financial and performance guarantees given to its subsidiaries and group companies since last review.

However, the rating strengths are tempered by the continued & highly leveraged capital structure (both at standalone as well as consolidated level), high collection period, slower than expected progress in projects under Special Purpose Vehicles (SPVs), subdued profitability, delay in asset monetization timelines and moderation in the financial flexibility of the group, necessitating substantial refinancing of debt maturities and reliance on promoter funding. The ratings also take into account, the time lag in company's progress in meeting the milestones conveyed to CARE and the significant increase in its debt levels, which is attributed to the corporate financial support extended to its various group entities.

The management has however reiterated its commitment to pare its corporate guarantee backed debt and improve liquidity in the system through sizeable promoter fund infusion in Q1FY21, monetization of assets (sale of land bank and divestment from solar, road and overseas assets) and further reduction in short term debt availed by the group. As a result, the ratings assigned to the Commercial Paper issue and the proposed Non-Convertible Debentures continue to remain under 'Credit Watch with Developing Implications'. The credit watch will be reviewed and/or resolved in H1FY21 subject to timely fructification of the aforementioned initiatives, which are key rating considerations.

Rating Sensitivities

Positive Factors

- Overall gearing ratio of SPCPL reducing below 2.5x as on March 31, 2020

Negative Factors

- Deterioration of overall gearing ratio of SPCPL beyond 5x as on March 31, 2020.
- Inability of SPCPL to achieve success in its asset monetization plans and refinancing plans within envisaged timeframe thereby impacting its financial flexibility as well as liquidity.

Detailed description of the key rating drivers of SPCPL

Key Rating Strengths

Strong and resourceful promoter group: The Shapoorji Pallonji group is one of the India's oldest and well reputed business groups in the construction, infrastructure and real estate space, with more than 154 years history. As the group's flagship company, Shapoorji Pallonji & Company Private Limited (SPCPL) benefits from vast experience of its highly qualified promoters and management as well as from the group's resourcefulness and ability to raise fund through capital market instruments. The promoters also infused funds aggregating Rs.500 crore during FY19 and Rs.1904 crore during FY2020.

However, the ability of the group to raise funds through capital market instruments moderated due to the significant and rapid deterioration in the credit markets creating a significant liquidity crisis, coupled with the lower than estimated proceeds from the IPO of SWSL.

Nevertheless, with an intent to deleverage SPCPL and its group companies, the promoters have articulated their continued support by way of proposed fund infusion of approximately USD 1 billion during Q1FY2021. Given the sizeable quantum of such infusion, its timely fructification is crucial from the credit perspective and is a key rating monitorable.

Strong customer base and healthy revenue visibility over the medium term with well-diversified order book: Over the years, SPCPL has demonstrated its ability to execute large scale complex projects in various domains – both in India as well as overseas; and has thereby developed long standing relationships with strong and reputed clientele enabling it to get repeat orders.

At a standalone level, the construction business remains the mainstay of SPCPL, accounting for over 90% of SPCPL's revenues. As on March 31, 2019 the order book stood at Rs. 35,570 crore (as against Rs.35,000 crore as on December 31, 2018) reflecting order book to sales ratio of 2.69 times of FY19 revenues. As on December 31, 2019, the order book stood at Rs.41,533 crore, reflecting order book to sales ratio of 3.38 times of FY19 construction revenue. The well-diversified order book across sectors, geographies and clientele provides revenue visibility over the next 3-4 years. The order-book contains design and build contracts and orders from overseas clientele, which have relatively higher margins.

Improvement in operating performance during FY19, albeit subdued profitability: With robust order book and execution of the same during FY2018-19, total operating income of SPCPL on a standalone basis, registered growth of about 37% to Rs.13,206 crore from about Rs.9,673 crore in FY2017-18. However, SPCPL's PBILDT (Profit Before Interest, Lease, Depreciation and Taxes) margin declined to 10.01% during FY19 as against 11.90% during FY18. PAT Margins declined by 74 bps to 2.79% in FY19 from 3.53% in FY18. On a consolidated basis, total operating income of SPCPL registered a growth of about 26% to Rs.49,332 crore in FY19 from about Rs.39,164 crore in FY18. However, the PBILDT margin declined from 7.9% in FY18 to 7.77% in FY19.

