

October 09, 2020

Sunny View Estates Private Limited: Ratings downgraded to [ICRA]BBB(CE); 'negative' outlook removed, and rating placed on watch with negative implications

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debenture Programme	200.0	200.0	[ICRA]BBB(CE)@; Downgraded from [ICRA]A(CE); 'negative' outlook removed, and rating placed under watch with negative implications

*Instrument details are provided in Annexure-1

Rating Without Explicit Credit Enhancement	[ICRA]BB
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Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement

Rationale

The Rs. 200 crore structured NCD programme of SVEPL is backed by an unconditional, irrevocable and revolving DSRA (debt service reserve account) guarantee by Shapoorji Pallonji and Company Private Limited (SPCPL).

The revision in rating of the structured debt programme follows the revision in the long-term rating of SPCPL (DSRA guarantee provider) to [ICRA]BBB+ (pronounced ICRA triple B plus) from [ICRA]A+ (pronounced ICRA A plus). The long-term rating of SPCPL has been placed on watch with negative implications and the negative outlook has been removed.

Adequacy of credit enhancement

For arriving at the rating, ICRA has assessed the attributes of the DSRA guarantee provided by SPCPL in favour of the rated instrument. The DSRA guarantee is legally enforceable, irrevocable, unconditional, covers the entire amount and tenure of the rated instrument. Given these attributes, the DSRA guarantee provided by SPCPL is adequately strong to result in an enhancement in the rating of the said instrument to [ICRA]BBB(CE) from [ICRA]BB without explicit credit enhancement. In case the rating of the DSRA Guarantee Provider were to undergo a change in future, the same would reflect in the rating of the aforesaid instrument as well.

Salient covenants related to the credit enhancement, as specified in the guarantee documents:

- If rating of NCDs gets downgraded to a level of [ICRA]A or lower, the trustee may choose to either increase the coupon due on the NCDs or ask the issuer to pay all amounts outstanding under the NCDs. ICRA notes the covenant has been breached in the past, however, the debt has not been accelerated and hence the probability of acceleration is low.
- The Issuer is (or is deemed by law or a court to be) insolvent or bankrupt or unable to pay a material part of its debts, trustee may accelerate debt payment.

- SPCPL shall retain minimum 76% ownership in SVEPL and would not cede management control during the course of the NCDs.
- SVEPL would not take any other external debt during the course of the NCDs

Key rating drivers and their description

Credit strengths

Guarantee from SPCPL: The ratings for the Rs. 200 crore NCD programme is based on the strength of an unconditional and irrevocable DSRA guarantee by SPCPL.

Presence of payment mechanism: The NCDs would be redeemed in one bullet instalment on the scheduled maturity date. The coupon amount would be payable on the NCDs on a quarterly basis. The payment mechanism is designed to ensure timely payment to the investors, even if the guarantee has to be invoked by the debenture trustee. The transaction covenants that SPCPL would maintain 76% shareholding in SVEPL during the tenure of the rated NCDs.

Liquidity position: Stretched

The liquidity position of the DSRA guarantee provider i.e. SPCPL is stretched. The company had free cash balance of ~Rs.800 crore as on May 31, 2020. The estimated cash flow from operations alongwith the existing cash balance would not be adequate to meet the high repayment obligations falling due over the short to medium term. ICRA has taken note that SPCPL has applied for one-time restructuring of its debt exposure. Timely invocation and implementation of the resolution plan in a manner that alleviates the company's tight liquidity position would be crucial.

Rating sensitivities

Positive Triggers: The rating assigned to the Rs. 200 crore NCD programme would remain sensitive to any movement in the rating or outlook of the DSRA guarantee provider i.e. SPCPL.

