

Sadbhav Infrastructure Project Limited

March 25, 2021

Rating

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long Term / Short – term Bank Facilities	400.00	CARE BBB / CARE A3+ (CWN) (Triple B / A Three Plus) (Under Credit watch with Negative Implications)	Revised from CARE BBB+ / CARE A3+ (Triple B Plus / A Three Plus); Continues to be on Credit watch with Negative Implications
Total Facilities	400.00 (Rupees Four Hundred Crore Only)		

Details of facilities in Annexure - 1

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the bank facilities of Sadbhav Infrastructure Project Limited (SIPL) takes into account revision in the rating of its parent Sadbhav Engineering Ltd (SEL; rated CARE BBB/CARE A3+; under credit watch with Negative Implications) and stretched liquidity of Sadbhav group² due to inordinate delay in materialization of fund raising plans including pending receipt of stake sale proceeds of Ahmedabad Ring Road Infrastructure Limited (ARRIL). Further, the credit profile of SIPL's under construction hybrid annuity model (HAM) special purpose vehicles (SPV) has deteriorated on account of varied reasons including delay in land acquisition and delay in de-scoping/ de-linking approvals in certain SPVs. Although SIPL has signed debenture trust deed with one of the investors for raising funds upto Rs.700 crore while securitizing listed InvIT of Indinfravit Trust during February 2021 the transaction is subject to customary condition precedent. The rating continues to remain on 'Credit Watch with Negative Implications' as receipt of aforementioned debt funds as well as stake sale proceeds of ARRIL is imperative for the Sadbhav group given high repayment obligation of the group during FY22 (refers to the period April 1 to March 31). The ratings take cognizance of the achievement of provisional commercial operations date (PCOD) in three of the HAM projects and expected PCOD for three more HAM projects in near term which is expected to provide some relief to SIPL.

The ratings continue to factor in improvement in the capital structure of the company post receipt of stake sale proceeds, potential upside in cashflows including receipt of arbitration proceeds and upstreaming of surplus cashflows from Maharashtra Border Check Post Network Limited (MBCNL).

The ratings also factor in the parentage of SEL which is one of the leading players in the domestic road construction sector and low revenue risk associated with its under-construction hybrid annuity model (HAM) road projects once they become operational. The ratings also take cognizance of signing of inter-creditor agreement in two of its operational BOT projects with lenders which reduces the funding requirement of the Sadbhav group to an extent.

The ratings, however, continues to remain constrained by moderate scale of operations, and the inherent challenges faced by the construction sector, including the current challenging fund raising.

Rating sensitivities

Positive factors

- Monetization of sizeable investments of HAM SPVs.

Negative factors

- Any deviation in Sadbhav Group's fund raising plans through securitization of InvIT units to bridge major cash flow deficit in near term.
- Any deviation in the receipt of stake sale proceeds of ARRIL beyond revised timelines
- Inability to cure the delay in execution of HAM as well as other projects leading to levy of sizeable damages by the authority and higher than envisaged cash flow support from SIPL
- Increase in exposure to build operate transfer (BOT) projects resulting higher than envisaged equity commitments in the medium term.

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

²Combining SEL (standalone) and Sadbhav Infrastructure Project Limited (SIPL; standalone) financials

Detailed description of the key rating drivers**Key Rating Strengths*****Completion of the stake sale process with transfer of eight out of nine projects leading to improvement in the capital structure:***

On July 1, 2019, SEL and SIPL made an announcement on stock exchange regarding the execution of Share Purchase Agreements with IndInfravit for selling their entire equity stake in nine operational BOT SPVs (seven toll and two annuity based projects). As of March 20, 2020, SEL and SIPL have transferred eight out of the nine SPVs (i.e. excluding Ahmedabad Ring Road Infrastructure Ltd; (ARRIL rated CARE A-; under credit watch with developing implications) and has received stake sale proceeds of Rs.1,568 crore till June 30, 2020 in addition to the listed units of IndInfravit trust of Rs.724 crore. The units are listed and marketable providing financial flexibility. Proceeds of stake sale have largely been utilized for rationalisation of the debt levels of the group, which led to the improvement in overall gearing of SIPL from 1.08 times as on March 31, 2019 to 0.42 times as on March 31, 2020. The networth base also augmented due to gain of Rs.500 crore (net of write off of loans in two operational projects) due to stake sale.

