

Sadbhav Infrastructure Project Limited

September 23, 2020

Rating

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long Term / Short – term Bank Facilities	400.00	CARE BBB+ / CARE A3+ (Under Credit watch with Negative Implications) (Triple B Plus / A Three Plus) (Under Credit watch with Negative Implications)	Revised from CARE A-; Stable / CARE A2+ (Single A Minus ; Outlook: Stable / A Two Plus) and rating put under 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 deterioration in the credit profile of SIPL's under construction hybrid annuity model (HAM) special purpose vehicles (SPV) on account of varied reasons including delay in land acquisition and delay in de-scoping/ de-linking approvals in certain SPVs. Furthermore, despite the successful divestment of SIPL's entire equity stake in eight out of nine operational road SPVs to InvIT portfolio of IndInfravit Trust (IndInfravit), the stake sale in one of the SPVs is still under process which was earlier expected to be concluded by June 2020. As indicated by the management, the same is on account of extended lockdown in Ahmedabad. As a result, the receipt of balance stake sale proceeds of around Rs.340 crore has been delayed and hence ratings have been placed on 'Credit Watch with Negative Implications'. CARE Ratings shall closely monitor the receipt of balance stake sale proceeds and subsequent debt rationalization considering higher repayment obligations of Sadbhav group² in FY22 (refers to the period April 1 to March 31).

The ratings take cognizance of the achievement of provisional commercial operations date (PCOD) in two of the HAM projects and expected PCOD for four more HAM projects by March 2021 which is expected to provide some relief to SIPL.

The ratings continue to factor in significant improvement in the capital structure of the company post receipt of stake sale proceeds, potential upside in cashflows including receipt of arbitration proceeds, upstreaming of surplus cashflows from Maharashtra Border Check Post Network Limited (MBCNL; rated CARE A; Negative) and financial flexibility available with SIPL in the form of stake in listed units of IndInfravit Trust along with expected cashflows in the form of dividend income from units. 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 takes the cognizance of the various fund raising plans being contemplated by the management which if materializes can provide cash flow cushion to Sadbhav group in funding equity commitments, pre-payment of term debt and shoring up its working capital requirements.

The ratings, however, continues to remain constrained by moderate scale of operations, subdued performance of its two operational SPVs resulting in substantial shortfall funding and the inherent challenges faced by the construction sector, including the current challenging fund raising scenario and labour issues for the sector due to on-going COVID-19 pandemic.

Rating sensitivities

Positive factors

- Monetization of sizeable investments of HAM SPVs.

Negative factors

- Delay in the operationalisation of HAM SPVs leading to higher than envisaged cash flow support from SIPL.
- Higher than envisaged support to be extended to its under-performing operational BOT projects.
- Delay in materialization of fund raising plan impacting the cash flow coverage
- 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

² Combining 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 significant 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.

SIPL is yet to receive balance stake sale proceeds of Rs.73 crore against the already transferred eight operational assets which is envisaged to be received by Q3FY21. Stake sale of ARRIL is delayed as compared to the earlier timeline of June 2020 due to pending no objection certificate from the concessioning authority of ARRIL, i.e. Ahmedabad Urban Development Authority (AUDA), which is now expected to be received by Q3FY21. As indicated by the management, the same is on account of extended lockdown in Ahmedabad. 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.

Enhanced financial flexibility with holding of InvIT units albeit constrained on account of the moderate scale of operations on a standalone basis:

As part of stake sale, SIPL has received Rs.724 crore in the form of InvIT units equivalent to 10% of stake in IndInfravit Trust. The marketable nature of InvIT units on account of it being listed enhances the financial flexibility of SIPL to any extent. Furthermore, the ownership of units is expected to provide annual dividend inflows to SIPL. Furthermore, SIPL also has the ROFO option for monetization of current and future operational assets to the InvIT portfolio. Under the ROFO agreement with IndInfravit Trust, the management expects monetization of four HAM SPVs once they become operational in FY21 and further monetization of two HAM SPVs once operational in FY22.

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 A-; Stable/ CARE A2+ to CARE BBB+/ CARE A3+; Credit Watch with negative implications on account of decline in its scale of operations due to delay in project execution and higher working capital intensity on sustained basis. 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.

Delay in implementation of most of the HAM projects; albeit achievement of PCOD in two projects based on partial completion providing some relief:

SIPL has nine under-construction HAM projects in its portfolio with aggregate Bid Project Cost (BPC) of Rs.8,372 crore. The project progress remains behind schedule in all the nine under-construction HAM SPVs with six of them having surpassed their schedule project completion date (SPCD). Delay in the de-scoping of unavailable land and delay in the term debt disbursement and mobilization advances are prominent reasons behind the delayed execution. Delay in the receipt of mobilization advances of Rs.140 crore in one HAM project (Sadbhav Kim Expressway Private Limited; SKEL; rated CARE BBB+; Stable) for which appointed date was received during Q3FY20 led to marginal project progress in comparison to the earlier estimates. As indicated by the management same is now expected to be received by end of October 2020. Furthermore, pending debt syndication in one of the HAM projects (Sadbhav Jodhpur Ring Road Highway Private Limited; SJRHPL) led to slower and delayed project progress.