Key Rating Weaknesses

Moderation in high financial flexibility enjoyed in the past: SP Group holds several land parcels in the country with market value which offers substantive appreciation over its book value at present, part of which is expected to be monetised in the near future to improve its financial profile. Accordingly, the company has large number of long term investments held through its subsidiaries, JVs and associates in diverse fields such as real estate, electrical contracting, water purification, infrastructure development, etc. some of which the company plans to monetise by way of stake sale of fresh private equity investments. Furthermore, the promoters of Shapoorji Pallonji group are the single largest stakeholder of Tata Sons Limited (TSL, holding company of the Tata Group) with 18.37% stake. Basis discussion with the promoters and the management of the company, CARE believes liquidity of these investments continues to remain adequate. The company's holding of the diverse investments lend financial flexibility to the various group companies and also strengthens the group's credit profile.
However, during November 2019, promoters of SWSL cited tight credit market scenario and requested and received approval from the SWSL's Board towards extension in timelines and creation of a revised repayment schedule so as to settle the Inter Corporate Deposits from Sterling Wilson Private Limited (SWPL) and Sterling Wilson International FZE (SW FZE) to SWSL, which arose as a result of demerger of SWSL from SWPL. Hence, there appears to be moderation in the financial flexibility enjoyed by the group in the given market conditions.

Highly leveraged capital structure with high off-balance sheet exposure in the form of guarantees, albeit reduction from earlier level: : The total reported debt of SPCPL on standalone basis has seen an increase from Rs.9,762 crore (including mobilization advances of Rs. 2,149 crores, Promoter Loans of Rs 134 crores and Preference Share Capital of Rs 100 crores) as on March 31, 2018 to Rs.11,745 crore (including mobilization advances of Rs. 2,252 crores, Promoter Loans of Rs 1,374 crores and Preference Share Capital of Rs 100 crores) as on March 31, 2019. As on December 31, 2019 total reported external debt (excluding mobilization advances) stood at Rs.9,533 crore which declined to Rs.9,284 crore as on February 29, 2020. Further as at December 31, 2019, the financial guarantees given by SPCPL had reduced to Rs.2,333 crore from Rs.2,943 crore as on March 31, 2019 (this does not include debt amount covered in form of letter of comfort given by SPCPL to its various subsidiaries/associates/joint ventures, the performance guarantees given and the principle outstanding of DSRA guarantees).
During FY2018-19, the funds infusion from promoters along with monetization of assets contributed to over Rs.2,550 crore, which were largely used towards recapitalizing and meeting the commitments of various group companies. The substantial repayments ~Rs.3000 crore falling due in H2FY20 at SPCPL (standalone) level were repaid with the help of operational cash flows, refinancing of part debt and promoter infusion amounting to Rs.1904 crore despite delay in progress with respect to the asset monetization and divestment plans. Further at consolidated level, the debt position (including mobilization advances and loans from related parties) stood high at Rs.35,181 crore as on March 31, 2019 against Rs.26,144 crore as on March 31, 2018.

High collection period; albeit improvement seen in FY2019: SPCPL had a high collection period of 133 days for the year ended March 31, 2018, which had marginally improved to 117 days for the year ended March 31, 2019, leading to an improvement in the working capital cycle to 33 days (FY19) from 41 days (FY18). Further, as on December 31, 2019, SPCPL had outstanding debtors of Rs.3,926 crore, of which, Rs.1,911 crore (including retention of Rs.1300 crore) is outstanding for more than 365 days and Rs.1,445 crore is outstanding for less than 180 days.
Further, as per management discussion, dues amounting to Rs.476 crore are pending against the Andhra Pradesh projects and the concerned ministry of Government of Andhra Pradesh had assured that the payments shall be released in March 2020, which subsequently stand extended in view of ongoing nationwide lockdown triggered by COVID-19.

