SP Imperial Star Private Limited

June 10, 2019

Ratings

Instrument	Amount (Rs. crore)	Rating[8]	Rating Action
Non-Convertible Debenture- "Series B" issue*	50.00	**CARE AA-(SO) [Double A Minus(Structured Obligation)] Under credit watch with developing implications**	**Revised from CARE AA(SO) [Double A (Structured Obligation) and continues under credit watch with developing implications**
Total	**50.00 (Rupees Fifty Crore)**		

Details of facilities in Annexure-1

** credit enhancement in the form of unconditional and irrevocable DSRA guarantee from Shapoorji Pallonji and Company Private Limited (SPCPL, rated: CARE AA-; Credit Watch with developing implications/CARE A1+)*

Detailed Rationale & Key Rating Drivers

The revision in the rating assigned to non-convertible debentures (NCDs) Series B issues of SP Imperial Star Private Limited (SPISPL) factors in the moderation in the credit profile of the credit enhancement provider i.e. Shapoorji Pallonji and Company Private Limited (SPCPL) wherein the ratings are revised to 'CARE AA-; under Credit Watch with Developing Implications/CARE A1+' from 'CARE AA; under Credit Watch with Developing Implications/CARE A1+'.

The revision in rating assigned to long-term instrument of Shapoorji Pallonji and Company Private Limited (SPCPL) follows delay in company's progress in meeting the milestones conveyed to CARE at the time of last review. The lower than envisaged reduction in its debt levels which is attributed to delay in asset monetization plans and continued financial support extended to its various group entities are the prominent reasons for revision in the ratings.

However, the management has reiterated its commitment to pare its corporate guaranteed backed debt level and improve liquidity in the system through monetization of assets through sale of land bank and proceed from Initial Public offering of Sterling and Wilson (Solar) India limited during FY19-20. As a result, the ratings continue to be on rating watch with developing Implication.

The ratings continues to derive strength from SPCPL being part of resourceful Shapoorji Pallonji group (SP group, refers to companies ultimately held by Mr. Shapoor P Mistry and Mr. Cyrus P Mistry), proven track record in the construction, infrastructure & real estate business, improvement in its operating performance during FY2018-19 (Estimated) combined with its well diversified order book position which gives healthy medium term revenue visibility.

Moreover, Shapoorji Pallonji group investments in subsidiaries, land parcels held by SP group (few of which are put-up for monetisation) and investments such as the 18.37% stake held in Tata Sons Limited. (TSL, holding company of the Tata Group) held by the promoters continue to impart substantial financial flexibility to the group. Basis discussions with the promoters and the management of the company, CARE believes liquidity of the investments continues to remain strong.

The above ratings remain sensitive to any variation in credit profile of the guarantor, ie, SPCPL.

Detailed description of the key rating drivers

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 153 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 instrument.

High financial flexibility: 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

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

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 strong. The company's holding of the diverse investments provide substantial financial flexibility to the various group companies and also strengthens the group's credit profile.

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) which shows order book to operating income ratio of 2.95 times of FY19 revenues. The well-diversified order book across sectors, geographies and clientele provides revenue visibility over the next 3-4 years. Order book contains design and built contracts and orders from overseas markets which relatively have higher margins.

Improvement in operating performance: 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 31% to Rs.12,631 crore from about Rs.9,645 crore in FY2017-18. However, SPCPL's profitability margins marginally declined by 15 bps to 11.49% during FY19 as against 11.64% during FY18. PAT Margins declined by 98 bps to 2.56% in FY19 from 3.54% in FY18.

Key Rating Weaknesses

Highly leveraged capital structure: The total reported external debt of SPCPL on standalone basis has seen an increase from Rs. 7,428 crore in Mar-18 to Rs. 8,027 crore in Apr-19. As at March 31, 2019, the financial guarantees given by SPCPL had been increased to Rs. 2,883 crore from Rs.1,918 crore as on March 31, 2018 (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.)

While portion of the increase in debt is driven by the expansion plans of the group/equity commitments, yet, some of the SPVs, especially operating in the real estate and infrastructure sectors have taken more time than anticipated for stabilization, which has contributed to the increase in debt levels and guarantees. Besides, the slow progress on creating ring fence structures at subsidiary level has also led to high reliance on debt.