Stake sale of ARRIL is delayed as compared to the earlier timeline of June 2020 even after receipt of no-objection certificate from project authority in November 2020 and now expects the closure of said transaction by end of Q1FY22 as articulated by the management. Post stake sale, SIPL shall continue to carry out routine and major maintenance for these projects which is likely to maintain its revenue visibility in the medium term. The approximate value of these contracts is Rs.4,000 crore which is to be executed over next 15 years. Also, SIPL has entered into a Right of First Offer (ROFO) agreement with IndInfravit for monetisation of its current and future operational assets.

SIPL, however, has a moderate scale of operations on a standalone basis with the major source of income being the O&M and major maintenance contracts that the company has entered in to with its SPVs. SIPL's TOI for FY20 and Q1FY21 continued to remain moderate at Rs.258 crore and Rs.49.65 crore respectively limiting its financial flexibility.

Key Rating Weaknesses:***Deterioration in the credit profile of SEL***

SEL's ratings have been revised from CARE BBB+/ CARE A3+; Credit Watch with negative implications to CARE BBB/CARE A3+; Credit Watch with negative implications account of sustained delay in scaling up of operations and stretched liquidity.

SEL has 69.70% stake in SIPL as on June 30, 2020. SEL is the flagship company of Sadbhav Group and the engineering, procurement and construction (EPC) contractor of all the BOT projects of SIPL. SEL has also extended its unconditional and irrevocable corporate guarantee for the entire outstanding long term debt of SIPL of Rs.396 crore as on March 31, 2020.

Delayed fund raising plans

The group has successfully divested its entire stake in eight out of nine operational SPVs to Indinfravit Trust, however the stake sale in ARRIL is still awaited even after receipt of no-objection certificate from project authority in November 2020 and now expects the closure of said transaction by end of Q1FY22 as articulated by the management. Timely inflow of stake sale proceeds to the tune of Rs.270 crore was envisaged to provide medium term liquidity cushion to the group.

Nevertheless, SIPL has signed debenture trust deed with one of the marquee investors for raising Rs.700 crore through securitization of Indinfravit units in February 2021. The funds are proposed to be used for the redemption of existing non convertible debenture and meeting equity commitment in HAM projects. Release of the debt funds is subject to fulfillment of condition precedents. Timely receipt of aforementioned debt funds and stake sale proceeds of ARRIL is imperative for the Sadbhav group given high repayment obligation of the group during Q1FY22.

Challenges in execution in most of HAM projects; albeit achievement of PCOD in three projects based on partial completion providing some relief

Nine out of the 10 ongoing HAM projects of Sadbhav group are progressing with delays; with most of them having surpassed original schedule completion date. Delay in the de-scoping of unavailable land, delay in debt syndication in one of the HAM projects, stretched liquidity of the Sadbhav group and delay in receipt of mobilization advances in two HAM projects are prominent reasons for behind the schedule execution.

Sadbhav group is required to support these projects for any cost overrun or cash flow deficit till stabilization of revenue stream. However, receipt of extension of time (EoT) and consequent rescheduling of repayments in some SPVs have provided some comfort in near term. Furthermore, three HAM projects have achieved PCOD in current year based on available length providing some relief. Further, provisional COD for three more HAM projects are expected in the near term as per management's articulation. As on August 31, 2020, SIPL had infused around Rs.694 crore as equity in its under-construction HAM SPVs, while it further has equity commitments of Rs.320 crore spread over FY21 & FY22. SIPL had availed bridge loan for meeting its interim working capital requirement, debt servicing and equity infusion in these HAM projects till receipt of stake sale proceeds, which it has repaid post receipt of stake sale proceeds.

