

India Ratings Assigns Sadbhav Infrastructure Projects 'IND A-'; Outlook Stable

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India Ratings and Research (Ind-Ra) has assigned Sadbhav Infrastructure Projects Limited (SIPL) a Long-Term Issuer Rating of 'IND A-'. The Outlook is Stable. The instrument-wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Non-convertible debentures (NCDs)*	-	-	-	INR3,500	IND A-(CE)/Stable	Assigned
Non-fund-based limits	-	-	-	INR3,000	IND A-/Stable/IND A2+	Assigned

*Details in Annexure

Note: The unsupported rating is same as the Long-Term Issuer Rating

Analytical Approach: Ind-Ra has taken a consolidated view of SIPL and its parent Sadbhav Engineering Limited (SEL; 'IND A-/Stable'; holds 69.7% stake), collectively known as Sadbhav, due to the strong legal and operational linkages between them. Ind-Ra has also adjusted the financials for the equity required to be infused by SEL in its under construction hybrid annuity model (HAM) projects, along with the shortfall support envisaged for the operational build-operate-transfer (BOT) and HAM assets. Ind-Ra has not consolidated the debt of the projects, wherever it is on a non-recourse basis. The agency has consolidated the debt of SEL's step-down subsidiary Sadbhav Nainital Highway Private Limited (wholly owned by SIPL) as its debt is backed by an unconditional and irrevocable corporate guarantee of SEL. SIPL announced a scheme of merger with SEL in 3QFY20. The merger is likely to be completed in FY21 subject to various statutory and regulatory approvals.

KEY RATING DRIVERS

Strong Linkages with Parent: The assignment follows a similar rating action on SIPL's parent (SEL) on account of the strong financial and operational linkages between the two entities. SEL has been extending financial support to SIPL by way of a corporate guarantee (unconditional, irrevocable and absolute) for the debt facilities of SIPL. Furthermore, SEL had been extending short-term loans/advances to SIPL (FY20 outstanding loans from SEL:

INR3.5 billion, FY19: INR6.3 billion), which were utilised by the latter towards the equity commitments of the under construction HAM projects as well as a shortfall support for the operational BOT projects. Moreover, SIPL's operations are well-integrated with those of SEL as the latter acts as the contractor for the special purpose vehicles of SIPL's HAM projects. Also, the companies have common directors on their boards.

Pre-Default Corporate Guarantee by SEL: SEL has provided a pre-default corporate guarantee for SIPL's NCDs. As per the debenture trust deed, SIPL is required to deposit the redemption amount (or any instalments thereof) at least three/two business days prior to the payment due date (including the put option redemption date, if applicable). In case of non-receipt of the payment, the debenture trustee can send a demand notice to the guarantor (SEL), and the latter shall fund the account at least two/one business days prior to the payment due date.

Stable Revenue Profile over the Medium Term: SIPL's operating EBITDA margins, although strong, moderated to 41.5% in FY20 (FY19: 71.5%), while the revenue declined to INR1.8 billion (INR2.9 billion) as a result of lower revenue contribution from the high-margin project management activities as majority of the HAM projects have reached the advanced stages of construction. Ind-Ra expects SIPL's revenue to grow 15%-20% yoy in FY21 (1QFY21: INR488.5 million, 1QFY20: INR 459.8 million) as its two HAM projects are nearing completion in FY21. Furthermore, SIPL's revenue and margins are to remain stable in the medium term on account of operations & maintenance income from about INR40 billion of operations & maintenance projects, to be executed over 15 years, for the nine transferred assets and one soon to be transferred asset to IndInfravit Trust. Additionally, SIPL is entitled to project management service fees of 1% of the toll revenue collected from these assets.

Asset Sales Aid in Deleveraging: In February 2020, SIPL concluded its deal with IndInfravit Trust for selling its stake in eight of the nine BOT projects for INR23.64 billion. As part of the deal, SIPL received cash of INR15.68 billion and 10% stake worth INR7.24 billion in IndInfravit Trust till end-March 2020, while INR0.73 billion of cash is yet to be received. Furthermore, SIPL is likely to receive INR2.67 billion once the stake sale of Ahmedabad Ring Road Infrastructure Limited (ARRIL) to IndInfravit Trust is concluded. Consequent to the stake sale, SIPL's standalone external debt reduced to INR3.5 billion in 1QFY21 (FY20: INR4.2 billion, FY19: INR8.9 billion). SIPL has only NCDs as outstanding debt. SIPL did not avail the Reserve Bank of India-prescribed moratorium over March to August 2020. The company does not have any scheduled repayments over the remainder of FY21. While, in FY22, it has scheduled repayments of INR750 million; however, in case a put option is exercised by the investors, repayments are likely to increase to INR2,750 million in FY22. Ind-Ra derives comfort from the liquidity avenues available to the company to meet its obligations in the near term.