During FY2018-19, the funds infusion from promoters along with monetisation of assets has 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.4000 crore falling due in FY20 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.

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 continues support, until they achieve stabilisation 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. 257 crore of DSRA guarantee (principal amount) and management stated intent to further reduce the DSRA/financial guarantees by Rs. 2400 crore within next one year currently the corporate guarantee it stands at Rs. 2883 crore as on March 31, 2019.

For detailed Rationale Report of SPCPL, please contact us at www.careratings.com

Key Rating Sensitivity: The rating to these instruments is linked to credit rating of the Guarantor - SPCPL. Any adverse change in the credit profile of SPCPL would impact the rating of the Instrument. The rating strengths of SPCPL are, however, tempered by leveraged capital structure, and increasing financial support extended to the group companies.

Liquidity

Liquidity of SPCPL(standalone basis): SPCPL has access to Rs.192 crore of undrawn bank lines, cash and bank balances of Rs.1450 crore as on April 30, 2019. SPCPL's liquidity also derives comfort from the significant number of land parcels held by the group and investments in various subsidiaries, few of which are at various stages of monetisation. Liquidity is supplemented by cash generated from operations, and the company's ability to raise fund through capital market instrument.

Analytical approach: The credit risk assessment includes mainly the assessment of credit enhancement provider i.e. SPCPL. The SP group's flagship company SPCPL has provided an unconditional and irrevocable revolving DSRA guarantee to the LT – Non Convertible Debenture issues of SPISPL.

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Criteria for placing rating on credit watch
Financial ratios – Non-Financial Sector

About the Company

SP Imperial Star Private Limited (SPISPL) is a wholly owned subsidiary of the SP group having its flagship company Shapoorji Pallonji and Company Private Limited, which is also the SP group's holding-cum-operating company. SPCPL along with a group entity holds SP Imperial Star which in turn is a wholly holds SP Ports Maintenance Private Limited (SPPMPL/SP Ports) which is the holding company of various port SPVs. SPPMPL was formed in March 2016 for the purpose of running two port project assets namely, Dharamtar Port (held under PNP Maritime Services, and Gopalpur Port. The SP group's strategy is to acquire through port asset holding-company SPPMPL, port assets which are stuck for various reasons such as paucity of funds for capital expenditure and operational inefficiencies. SPPMPL in turn would try and improve the operations of these ports using the group's experience and expertise in port project development. Further SPPMPL shall have a controlling stake in each of the port it acquires so that it can influence operational and strategic decisions by port SPVs. The SP Group has appointed an experienced team for managing port projects.

Brief Consolidated Financials of SP Imperial Star Private Limited

Brief Financials (Rs. crore)	FY2016-17 (A)	FY2017-18 (A)
Total operating income	0.06	0.42
PBILDT	(0.05)	0.03
PAT	(2.43)	(87.67)
Overall gearing (times)	NM	NM
Interest coverage (times)	NM	NM

A: Audited; NM is Not Meaningful; Note: The financials are classified as per CARE Standards. SPISPL was incorporated in March 2016 and has prepared financials in for period starting March 19, 2016 to March 31, 2017 as permitted by regulations

Brief financials of guarantor- SPCPL

Brief Financials (Rs. crore)	FY2017-18 (A)	FY2018-19 (Est)
Total operating income	9645.26	12631.01
PBILDT	1123.13	1451.60
PAT	341.52	323.39
Overall gearing (times)	3.53	3.42
Interest coverage (times)	1.54	1.74

A: Audited; Est: Estimates-Source: Company; Note: Financials have been classified as per CARE's 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	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Debentures-Non Convertible Debentures	March 23, 2017	0	March 23, 2022	50.00	CARE AA- (SO) (Under Credit watch with Developing Implications)

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	650.00	CARE A; Stable	1)CARE A; Stable (05-Apr-19)	1)CARE A; Stable (02-Apr-18)	1)CARE A; Stable (14-Apr-17)	1)Provisional CARE A; Stable (22-Mar-17) 2)Provisional CARE A (28-Nov-16)
2.	Debentures-Non Convertible Debentures	LT	50.00	CARE AA- (SO) (Under Credit watch with Developing Implications)	1)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 (02-Apr-18)	1)CARE AA+ (SO); Stable (14-Apr-17)	1)Provisional CARE AA+ (SO) (22-Mar-17)

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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