Under-performance of its two operational BOT road projects leading to their dependence on SIPL for their uninterrupted operations and debt servicing albeit comfort derived from signing of inter-creditor agreement : There has been a significant shortfall in toll collections of two of BOT road projects primarily on account of toll leakages and higher than envisaged

proportion of local category vehicles which are exempted from toll. Traffic is expected to remain subdued for one of the projects in the medium-term with the development of an alternate route. Furthermore, one of the SPVs has scheduled major maintenance in FY21-22 necessitating higher support from SIPL. However, signing of inter creditor agreement in both these SPVs with lenders reduces the funding requirement to an extent.

Susceptibility of the operational toll based BOT projects to traffic, interest rate and regulatory risk: The operational toll-based SPVs of SIPL are susceptible to inherent revenue risk related to traffic growth, wholesale price index (WPI) linked toll rates and timely release of compensation from state authorities for loss of revenue from exempted vehicles in its three SPVs. Furthermore, since most of the operational toll projects have a high mix of commercial traffic indicating higher linkage to the state of the economy and macroeconomic conditions the same can have an adverse impact during times of severe economic downturn. The SPVs are also exposed to inherent interest rate risk since the interest rate on the debt taken by the majority of them is floating in nature. Further, MBCNL is exposed to inherent regulatory risk considering that this is a project of the state transport department and hence susceptible to any change in law apart from risk related to delay in commencement of revenue from check posts even after achieving commercial operations date (COD) due to various factors beyond the control of the company. Exposure to four toll-based projects also heightened traffic risk in the current scenario of the COVID-19 pandemic.

Liquidity: Stretched

Rated bank facilities of Rs.400 crore comprise of non-fund based bank guarantee (BG) without recourse to SEL. SIPL's liquidity position remains stretched on account of limited internal accruals along with high repayment obligations and equity commitments along with the absence of fund based committed bank lines on a standalone basis. Sizeable equity commitments over FY21-FY22 in under construction HAM SPVs along with shortfall support for the initial phase for some SPVs is expected to constrain the cash flows of SIPL. Further, timely receipt of debt funds through securitization of INVIT and stake sale proceeds from ARRIL without further delay is crucial from credit perspective.

Analytical approach: Standalone along with factoring support expected to be received from its parent, SEL, for servicing its guaranteed contractual debt and factoring likely support to be extended by SIPL to its various SPVs.

Applicable Criteria

[Criteria on assigning 'Outlook' and 'Credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology – Consolidation and Factoring Linkages in Ratings](#)

[Rating Methodology - Infrastructure Sector Ratings](#)

[Financial Ratios – Non-Financial Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

About the Company - SIPL

SEL had floated a 100% subsidiary, SIPL, in January 2007, as a holding company for its BOT projects. During FY11, SEL diluted 22.22% of its stake through the issue of fresh equity of Rs.300 crore and compulsory convertible cumulative preference shares (CCCPS) of Rs.100 crore to private equity (PE) investors. Proceeds of PE were utilized by SIPL for fulfilling its equity commitment in BOT projects. During September 2015, SIPL raised Rs.425 crore through Initial Public Offer (IPO) of its equity shares.

During FY20, SIPL executed share purchase agreement with IndInfravit Trust (IndInfravit) and sold its entire stake in eight operational build operate transfer (BOT) special purpose vehicles (SPV) for the enterprise value of Rs.6,610 crore, while the stake sale is awaited in one operational SPV. Post the transaction, SIPL has a portfolio of 13 BOT projects (four operational toll road projects, nine under construction HAM projects of which two HAM projects have received PCOD on partial length). SIPL also has 10% stake in Indinfravit Trust in the form of listed units valuing Rs.720 crore which has lock-in period till February 2021.

Further, as per the stock exchange announcement dated October 19, 2019, SIPL would be merged with SEL with effect from April 1, 2019 subject to various regulatory approvals.

(Rs. Crore)

Brief Financials – SIPL (Standalone)	FY19 (A)	FY20 (A)
Total Operating Income	368	258
PBILDT	284	152
PAT	57	377
Overall Gearing	1.08	0.42
Interest Coverage (times)	1.62	0.71

A: Audited;

As per published 9MFY21 un-audited results, (refers to the period from April 01 to December 31) SIPL on a standalone basis has reported total operating income (TOI) of Rs.142.65 crore (9MFY20: Rs.224.96 crore) and PAT of Rs.8.56 crore(9MFY20: loss of Rs.17.75 crore).

