Sunny View Estates Private Limited

December 12, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Non-Convertible Debenture issue^	100.00	CARE A+(CE) [Single A Plus (Credit Enhancement)]; under credit watch with developing implications	Revised from CARE AA-(CE) [Double A Minus (Credit Enhancement]; continues under credit watch with developing implications
Non-Convertible Debenture issue^	200.00	CARE A+(CE) [Single A Plus (Credit Enhancement)]; under credit watch with developing implications	Revised from CARE AA-(CE) [Double A Minus (Credit Enhancement)]; continues under credit watch with developing implications
Total Facilities	**300.00 (Rs. Three hundred crore only)**		

Details of instruments in Annexure-1

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

Unsupported Rating [2]	**CARE BB (Double B)**

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

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

The ratings assigned to the Long Term Non-Convertible Debentures (NCDs) of Sunny View Estates Private Limited (Sunny View) factors in the moderation in the credit profile of the credit enhancement provider i.e. Shapoorji Pallonji & Company Private Limited (SPCPL) wherein the ratings are revised to 'CARE A+/CARE A1+; under credit watch with developing implications' from 'CARE AA-/CARE A1+; under credit watch with developing implications'.

The rating of NCDs continue to derive comfort from the credit enhancement in the form of unconditional, irrevocable and revolving Debt Service Reserve Account (DSRA) guarantee provided by SPCPL as well as structured payment mechanism (SPM) designed to ensure the timely servicing of the debt and interest due to the instrument.

SPM stipulates that in case there is a shortfall or delay in payment on part of the issuer (Sunny View), SPCPL will make good any shortfall for the amount to be maintained in the DSRA T-15 days to the redemption date (principle payment) and on the due date of coupon payment where 'T' stands for due date for coupon and principle redemption. The terms of the instrument further cover all scenarios under Event of Default and accelerated repayments called by Debenture holders.

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

Key Rating Drivers of Sunny View

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 Nov, 2019.

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

Detailed Rationale & Key Rating Drivers of the Credit Enhancement (CE) Provider - Shapoorji Pallonji & Company Private Limited (SPCPL)

The rating assigned to the proposed non-convertible debentures and reaffirmation of the ratings assigned to the commercial paper of Shapoorji Pallonji and Company Private Limited (SPCPL) follows the time lag in company's progress in meeting the milestones conveyed to CARE. Significant increase in its debt levels, which is attributed to continued financial support extended to its various group entities and the time lag in asset monetization plans are the key reasons for revision in the ratings. The ratings also take into account the receipt of lower than estimated proceeds from IPO of Sterling and Wilson Solar Limited (SWSL, a subsidiary of SPCPL). Recently, promoters of SWSL cited tight credit market scenario and requested and received approval from the SWSL's Board towards extension in timelines so as to settle the Inter Corporate Deposits from

[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).*

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.
The ratings also factor in 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), 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 continue to derive strength from SPCPL being part of strong and resourceful Shapoorji Pallonji group (SP group, refers to companies ultimately held by Mr. Shapoor Mistry and Mr. Cyrus Mistry), proven track record and strong customer base in the infrastructure and real estate business, improvement in operating performance during FY2019 combined with its well diversified order book position which gives healthy medium-term revenue visibility. 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.
The management has however reiterated its commitment to pare its corporate guarantee backed debt and improve liquidity in the system through 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 long term ratings continue to remain on 'Credit Watch with Developing Implications' while the short term rating assigned to the Commercial Paper programme has been placed under 'Credit Watch with Developing Implications'.
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 (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.370 crore during H1FY20. Further, an additional promoter funding of Rs.500 crore is expected to be drawn during Q3FY20, out of which Rs.100 crore has already been received by SPCPL as on November 26, 2019.
However, the ability of the group to raise funds through capital market instruments has 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.

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 September 30, 2019, the order book stood at Rs.37,813 crore, reflecting order book to sales ratio of 2.85 times of FY19 revenues. 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: 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.