Slower than expected progress projects under SPVs: SPCPL has invested in various projects, through subsidiaries/associates/JVs in the infrastructure and real estate sectors. These projects have long gestation periods and require continuous support, until they achieve stabilization and starts generating operational cash flows. Management in the past had provided guidance on reduction in debt and guarantees to be seen through assets monetization at various SPV levels, however the same has started to gain traction. During FY2020 (upto December 31, 2019), SPCPL has reduced Rs.1,873 crore of DSRA guarantee (principal amount) and total financial guarantees (including corporate guarantees and DSRA principal) by Rs.2,387 crore from the March 31, 2019 levels.

Liquidity: Adequate

SPCPL has adequate liquidity in the form of free cash and bank balance of ~Rs.1000 crore as on February 29, 2020 along with undrawn fund based working capital limits of ~Rs.95 crore. The significant number of land parcels held by the group and investments in various subsidiaries (few of which are at various stages of monetization) also provide comfort on the liquidity of SPCPL. The high debt repayments aggregating Rs.1012 crore falling due in March 2020, with large portion of the same relying on refinancing and asset monetization, have been repaid on time. Additional promoter infusion of Rs.1,904 crore during the period April 2019 to February 2020 has brought in immediate liquidity in SPCPL. Timely completion of refinancing and realization of asset monetization plans is crucial.

Analytical approach:
SPCPL: While SPCPL's core operations are EPC in nature, it is also the holding company for its various group companies. Consequently, it has extended substantial financial support to its subsidiaries/associates/JVs, in the form of investments/guarantees which are also factored in the credit assessment. (See Annexure 3 for the list of entities for which guarantee is provided by SPCPL).

Sunny View: For arriving at the rating, CARE factors in the unconditional and irrevocable revolving DSRA guarantee proposed to be issued by its parent SPCPL. As per the terms of the DSRA guarantee it would cover all the repayments obligations under the proposed Short Term loan facility.

Unsupported: Standalone

Applicable Criteria for SPCPL
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology – Consolidation and Factoring Linkages in Rating
Rating Methodology – Construction Sector
Rating of Short Term Instruments
Rating of loans by investment holding companies
Financial Ratios – Non financial sector

Applicable Criteria for Sunny View
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
Rating Methodology – Consolidation and Factoring Linkages in Rating
CARE's Policy on Default Recognition
Rating Methodology – Construction Sector
Criteria for Credit Enhanced Debt
Rating of Short Term Instruments
Financial Ratios – Non financial sector

About the Credit Enhancement Provider (SPCPL)
SPCPL, the holding-cum-operating and the flagship company of the Shapoorji Pallonji Group (SP Group, refers to companies ultimately held by the Mistry family). SPCPL is equally held by Mr. Shapoor P. Mistry and Mr Cyrus P. Mistry through the group's investment companies.
The Shapoorji Pallonji group is an extensive conglomerate with business interests in several sectors such as real estate, coal mining, power, ports, roads, biofuels & agriculture, shipping & logistics, consumer products, textiles etc. Most of Shapoorji Pallonji groups' businesses are held by SPCPL as subsidiaries, JVs and associates. During its more than 154 years of operations, Shapoorji Pallonji group has built diverse civil and engineering structures like factories, nuclear waste handling establishments, stadiums and auditoriums, airports, hospitals, hotels, housing complexes, water treatment plants, roads and power plants, Floating Production Storage and Offloading (FPSO) around the world.
Construction division continues to focus on quality clients in the domestic and international markets. Besides, real estate is very selective with the focus on affordable, premium housing in major cities. In the recent past the group has focused on growing their Design and Build (D&B) order book which would allow greater margins on contracts along with an increased focus on government projects (healthcare, water, education, etc.).