Negative triggers: The rating assigned to the Rs. 200 crore NCD programme would remain sensitive to any movement in the rating or outlook of the DSRA guarantee provider i.e. SPCPL. Further negative pressure on the rating could arise in case of failure of relevant stakeholders to adhere to the NCD structure.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Approach for rating debt instruments backed by third-party explicit support
Parent/Group Support	Parent/Group Company: Shapoorji Pallonji Group For arriving at the ratings, ICRA has taken into account the unconditional and irrevocable DSRA guarantee from SPCPL that would cover all the repayment obligations to the lender as per the terms of the transaction documents.
Consolidation/Standalone	Not applicable since the rating is based on unconditional and irrevocable DSRA guarantee from SPCPL

About the company

The Shapoorji Pallonji Group (SP Group) is developing 9 IT/ITeS focused commercial projects - branded as “SP Infocity” - across India (Pune, Chennai, Gurgaon, Manesar, Nagpur, Mohali, Mysore, Kolkata and Durgapur) through various SPVs. SP Infocity at Mohali, Punjab has been constructed by Sunny View Estates Private Limited (SVEPL) and is part of the Quark City SEZ. It has excellent regional and national connectivity and easy accessibility from different states - Punjab, Haryana, Himachal Pradesh and Delhi. SP Infocity is located 15 kms from the upcoming Chandigarh International Airport and 18 kms from Chandigarh Railway Station.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	3.0	7.0
PAT (Rs. crore)	-25.6	-26.5
OPBDIT/OI (%)	-226.5%	-46.3%
RoCE (%)	-1.8%	5.4%
Total Outside Liabilities/Tangible Net Worth (times)	-5.7	-4.8
Total Debt/OPBDIT (times)	-41.8	-112.0
Interest Coverage (times)	-0.3	-0.1
DSCR	0.0	0.4

About DSRA Guarantee Provider

Shapoorji Pallonji and Company Private Limited (SPCPL), is the flagship company of the Shapoorji Pallonji Group (SP Group), which is a diversified industrial conglomerate comprising of a group of companies held by the Mistry Family. The SP Group has a diversified presence across sectors such as construction (SPCPL, Afcons Infrastructure Limited), mechanical electrical and plumbing (Sterling & Wilson Private Limited), contracting (Sterling & Wilson Private Limited), water purification (Eureka Forbes Limited), infrastructure development (Shapoorji Pallonji Infrastructure Capital Company Private Limited), solar power generation and contracting (Sterling & Wilson Private Limited and Shapoorji Pallonji Infrastructure Capital Company Private Limited), floating production storage and offloading (FPSO) vessels (SP Oil & Gas Private Limited) etc. The SP Group is also the largest private shareholder (18.37%) in Tata Sons Private Limited, the holding company of the Tata Group.

SPCPL, which is held by 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. SPCPL 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.

For detailed rating rationale on Shapoorji Pallonji and Company Private Limited, [click here](#) for referring to the release published on ICRA website.

Key Financial Indicators (Standalone)

	FY2018	FY2019
Operating Income (Rs. crore)	9,823	13,474
PAT (Rs. crore)	342	368
OPBDIT/ OI (%)	13.4%	11.90%
RoCE (%)	11.6%	12.1%
Total Debt/ TNW (times)	2.9	2.7
Total Debt/ OPBDIT (times)	5.8	5.9
Interest coverage (times)	1.8	1.9

Source: Company, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Rating (FY2021)			Rating History for the Past 3 Years							
		Type	Amount Rated	Amount Outstanding	Current Rating	FY2020		FY2019		FY2018		
						09-Oct-2020	04-Dec-2019	28-May-2019	28-Nov-2018	25-July-2018	01-Feb-2018	23-Jan-2018
1	NCD	Long Term	200.0	200.0	[ICRA]BBB(CE)@	[ICRA]A(CE) (Negative)	[ICRA]A+(SO) &	[ICRA]AA-(SO) &	[ICRA]AA(SO) (Stable)	[ICRA]AA(SO) (Stable)	Provisional [ICRA]AA(SO) (Stable)	[ICRA]AA(SO) (Stable)

Amount in Rs. Crore; &: Rating watch with developing implications; @: Rating watch with negative implications

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE195S08025	NCD	23-Jan-18	10.50%	12-Apr-21	200	[ICRA]BBB(CE)@

Source: SVEPL; @: Rating watch with negative implications

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