Key Rating Weaknesses
Moderation in the 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, recently, promoters of SWSL cited tight credit market scenario and requested and received approval from the SWSL's Board towards extension in timelines 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 reduced from earlier levels: 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 September 30, 2019 total reported external debt (excluding mobilization advances) stood at Rs.9,019 crore. Further as at September 30, 2019, the financial guarantees given by SPCPL had reduced to Rs.2,428 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 and the principle outstanding).
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. In view of substantial repayments ~Rs.3000 crore falling due in H2FY20 at SPCPL (standalone) level, timely progress with respect to these initiatives would be critical for the credit profile of the company and will be a key rating monitorable. Further at consolidated level, estimate debt position stood high at ~ Rs.28,000 crore as on March 31, 2019 and ~ Rs.30,000 crore as on September 30, 2019.

Slower than expected progress in project under SPVs: The company has invested in various projects through subsidiaries/associates/JVs within 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. In the last six months, the company has reduced Rs.1,578 crore of DSRA guarantee (principal amount) and management stated intent to further reduce the DSR A/financial guarantees by ~Rs.500 crore by end of FY20.

Liquidity of CE Provider: Adequate
SPCPL has adequate liquidity in the form of free cash and bank balance of Rs.1,300 crore as on September 30, 2019 along with undrawn fund based working capital limits of Rs.274 crore. The significant number of land parcels held by the group, investments in various subsidiaries (few of which are at various stages of monetization) and cash generated from operations also provide comfort on the liquidity of SPCPL. It has high debt repayments aggregating ~Rs 3000 crore falling due in H2FY20, with large portion of the same relying on refinancing and asset monetization. Additional promoter infusion of Rs.500 crore is expected to bring immediate liquidity in SPCPL, in addition to Rs.370 crores already infused by the promoters in H1 FY20. Timely completion of refinancing and realization of asset monetization plans is crucial.

Analytical approach:
Credit Enhancement provider: 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.

Unsupported rating: Standalone

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology: Consolidated and Factoring Linkages in Ratings
Financial ratios – Non-Financial Sector

Criteria for Credit Enhanced Debt
Rating of Short Term Instruments
Ratings of loans by investments holding companies

About the CE 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 153 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 Estates Private Limited (Sunny View) is a wholly owned subsidiary of Shapoorji Pallonji and Company Private Limited (SPCPL). 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 :-

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

Brief 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 Instruments

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Debentures-Non Convertible Debentures	INE195S08025	January 23, 2018	11.00%	April 12, 2021	200.00	CARE A+ (CE) (Under Credit watch with Developing Implications)
Debentures-Non Convertible Debentures	INE195S08033	May 21, 2018	10.75%	April 13, 2020	100.00	CARE A+ (CE) (Under Credit watch with Developing Implications)
Un supported Rating	-	May 21, 2018	11.00%	April 13, 2021	0.00	CARE BB

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Debentures-Non Convertible Debentures	LT	200.00	CARE A+ (CE) (Under Credit watch with Developing Implications)	1)CARE AA- (SO) (Under Credit watch with Developing Implications) (07-Jun-19) 2)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)	1)CARE AA+ (SO); Stable (06-Feb-18)	-
2.	Debentures-Non Convertible Debentures	LT	100.00	CARE A+ (CE) (Under Credit watch with Developing Implications)	1)CARE AA- (SO) (Under Credit watch with Developing Implications) (07-Jun-19) 2)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	-	-	-	-

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

Name of the Instrument	Detailed explanation
A. Financial covenants	
I. Non-Convertible Debentures (NCDs)	No External Debt can be raised without written consent of Debenture Holders.
	At any point of time, 3 months Interest and Principal due and payable in next one month should be maintained in DSRA account on ongoing basis till final Redemption of NCD.
B. Non-Financial covenants	
I. Non-Convertible Debentures (NCDs)	SPCPL at all points in time shall exercise management control and maintain minimum shareholding of 76% during the tenure of the NCD.

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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