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
Fund-based/Non-fund based-LT/ST	-	-	-	400.00	CARE BBB / CARE A3+ (CWN)

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.	Bonds	LT	-	-	-	-	1)Withdrawn (18-Sep-18)	1)CARE A+ (SO); Stable (08-Jan-18)
2.	Debentures-Non Convertible Debentures - I	LT	-	-	-	1)Withdrawn (07-Jan-20) 2)CARE A (CE) (CWD) (30-Oct-19) 3)CARE A (CE) (CWD) (10-Jul-19)	1)CARE A (SO); Stable (20-Feb-19) 2)CARE A+ (SO); Stable (18-Sep-18)	1)CARE A+ (SO); Stable (08-Jan-18)
3.	Debentures-Non Convertible Debentures - II	LT	-	-	1)Withdrawn (22-Sep-20)	1)CARE A- (CE); Stable (25-Mar-20) 2)CARE A (CE) (CWD) (07-Jan-20) 3)CARE A (CE) (CWD) (30-Oct-19) 4)CARE A (CE) (CWD) (10-Jul-19)	1)CARE A (SO); Stable (20-Feb-19) 2)CARE A+ (SO); Stable (18-Sep-18)	1)CARE A+ (SO); Stable (08-Jan-18)
4.	Debentures-Non Convertible Debentures - III	LT	150.00	CARE BBB (CE) (CWN)	1)CARE BBB+ (CE) (CWN) (23-Sep-20)	1)CARE A- (CE); Stable (25-Mar-20) 2)CARE A (CE) (CWD) (07-Jan-20)	1)CARE A (SO); Stable (20-Feb-19) 2)CARE A+ (SO); Stable (18-Sep-18)	1)CARE A+ (SO); Stable (08-Jan-18)

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
						3)CARE A (CE) (CWD) (30-Oct-19) 4)CARE A (CE) (CWD) (10-Jul-19)		
5.	Fund-based/Non-fund-based-LT/ST	LT/ST	400.00	CARE BBB / CARE A3+ (CWN)	1)CARE BBB+ / CARE A3+ (CWN) (23-Sep-20)	1)CARE A-; Stable / CARE A2+ (25-Mar-20) 2)CARE A- / CARE A2+ (CWD) (07-Jan-20) 3)CARE A- / CARE A2+ (CWD) (30-Oct-19) 4)CARE A- / CARE A2+ (CWD) (10-Jul-19) 5)CARE A-; Stable / CARE A2+ (04-Apr-19)	-	1)CARE A-; Stable / CARE A2+ (28-Nov-17)
6.	Debentures-Non Convertible Debentures - IV	LT	89.20	CARE BBB (CE) (CWN)	1)CARE BBB+ (CE) (CWN) (23-Sep-20)	1)CARE A- (CE); Stable (25-Mar-20) 2)CARE A (CE) (CWD) (07-Jan-20) 3)CARE A (CE) (CWD) (30-Oct-19) 4)CARE A (CE) (CWD) (10-Jul-19)	1)CARE A (SO); Stable (20-Mar-19) 2)CARE A+ (SO); Stable (18-Sep-18) 3)Provisional CARE A+ (SO); Stable (16-Apr-18)	-
7.	Debentures-Non Convertible Debentures - V	LT	110.80	CARE BBB (CE) (CWN)	1)CARE BBB+ (CE) (CWN) (23-Sep-20)	1)CARE A- (CE); Stable (25-Mar-20) 2)CARE A (CE) (CWD) (07-Jan-20) 3)CARE A (CE) (CWD) (30-Oct-19) 4)CARE A (CE) (CWD) (10-Jul-19)	1)CARE A (SO); Stable (20-Mar-19) 2)CARE A+ (SO); Stable (18-Sep-18) 3)Provisional CARE A+ (SO); Stable (16-Apr-18)	-

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

Name of the Instrument	Detailed explanation
A. Financial Covenants	Not Applicable
B. Non-Financial Covenants	Not Applicable

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based/Non-fund-based-LT/ST	Simple

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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