About the company (Sunny View)
Sunny View is a wholly owned subsidiary of SPCPL. Shapoorji Pallonji group (SP group) has been developing 9 commercial spaces with focus on IT/ITeS under the brand 'SP Infocity'. The SP Infocity-Mohali in the state of Punjab has been constructed by Sunny View. The project comprises of two towers with aggregate leasable area of 5.68 lakh sq.ft.
The project is located in Quark City SEZ, at a distance of around 15 kms from the Chandigarh International Airport and around 12 kms from the Chandigarh Railway Station having a regional and national connectivity. It comprises of:

- One Independent building dedicated for IT/ITeS admeasuring 2.50 lakhs sq.ft (2.00 lakh sqft occupied)
- One Independent building dedicated for IT SEZ admeasuring 3.18 lakhs sq.ft (1.18 sq ft occupied)

Covenants of rated facility: *Detailed explanation of covenants of the rated instruments is given in Annexure-3*

Brief Standalone Financials of SPCPL (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	9,673	13,206
PBILDT	1,151	1,322
PAT	342	368
Overall gearing (times)	3.85	3.46
Interest coverage (times)	1.58	1.55

A: Audited; Note: Financials are classified as per CARE's internal standards

Brief Financials of Sunny View (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	3.39	7.44
PBILDT	-6.44	-2.56
PAT	-25.61	-26.49
Overall gearing (times)	-ve	-ve
Interest coverage (times)	-ve	-ve

A: Audited; Note: Financials are classified as per CARE's internal standards

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Proposed Fund-based - ST-Term loan	-	-	March, 2021	75.00	Provisional CARE A1+ (CE) (Under Credit watch with Developing Implications)
Un Supported Rating-Un Supported Rating (Short Term)	-	-	-	0.00	CARE A4

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Debentures-Non Convertible Debentures	LT	200.00	CARE A+ (CE) (Under Credit watch with Developing Implications)	-	1)CARE A+ (CE) (Under Credit watch with Developing Implications) (12-Dec-19) 2)CARE AA- (SO) (Under Credit watch with Developing Implications) (07-Jun-19) 3)CARE AA (SO) (Under Credit watch with	1)CARE AA (SO) (Under Credit watch with Developing Implications) (11-Dec-18)	1)CARE AA+ (SO); Stable (06-Feb-18)

						Developing Implications) (05-Apr-19)		
2.	Debentures-Non Convertible Debentures	LT	100.00	CARE A+ (CE) (Under Credit watch with Developing Implications)	-	1)CARE A+ (CE) (Under Credit watch with Developing Implications) (12-Dec-19) 2)CARE AA- (SO) (Under Credit watch with Developing Implications) (07-Jun-19) 3)CARE AA (SO) (Under Credit watch with Developing Implications) (05-Apr-19)	1)CARE AA (SO) (Under Credit watch with Developing Implications) (11-Dec-18) 2)CARE AA+ (SO); Stable (11-Jul-18) 3)Provisional CARE AA+ (SO); Stable (22-May-18)	-
3.	Un Supported Rating	LT	0.00	CARE BB	-	1)CARE BB (12-Dec-19)	-	-
4.	Fund-based - ST-Term loan	ST	75.00	Provisional CARE A1+ (CE) (Under Credit watch with Developing Implications)	-	-	-	-
5.	Un Supported Rating-Un Supported Rating (Short Term)	ST	0.00	CARE A4	-	-	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument

Name of the Instrument	Detailed explanation
A. Financial covenants	
	• No further debt can be raised without written consent of the Lender • At any point of time, 4 months Interest and Principal due and payable in next 2 months should be maintained in Debt Service Reserve Account (DSRA) on ongoing basis till repayment of this Facility
B. Non-Financial covenants	
	• Borrower shall not raise any external debt on the Secured assets and/or create any encumbrance on the Secured assets of this Facility including the cashflows • Any group company/promoter debt to be subordinated to this Facility

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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