Liquidity Indicator - Stretched; Pending Receipts of BOT Asset Monetisation to Aid Liquidity: At FYE20, SEL and SIPL had unencumbered cash balances of INR0.18 billion and INR0.31 billion, respectively. The average utilisations of SEL's fund-based limits for the 12 months ended June 2020 was high at 95% with the entity availing short-term loans of INR0.45 billion in addition to the fund-based facilities. On the other hand, SIPL does not have any fund-based limits. SEL and SIPL have combined scheduled repayment obligations of INR1.09 billion and INR3.25 billion (excluding put option) in FY21 and FY22, respectively.

According to the management, the government of Gujarat approved the transfer of ARRIL to IndInfravit Trust and SIPL is in the advanced stage of obtaining the procedural approval from the concession authority of ARRIL (Ahmedabad Urban Development Authority), which is likely to conclude by October 2020. Ind-Ra expects the consolidated liquidity profile to improve significantly following the receipt of INR3.4 billion stake sale proceeds (INR0.7 billion pending cash and INR2.67 billion from ARRIL stake sale). Furthermore, potential inflows from arbitration proceedings across the group may also boost the liquidity profile in the near term. Ind-Ra believes that these one-time inflows are likely to be sufficient to meet the debt repayment obligations in the near term.

Elevated Share Pledge; Likely to Reduce with Asset Monetisation at Promoter Level: The promoter share pledge increased by 29.05% to 59.36% in June 2020 from December 2019 and further by 4% to 63.3% as of 17 September 2020. The management has confirmed that the increase in share pledge was on account of a decline in SEL's share price during the same period and the promoters have not availed any new loans. Ind-Ra derives comfort from the management's commitment to repay the entire promoter loans (less than 5% of the consolidated debt of SEL and SIPL) in FY21, backed by the monetisation of a few land parcels at the promoter level.

RATING SENSITIVITIES

Positive: An upgrade of SEL's credit rating could lead to a positive rating action.

Negative: A downgrade of SEL's credit rating and/or weakening of SIPL's linkages with SEL could lead to a negative rating action.

COMPANY PROFILE

SIPL was incorporated as an asset holding company by SEL for its road and other infrastructure BOT projects in 2007.

STANDALONE FINANCIAL SUMMARY

Particulars	FY20	FY19
Revenue (INR billion)	1.82	2.95
Operating EBITDA (INR billion)	0.75	2.11
EBITDA margins (%)	41.5	71.5
Interest coverage (x)	0.6	1.2
Net leverage (x)	5.7	3.3
Source: SEL, Ind-Ra		

CONSOLIDATED FINANCIAL SUMMARY

Particulars	FY20#	FY19#
Revenue (INR billion)	24.3	38.4
Operating EBITDA (INR billion)	3.5	6.4
EBITDA margins (%)	14.6	16.6
Total debt (INR billion)	16.7	25.0
Interest coverage (x)	1.1	2.2
Net leverage (x)	4.6	2.9
Source: Sadbhav, Ind-Ra		
#Based on Ind-Ra's principles of consolidation		

ANNEXURE

Instrument Type	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook
NCDs	INE764L07116	21 September 2016	3.0	15 April 2021	INR500	IND A-(CE)/Stable

NCDs	INE764L07124	21 September 2016	3.0	15 April 2022	INR500	IND A- (CE)/Stable
NCDs	INE764L07157	20 March 2017	Zero	25 June 2021	INR250	IND A- (CE)/Stable
NCDs	INE764L07165	20 March 2017	Zero	27 June 2022	INR250	IND A- (CE)/Stable
NCDs	INE764L07173	23 April 2018	Zero	23 April 2023	INR892	IND A- (CE)/Stable
NCDs	INE764L07181	6 June 2018	Zero	6 June 2023	INR1,108	IND A- (CE)/Stable

COMPLEXITY LEVEL OF INSTRUMENTS

For details on the complexity level of the instruments, please visit <https://www.indiaratings.co.in/complexity-indicators>.

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Applicable Criteria

[Corporate Rating Methodology](#)
[Parent and Subsidiary Rating Linkage](#)

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