SIPL is required to support these projects for any cost overrun or cash flow deficit till stabilisation of the revenue stream. However, receipt of extension of time (EoT) and consequent rescheduling of repayments in some SPVs have provided some comfort in the near term. Furthermore, two HAM projects have achieved PCOD in the current year based on available length providing some relief. Further, provisional COD for four more HAM projects is expected by end of FY21.

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: 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. A significant extent of support required to be extended by SIPL to these two SPVs shall continue to constrain its ratings. However, upstreaming of cash flows from MBCNL is expected to support SIPL's liquidity position.

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. The average utilization of the non-fund based limits was around 60%. 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. Further, the liquidity of SIPL is underpinned by it being a subsidiary of SEL which has a track record of supporting SIPL in times of exigencies. Sizeable equity commitments over FY21-FY22 in under construction HAM SPVs along with shortfall support for the initial phase for some SPVs along with continued support extended to underperforming BOT SPVs is expected to constrain the cash flows of SIPL. However, comfort is also derived from listed units of InvIT valued at Rs.724 crore as on March 31, 2020.

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 statutory and regulatory approvals including the approval of NCLT. In consideration of the merger, SEL shall issue one equity share of SEL against three equity shares of SIPL to every shareholder of SIPL.

(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 Q1FY21 provisional results, (refers to the period from April 01 to June 30) SIPL on a standalone basis has reported total operating income (TOI) of Rs.49.65 crore (Q1FY20: Rs.71.70 crore) and PAT of Rs.6.51 crore(Q1FY20: Rs.3.99 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+ (Under Credit watch with Negative 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 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) (Under Credit watch with Developing Implications) (30-Oct-19) 3)CARE A (CE) (Under Credit watch with Developing Implications) (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) (Under Credit watch with Developing Implications) (07-Jan-20) 3)CARE A (CE) (Under Credit watch with Developing Implications) (30-Oct-19) 4)CARE A (CE) (Under Credit watch with Developing Implications) (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) (Under Credit watch with Negative Implications)	-	1)CARE A-(CE); Stable (25-Mar-20) 2)CARE A (CE) (Under Credit watch with Developing Implications) (07-Jan-20) 3)CARE A (CE) (Under Credit watch with Developing Implications) (30-Oct-19) 4)CARE A (CE) (Under Credit watch with Developing Implications) (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)
5.	Fund-based/Non-fund-based-LT/ST	LT/ST	400.00	CARE BBB+ / CARE A3+ (Under Credit watch with Negative Implications)	-	1)CARE A-; Stable / CARE A2+ (25-Mar-20) 2)CARE A- / CARE A2+ (Under Credit watch with Developing Implications) (07-Jan-20) 3)CARE A- / CARE A2+ (Under Credit watch with	-	1)CARE A-; Stable / CARE A2+ (28-Nov-17)

						Developing Implications) (30-Oct-19) 4)CARE A- / CARE A2+ (Under Credit watch with Developing Implications) (10-Jul-19) 5)CARE A-; Stable / CARE A2+ (04-Apr-19)		
6.	Debentures-Non Convertible Debentures - IV	LT	89.20	CARE BBB+ (CE) (Under Credit watch with Negative Implications)	-	1)CARE A- (CE); Stable (25-Mar-20) 2)CARE A (CE) (Under Credit watch with Developing Implications) (07-Jan-20) 3)CARE A (CE) (Under Credit watch with Developing Implications) (30-Oct-19) 4)CARE A (CE) (Under Credit watch with Developing Implications) (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	111.80	CARE BBB+ (CE) (Under Credit watch with Negative Implications)	-	1)CARE A- (CE); Stable (25-Mar-20) 2)CARE A (CE) (Under Credit watch with Developing Implications) (07-Jan-20) 3)CARE A (CE) (Under Credit watch with Developing Implications) (30-Oct-19) 4)CARE A (CE) (Under Credit watch with Developing Implications) (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.

Contact us**Media Contact**

Mr. Mradul Mishra
 Contact no. - +91-22-6837 4424
 Email ID - mradul.mishra@careratings.com

Analyst Contact

Mr. Maulesh Desai
 Contact no. - 079-4026 5605
 Email ID – maulesh.desai@careratings.com

Relationship Contact

Mr. Deepak Prajapati
 Contact no. - 079 – 4026 5656
 Email ID – deepak.prajapati@careratings.com

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