

India Ratings Revises Sadbhav Infrastructure Project's Outlook to Negative; Affirms 'IND A-'; Rates Proposed NCDs

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India Ratings and Research (Ind-Ra) has revised Sadbhav Infrastructure Project Limited's (SEL) Outlook to Negative from Stable while affirming the Long-Term Issuer Rating at 'IND A-'. The instrument-wise rating actions are given below:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Proposed non-convertible debentures (NCDs) #	-	-	-	INR2,000	IND A-/Negative	Assigned
NCDs£	-	-	-	INR3,500	IND A-(CE)/Negative	Affirmed; Outlook revised to Negative
Non-fund-based limits	-	-	-	INR3,000	IND A-/Negative/IND A2+	Affirmed; Outlook revised to Negative
Unsupported rating	-	-	-	-	IND A-/Negative	Affirmed; Outlook revised to Negative

£ Details in Annexure

#Unallocated

Analytical Approach: Ind-Ra continues to take a consolidated view of Sadbhav Engineering Limited (SEL; 'IND A-/Negative) and its subsidiary SIPL (SEL holds 69.7%), 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 by 1HFYE22, subject to various statutory and regulatory approvals.

The Outlook revision follows a similar rating action on SIPL's parent.

KEY RATING DRIVERS

Leverage to Increase Marginally with Issuance of NCDs: SIPL is planning to issue NCDs worth INR7 billion, for which the debenture trust deed was signed in February 2021, to improve its liquidity and meet immediate equity commitments for the under construction HAM projects as the sale of Ahmedabad Ring Road Infrastructure Limited (ARRIL) and lender tie-up for Sadbhav

Jodhpur Ring Road Private Limited have not concluded within the earlier envisaged timeline by the management. The drawdown is likely to happen at end-April 2021. According to the management, these events are likely to conclude by the end of 1QFY22 and the management plans to utilise a portion of the NCD proceeds and ARRIL sale money to repay debt worth INR6.6 billion across the Sadbhav Group, which includes INR3.5 billion of external debt of SIPL.

SIPL did not avail the Reserve Bank of India-prescribed moratorium over March to August 2020. The company does not have any scheduled debt repayments over the remainder of FY21. Although it has scheduled repayments of INR750 million in FY22, 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.

Strong Linkages with Parent: 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 for Select NCDs: SEL has provided a pre-default corporate guarantee for SIPL's NCDs worth INR3.5 billion. 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 Medium Term: SIPL's operating EBITDA margins, although strong, moderated to 41.5% in FY20 (FY19: 71.5%) and the revenue declined to INR1.8 billion (INR2.9 billion), due to lower revenue contribution from the high-margin project management activities as majority of the HAM projects have reached the advanced stages of construction. SIPL recorded revenue of INR1.3 billion in 9MFY21(9MFY20: INR1.6 billion) and EBITDA margins of 68.1% (53.9%). SIPL's revenue and margins are to remain stable in the medium term on account of operations and maintenance (O&M) income from about INR40 billion worth O&M 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 fee of 1% of the toll revenue collected from these assets.

Liquidity Indicator - Stretched: At 1HFYE21, SEL and SIPL had unencumbered cash balances of INR0.58 billion (FYE20: INR0.18 billion) and INR0.11 billion (FYE20: INR0.31 billion), respectively. The average utilisation of SEL's fund-based limits for the 12 months ended December 2020 was high at 94% with the entity availing short-term loans worth INR1 billion other than the fund-based facilities. The liquidity is likely to improve significantly following the drawdown of NCDs worth INR7 billion by SIPL and will improve further post INR0.4 billion NCD issuance by SEL. SEL had opted for the Reserve Bank of India-prescribed moratorium over March-August 2020, while SIPL did not. SEL and SIPL have combined scheduled repayment obligations of INR1.25 billion and INR3.25 billion (excluding put option of existing NCDs) in 2HFY21 and FY22, respectively.

SIPL does not have any scheduled repayments over the remainder of FY21. Although it has scheduled repayments of INR750 million in FY22, in case a put option is exercised by the investors, repayments are likely to increase by INR2,000 million in FY22. According to management, a portion of INR7 billion proceeds will be used to prepay the existing debt of SIPL worth INR3.5 billion. Furthermore, SIPL is likely to receive INR2.67 billion following the stake sale of ARRIL to IndInfravit Trust. According to management, the necessary approvals are in place and the transfer of ownership of ARRIL to IndInfravit Trust is likely to be completed by the end of 1QFY22. Ind-Ra expects the consolidated liquidity profile to improve further, following the receipt of the stake sale proceeds.

RATING SENSITIVITIES

The ratings of select NCDs and the bank loans will move in tandem with SEL's ratings.

For Standalone Rating:

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. SIPL announced a scheme of merger with SEL in 3QFY20, subject to various statutory and regulatory approvals including approval of National Company Law Tribunal.

STANDALONE FINANCIAL SUMMARY

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

COMPLEXITY LEVEL OF INSTRUMENTS

Instrument Type	Complexity Indicator
NCDs	Low
Proposed NCDs	Low
Non-fund-based limits	Low

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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